Report on outlook, risk and opportunity

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 2023 fiscal year (FY) and show the outlook for the 2024 fiscal year.

€ in millions, except percentages	Actuals FY 2022	Outlook for FY 2023[1]	Actuals FY 2023	Outlook for FY 2024
Principal performance indicators				
Segment Result Margin	23.8%	Around 27% (at a revenue level of around €16.2 billion	27.0%	Around 24% (at a revenue level of around €17 billion)
Free Cash Flow from continuing operations	1,648	Around €1.2 billion	1,158	Around €0.4 billion
RoCE	12.6%	Around 15%	16.6%	Around 13%
Selected supplementary performance indicators				
Revenue respectively change in revenue compared to previous year	14,218	Revenue increase to around €16.2 billion	16,309	Revenue increase to €17 billion plus or minus €500 million
Investments	2,310	Around €3.0 billion	2,994	Around €3.3 billion

1 The forecast presented here corresponds to the forecast last finalized in the second and third quarters of the 2023 fiscal year.

Comparison of original outlook with actual figures for the 2023 fiscal year

Revenue for the 2023 fiscal year was originally forecast in November 2022 to be €15.5 billion, plus or minus €500 million. In light of Infineon's positive business performance, this outlook was raised incrementally in the following quarters to an expected revenue of around €16.2 billion. The actual amount of revenue generated in the 2023 fiscal year was €16,309 million. This figure was within the projected range of the final forecast on 3 August 2023 and significantly above the original forecast in November 2022. The good level of demand and price increases both had a positive impact on revenue.

In conjunction with the adjustments to the revenue forecast, the expected Segment Result Margin was also adjusted upwards in the course of the fiscal year. Originally, a Segment Result Margin of around 24 percent was forecast for the 2023 fiscal year. The most recent forecast was a figure of around 27 percent. The actual figure was 27.0 percent, so the forecast was met.

According to the original forecast in November 2022, Free Cash Flow was expected to reach around €0.8 billion. As a result of the ongoing adjustments to the revenue and earnings forecasts, adjustments were also made on a regular basis to the expected figure for Free Cash Flow. The final forecast for Free Cash Flow of around €1.2 billion was made in August 2023. The actual figure for Free Cash Flow in the 2023 fiscal year was €1,158 million. This was in line with the most recent forecast and was significantly higher than the figure originally forecast of €0.8 billion.

As a result of Infineon's positive earnings performance, the actual figure for Return on Capital Employed (RoCE) in the 2023 fiscal year was 16.6 percent, exceeding the forecast made in November 2022 of "around 12 percent" respectively in March 2023 of "around 15 percent".

The actual figure for investments in the 2023 fiscal year of €2,994 million was in line with the forecast figure of €3.0 billion.

Explanatory comments on the outlook for the 2024 fiscal year

Assumed euro/US dollar exchange rate

As a globally operating organization, Infineon generates revenue not only in euros, but also in foreign currencies, predominantly in US dollars. It also incurs expenses in US dollars and, to some extent, in currencies correlated with 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 always 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 US 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 around €10 million per quarter or around €40 million per fiscal year compared to the forecast value. These figures are calculated on the assumption that the exchange rates of currencies – 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 US cent in the actual exchange rate compared to the forecast rate would have an impact on revenue of around €25 million per quarter or around €100 million per fiscal year. Planning for the 2024 fiscal year is based on an assumed exchange rate of US$1.05 to the euro.

External growth prospects for the global economy and the semiconductor market

In the course of the 2023 fiscal year, the global economy continued to be affected by the consequences of the Russian invasion of Ukraine and high inflation. Due to significant rises in interest rates and difficult financing conditions as a result, economic activity slowed down considerably compared with the previous year. However, most countries have so far avoided going into recession. According to the forecasts of the International Monetary Fund (IMF), global economic growth in the 2023 calendar year will be around 2.5 percent, a somewhat higher figure than the 2.1 percent forecast in autumn 2022. Growth of 2.4 percent is forecast for the 2024 calendar year (R01). This means that current growth rates for the global economy are remaining more or less stable, although they are below their historical average. Risks of a further weakening in the global economy also remain.

Market analysts at Omdia expect Infineon's reference market (i.e., the semiconductor market excluding DRAM and NAND flash memory chips and microprocessors) to see a slight decline of 1 percent in revenue in US dollar terms in the 2023 calendar year (R03). Demand for semiconductors for automotive and industrial applications is again higher than average, whereas revenue from semiconductors in the consumer market segment and in the area of cellular infrastructure will decrease significantly.

The experts at Omdia expect the Infineon reference market to grow by 6 percent in the 2024 calendar year (R03). The long-term trends decarbonization and digitalization are continuing to drive demand for semiconductors, especially in the automotive and industrial sectors. In the areas of consumer electronic goods and cellular infrastructure, the forecast is for a noticeable recovery in revenue in the 2024 calendar year following the decline in revenue in the 2023 calendar year.

Outlook for the 2024 fiscal year

The following outlook is based on current business developments and internal forecasts.

Revenue of €17 billion plus or minus €500 million expected

Based on the forecasts for the growth of the global economy and the semiconductor market segments relevant for Infineon described above and an assumed exchange rate of US$1.05 to the euro, Infineon forecasts that Group revenue will grow in the 2024 fiscal year to €17 billion, plus or minus €500 million. This is equivalent to a 4 percent increase in revenue compared with the prior year. Revenue growth in the Automotive segment is expected to be in the low double-digit percentage range. Revenue in the

Green Industrial Power segment should remain more or less stable compared with the 2023 fiscal year. The Power & Sensor Systems and Connected Secure Systems segments are each forecast to see a decline in revenue in the high single-digit percentage range, due to weak demand for semiconductors for computers and consumer electronics as well as relatively high inventory levels still held by customers.

Segment Result Margin of around 24 percent of revenue expected

If the middle of the range for the revenue forecast is reached, the Segment Result Margin is expected to be around 24 percent in the 2024 fiscal year.

Free Cash Flow from continuing operations

For the 2024 fiscal year, Infineon is forecasting Free Cash Flow of around €0.4 billion. This figure includes net cash outflows for investments in the expansion of frontend manufacturing facilities in Dresden (Germany) and Kulim (Malaysia) and net cash outflows for the acquisition of GaN Systems.

RoCE

For the 2024 fiscal year, Return on Capital Employed (RoCE) is forecast to reach around 13 percent.

Investments and depreciation/amortization

Investments (defined by Infineon as the sum of investments in property, plant and equipment, investments in other intangible assets and capitalized development costs) are planned at around €3.3 billion for the 2024 fiscal year.

Most of the investment relates to the construction and expansion of frontend manufacturing facilities. The main focus is on the completion of Phase 1 and the commencement of Phase 2 of the third fabrication facility at the Kulim site, which is designed to manufacture compound semiconductors, as well as on the construction of the fourth module in Dresden.

Considerable funds are also being invested in acquiring equipment for the production of products based on silicon carbide and gallium nitride. Further amounts invested in frontend facilities will be used to implement structural measures, optimize product quality, increase the degree of automation and promote innovation.

A significant amount of investment is also planned in order to expand capacity and implement structural measures at backend facilities, albeit at a much lower level than for frontend facilities.

In the 2023 fiscal year, investments totaled €2,994 million, comprising €2,739 million for property, plant and equipment and €255 million for capitalized development costs and other intangible assets. In the 2024 fiscal year, investments in capitalized development costs and other intangible assets are expected to be at a slightly higher level than in the 2023 fiscal year.

Depreciation and amortization are predicted to be around €2.1 billion in the 2024 fiscal year. Approximately €0.4 billion relates to the amortization of purchase price allocations, mainly in connection with the acquisition of Cypress.

Overall statement on expected developments at Infineon

Based on forecasts for the development of the global economy and the semiconductor market in the 2024 calendar year, Infineon expects Group revenue to grow to €17 billion, plus or minus €500 million. The Segment Result Margin is forecast, at the middle of the range for the revenue forecast, to be around 24 percent of revenue. Investments are expected to be at around €3.3 billion. Depreciation and amortization are expected to total about €2.1 billion. Free Cash Flow from continuing operations should reach around €0.4 billion. Return on Capital Employed (RoCE) is forecast to be around 13 percent.

Risk and opportunity report

Risk policy: Basis of our risk and opportunity management

Effective risk and opportunity management is an important element of our business activities and supports the implementation of our strategy to achieve our strategic goals. Infineon's risk and opportunity situation continues to be characterized by the dynamic market environment in the semiconductor industry, a substantial need for capital investment to achieve and sustain its market position, extraordinarily rapid technological change, decarbonization and digitalization. Competition to gain an innovative edge also occurs at the legal level, as evidenced, for example, by patents. Against this background, Infineon's risk policy is aimed at quickly realizing the opportunities that arise in a way that increases its enterprise value. It also focuses on identifying risks early and actively mitigating them – particularly those risks that might pose 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 strategy. The 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 implement our risk policy. In addition to the Risk and Opportunity Management System (ERM) and the Internal Control System (ICS) described below, these elements include, in particular, the related forecasting, management and internal reporting processes as well as our Compliance Management System (CMS).

ERM and ICS systems

The new IDW Auditing Standard 340 on the audit of the early risk detection system came into force on 1 January 2021. We therefore adapted our Risk and Opportunity Management System in the 2022 fiscal year to the methodology of the new standard. Significant changes involved implementing a risk-bearing capacity concept based on shareholders' equity and improving risk aggregation by using Monte Carlo simulations. Furthermore, in addition to categorizing risks (classifying risk events into various thematic blocks) and setting threshold levels for risk tolerance, the review period for risk reporting (with regard to the degree of impact of the risks and opportunities) was amended. The review period is divided into three time segments: the impact in the current fiscal year, in the coming fiscal year, and a trend statement for years three to five. This adjustment of the risk assessment now enables us to calculate the risk-bearing capacity for the individual fiscal years.

Infineon's centralized ERM system is based on a Group-wide, management-oriented ERM approach, which aims to cover all relevant risks and opportunities. This approach is based on the "Enterprise Risk Management – Integrating with Strategy and Performance" (2017) 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 and opportunities that could have a significant influence on Infineon's ability to achieve its strategic, operational, financial, legal and compliance targets. Infineon's Internal Control System is also based on a framework developed by COSO ("Internal Control – Integrated Framework" (2013)). This framework describes the various elements in a control system (the control environment, risk assessment, control activities, information and communication, and monitoring) and sets out the basis for the evaluation of the appropriateness and effectiveness of the ICS.

The responsibility for processes and systems relating to the ICS and the ERM rests with the Risk Management and ICS function within the Group Finance department as well as with designated Risk and Control Officers working at divisional, corporate function and regional levels. Responsibility for the identification, measurement, management and reporting of risks and opportunities, as well as for their mitigation and control, lies with the management of the organizational unit concerned.

In organizational terms, implementation of the ICS and ERM is via a closed-loop, multiple-stage process that stipulates the manner and criteria to be applied to identify, measure, manage, mitigate, control 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, a reporting of all units included, an analysis of the overall situation at divisional and Group levels, and reporting to the Management Board on the risk and opportunity situation, the results of tests of the controls, and the major management and control measures undertaken. The Management Board, in turn, reports regularly to the Supervisory Board's Investment, Finance and Audit Committee on the developments and results of the ICS and ERM. Where necessary, standard processes are supplemented by ad hoc reporting of any major risks identified between the regular reporting dates.

We define a risk or an opportunity as the occurrence of future uncertainties that could result in either a negative or a positive variance from the business plan. We incorporate all relevant organizational units within the Group in this analysis, thus covering all divisions, significant corporate functions and regions.

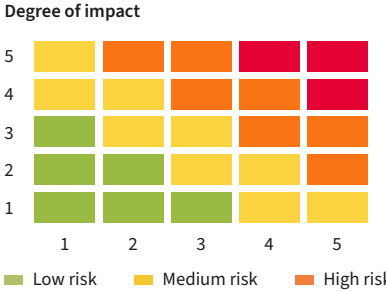
Risks and opportunities under ERM are measured on a net basis by taking into account any existing management and mitigation measures. The time periods and measurement categories used are closely linked to our short-term and medium-term business planning and entrepreneurial targets.

All relevant risks and opportunities are assessed uniformly across the Group in quantitative or qualitative terms, based on two factors: **degree of impact** on the Segment Result and/or on business objectives, reputation, compliance, and **likelihood of occurrence.**

The scales used to measure these two factors (degree of impact and likelihood of occurrence) and the resulting risk assessment matrix for the presentation of risks for impact years 1 and 2 are depicted in chart C13. The scale used to measure the degree of impact on the Segment Result has been adjusted in comparison with the previous year for the measurement of risks in the coming years to take account of the profitable growth and the increased size of Infineon's business.

Based on the potential degree of impact as well as the estimated likelihood of occurrence, a risk is classified as "very high", "high", "medium" or "low".

C13 Risk assessment matrix



Degree of impact on Segment Result[1]		
1	<€40 million	Marginal
2	€40–100 million	Minor
3	€100–200 million	Moderate
4	€200–400 million	Significant
5	>€400 million	Major

Likelihood of occurrence		
1	<10%	Very unlikely
2	10–40%	Unlikely
3	40–60%	Possible
4	60–90%	Probable
5	>90%	Virtually certain

1 Relating to a planning year.

All risks and opportunities reported for Infineon are reviewed for possible cumulative effects and analyzed using an Infineon-specific categorization model that also takes non-financial and sustainability-related risks into account. Interdisciplinary workshops held at division, corporate and regional levels support our risk and opportunity analysis and enhance our risk and opportunity management culture. Important information relevant for Infineon's ICS and ERM is available to all employees via our intranet system, including access to our guidelines containing job descriptions for all functions involved in the process as well as all the information required for reporting purposes.

Risk and Opportunity Managers are designated at appropriate hierarchy levels to manage and monitor identified risks and opportunities according to their relevance. They are responsible for formally determining a set of appropriate risk and opportunity management strategies (in the case of risks: avoidance, mitigation, control, transfer or acceptance). Working closely with corporate functions and individual managers responsible for measures, the Risk and Opportunity Managers are also responsible for defining and monitoring the measures aimed at implementing the management/control strategy. The active and specific management and monitoring of risks and opportunities are critical to the success of our system.

Compliance with the ICS and ERM approaches is monitored by the corporate function responsible for risk management and ICS using procedures incorporated into business processes. Group Internal Audit also performs tests for compliance with certain legal requirements and Infineon guidelines and, where appropriate, rules relating to the ICS and ERM and recommends corrective measures.

The Supervisory Board's Investment, Finance and Audit Committee monitors the appropriateness and effectiveness of both systems (ICS and ERM).

As part of the group audit, the external Group auditor also examines the early risk detection system pursuant to section 91, paragraph 2 of the German Stock Corporation Act (AktG) to ascertain its suitability to detect risks at an early stage that could pose a threat to Infineon's going-concern status in accordance with IDW Auditing Standard 340 and reports thereon annually to the Chief Financial Officer (CFO) and to the Investment, Finance and Audit Committee of the Supervisory Board.

Compliance Management System

We have implemented a Group-wide Compliance Management System (CMS) to manage compliance-related risks in a systematic, comprehensive and sustainable manner. We are continuously enhancing the key elements of our CMS to prevent, detect and respond to compliance-related incidents. The Corporate Compliance Officer reports to the Chief Financial Officer and, on a quarterly basis, to the Management Board and the Investment, Finance and Audit Committee of the Supervisory Board.

In structuring its CMS, Infineon has for years complied with IDW Auditing Standard 980 and has engaged an external auditing firm to confirm the appropriateness, implementation and effectiveness of its CMS globally in the areas of "antitrust law" and "corruption prevention" (last time in the 2018/2019 fiscal year). Since that time, adherence to the CMS in the respective legal entities has been monitored by regular internal audits.

As part of the CMS, a formal annual assessment of our risks is conducted with a particular emphasis on corruption and antitrust laws. Any necessary measures derived from this assessment are summarized in Infineon's compliance program.

Internal Control System with respect to the financial reporting process

The overriding objective of our "Internal Control System with respect to the financial reporting process" as part of the general ICS and ERM described above is to monitor and ensure the correctness, appropriateness and effectiveness of our accounting and financial reporting. The ICS with respect to the financial reporting process, aims to minimize the risk of misstatement in Group accounting and external reporting and to provide reasonable assurance that the Consolidated Financial Statements comply with all relevant regulations. For this to be the case, Group-wide compliance with legal and internal regulations must be ensured. Clear responsibilities are assigned to each of the processes.

The ICS with respect to the financial reporting process is also based on the framework developed by the COSO "Internal Control – Integrated Framework" (2013) and is part of the accounting process in all relevant legal entities and corporate functions.

The system monitors compliance with policies and procedures using 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 financial reporting in the Separate and Consolidated Financial Statements; and
- processes are in place for the segregation of duties and for the four-eye principle in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems.

Assessment of appropriateness and effectiveness

We systematically assess the appropriateness and effectiveness of the ICS with respect to the financial reporting 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 appropriateness and effectiveness of these controls. The tests constitute the basis for assessing the appropriateness of the design and 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, all legal entities, divisions and relevant corporate functions confirm in a Representation Letter that all business transactions, all assets and liabilities, and all income and expense items have been duly recognized in the financial statements.

At the end of the annual cycle, the main legal entities review and confirm the appropriateness and effectiveness of the ICS with respect to the 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 identified in the ICS with respect to the financial reporting process and about the effectiveness of the internal controls in place.

In the semi-annual meetings of the Risk Committee, the Group-wide risk and opportunity situation is evaluated, and the results of the internal control process are discussed. In addition, an overall statement on the appropriateness and effectiveness of our general ICS and ERM is produced once a year. This overall statement is based on reviews conducted by Internal Audit, voluntary external reviews and audits, and self-assessments. The evaluation here was conducted inter alia on the basis of the following criteria:

- Appropriate organizational coverage of the ICS and ERM processes of Infineon
- Availability of clear Group-wide guidelines about the ICS and ERM processes
- Timeliness of regular risk inventory, risk reporting processes and testing of the controls
- Timeliness and regular monitoring of ICS and ERM mitigation activities
- Discussion of new risk topics with the managers responsible and with the Risk Committee

On the basis of the findings of reviews by Internal Audit and external reviews and audits, we make continual improvements to our ICS and ERM.

In all material respects, on the basis of the ICS and ERM activities conducted in the 2023 fiscal year, no factors came to our attention that would give rise to doubt as to the appropriateness and effectiveness of the ICS and ERM system.

Both the general ICS and ERM and the ICS with respect to the financial reporting process are continuously being developed and expanded to ensure compliance with internal and external requirements. Improvements made to these systems contribute to the ongoing monitoring of the relevant risk areas, including the responsible organizational units.

Significant risks

In the following section, we describe risks that could have a significant or material adverse impact on Infineon's Segment Result and/or its business objectives, reputation or compliance. We divide these risks into four main risk categories: "Strategic risks", "Operational risks", "Financial risks" and "Legal and compliance risks". Within these main risk categories are risk sub-categories. The order in which the various risk sub-categories are presented reflects their materiality to Infineon. This means that the most material risk sub-category is mentioned at the beginning, and the risk sub-categories are mentioned thereafter in descending order of materiality. The materiality of each risk is determined on the basis of the total risk score for impact in years 1 and 2. The risk score of an individual risk for impact in years 1 and 2 is calculated in each case by multiplying the likelihood of occurrence (on a scale of 1 – 5) by the degree of impact of the risk (on a scale of 1 – 5). Unless otherwise stated, the risks described within the risk sub-categories apply across the divisions.

The additional classification in "A", "B" or "C" in brackets behind the respective title of the risk sub-category results from the described materiality for Infineon and enables a ranking of the risk sub-categories across the main risk categories. The risk sub-categories with the bracketed addition "A" represent the first quartile of materiality (highest risk sub-categories), "B" describes the second and third quartiles and "C" the fourth quartile. The classification in the quartiles represents a change compared to the classification in the previous year (high, medium, low).

Strategic risks

Risks arising from cyclical market and sector trends (A)

General market risks

The worldwide semiconductor market is dependent on global economic growth and hence subject to fluctuations. Our target markets are therefore exposed to the risk of short-term market fluctuations. As a result, our forecasts of Infineon's future business performance are subject to uncertainties. The absence of hitherto projected market growth or an unforeseen decline in market growth (related, for example, to the expansion of renewables or electromobility) would make it considerably more difficult to attain our own growth target. We are countering this by entering into long-term sales contracts as well as service contracts that are not dependent on the cycle. We also address the fluctuations in economic conditions and customer demand that are typical of the semiconductor business by continuously monitoring vital early warning indicators and, as far as possible, by adopting specific mitigation strategies. Examples of these strategies include making systematic adjustments to capacity and inventories at an early stage, introducing cost-cutting measures and making flexible use of external production facilities for both frontend and backend manufacturing.

If we were unprepared for market fluctuations or the mitigation strategy we had adopted proved to be inappropriate, this could have a sustained adverse impact on Infineon's financial condition, liquidity and results of operations.

Risks arising from increased market competition and commoditization of products

The spread of new technological developments in a global market also results in greater replaceability of products. Due to the resulting price competition, 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) activities within the semiconductor industry or government subsidies restricted to specific regions could result in even tougher competition. Potential benefits for competitors in this market include improved cost structures and more effective sales channels. There is also the risk that an increased volume of previously imported semiconductors will be manufactured in China and that a greater volume of those made in that country will be exported. Overall, this situation could have an adverse impact on Infineon's results of operations.

Corporate strategy risks (B)

Risks arising from an uncertain political and economic environment

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 not achieving our forecasted revenue and contribution to earnings. Risks could also arise due to political and social changes, particularly when those changes occur in countries in which we manufacture and/or sell our products.

Geopolitical risks in the 2023 fiscal year continue to be seen as very high, especially as a result of the ongoing war in Ukraine, the conflict over Taiwan and the tensions in the Middle East, which has significantly reduced the predictability of economic development. The war in Ukraine is giving rise to risks and adverse impacts, such as price increases and scarcity of energy and raw materials. Any escalation of the conflict beyond Ukraine would further increase the risk of a global economic downturn. Rising inflation and increases in interest rates may also lead to a significant decline in consumption.

Furthermore, customs disputes, export controls and export bans for advanced technology and/or critical basic materials, as well as trade restrictions such as those between the USA and China, may constrain global trade, thereby dampening global economic growth. This includes the risk of a decline in foreign demand from a Chinese perspective and hence a decline in China's gross domestic product. All of this may have a significant impact on Infineon's liquidity and results of operations.

Macroeconomic risks

In addition to the risks mentioned above, the government debt situation worldwide, which has changed very little in the 2023 fiscal year, continues to present a risk that, regardless of our assessment of scenarios and potential outcomes within this complex set of risks, may have an adverse impact on Infineon's financial condition, liquidity and results of operations.

Risks arising from acquisitions and cooperation arrangements (C)

In order to develop or expand our existing business, it may be appropriate for us to make further acquisitions or enter into other forms of partnership with external companies. In the case of acquisitions, there is a risk that we may be unsuccessful, particularly regarding the integration of employees and products in existing business structures. These issues could adversely impact Infineon's financial condition and results of operations.

Operational risks

Purchasing and logistical risks (B)

We cooperate with numerous suppliers who provide us with materials and services or manage parts of our supply chain for whom there are not always multiple alternatives. We therefore partly depend on the delivery capability of our suppliers and the quality of their supplies. At the same time, we face price increases from our suppliers, and there is a risk that it will not be possible to pass on these increases in full to our customers. In addition, the current conflict over Taiwan may affect the supply situation for our Taiwanese partners. Any failure of one or more of these suppliers to meet their obligations to Infineon could have an adverse impact on Infineon's liquidity and results of operations.

Another risk is the limited global availability of renewable energy, which could jeopardize Infineon's declared goal of becoming carbon-neutral by 2030. Infineon has adopted a variety of measures to counter this risk (such as adopting its own efficiency measures, evaluating the construction of its own solar plants, and forming partnerships with local solar and wind farm operators).

In general, we seek to minimize procurement-related risks through our purchasing strategies and the use of appropriate product and cost analyses ("Best Cost Country Sourcing" and "Focus on Value"), as well as through geographical diversification. These programs include cross-functional teams of experts who are responsible for standardizing procurement processes for materials and technical equipment.

To take account of the growing importance of Infineon's ecosystem partners (enterprises with which Infineon shares a significant long-term economic interest and which represent added value for Infineon's products), we have implemented a partner risk evaluation system for Go2Market and IP/R&D partners (intellectual property/research and development). This partner risk assessment addresses Infineon's dependence on its ecosystem partners. As a result, the high-risk ecosystem partners throughout the Group are identified and continuously assessed. Additionally, corrective risk mitigation measures are implemented to avoid an adverse impact on Infineon's financial condition, liquidity and results of operations and/or on its business objectives, reputation and compliance.

Risks arising from manufacturing (B)

Our South-East Asian and European manufacturing sites are of great importance for our production. If, for example, political upheavals, natural disasters or pandemic outbreaks in one of these regions were to restrict or completely obstruct our ability to manufacture at these sites at the planned scale or to export products manufactured at the sites, this would have an adverse impact on our financial condition, liquidity and results of operations.

Furthermore, our medium-term and long-term forecasts are based on expected manufacturing cost trends for our products. 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 partners, may not be

feasible to the extent envisaged. The dynamic markets and the increasing customer need for flexibility, combined with short-term adjustments to order quantities, 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 our manufacturing processes and sites have become even more flexible due to cross-location production optimization, fluctuations in capacity utilization levels or purchase commitments that have been entered into, coupled with idle costs at the manufacturing sites, nevertheless continue to pose a cost risk.

In addition, frontend and backend manufacturing processes need to be optimally synchronized to enable Infineon to develop and manufacture competitive, high-quality products designed to provide new technological solutions. In view of the rapid pace of technological change and the dynamics of customer requirements, we consider this coordination needs to be increasingly sophisticated. Failure to make the required progress in this area could result in quality problems, delays in product development or market rollout, as well as higher research and development expenses, and hence adversely impact Infineon's liquidity and results of operations.

Risks that semiconductor companies operating in-house manufacturing facilities typically face is that of construction delays at new manufacturing sites and delays in the ramping up of production volumes at those sites, or delays in the transfer of technology. One good example is the Automotive division, 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 our short-term and medium-term capacity utilization. Failure to anticipate these changes in the manufacturing process in good time may result in capacity shortages and hence lower revenue or lead to idle costs due to underutilized capacity and therefore have an adverse impact on earnings.

Moreover, our dependence on energy supplies for our production, as well as on various components (such as wafers), raw materials (including gold and copper) and specialty gases, exposes us to substantial price and supply risks. Price risks are also attributable in part to the prevailing rate of inflation. In such a situation, if we are unable to offset cost increases or pass them on to our customers, it could have an adverse impact on our liquidity and results of operations.

In particular, a restriction of or interruption in the supply of natural gas for manufacturing sites in Europe could lead to significant disruptions to production. In the event of an interruption to the natural gas supply and associated production disruptions, we have secured in 2023 the supply of alternative energy sources for the operation of the combined heat and power plants at selected locations and implemented further energy-saving measures (such as heat recovery).

In some cases, we have used derivatives to hedge price risks with respect to the amount of gold wire and electricity required for the 2024 fiscal year.

Risks relating to the areas of cyber security, information security and IT security (C)

The reliability and security of Infineon's data, systems and networks are of crucial importance. At the same time, the world has seen a rise in threats in cyberspace. This increasingly applies to the use of IT systems to support business processes as well as supporting internal and external communications. 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 integrity of data used in research and development, manufacturing, selling or administration functions, which, in turn, could have an adverse impact on our reputation, production capability, competitiveness and operations.

Potential cyber-attacks on data, systems and networks used in our manufacturing processes present risks that could result in production downtime and supply bottlenecks. In addition, cyber-attacks with industrial espionage intent and any related potential loss of intellectual property or patents pose risks that could jeopardize our investment in research and development and impair our long-term competitiveness.

Infineon has had a global cyber security program in place for many years now to ensure that it is suitably protected and prepared for the constantly changing cyber security threat situation. A key element of this program is our Cyber & Information Security Management System (CISMS). This system, which takes a structured approach, aims to identify and evaluate risks to our data, information systems, networks, products, solutions and services, to constantly improve our protective measures, processes and tools and to adapt them to the threat situation. Our CISMS covers all areas of Infineon's business and is certified in accordance with international standards (including TISAX). The effectiveness of the CISMS is continuously monitored in the course of regular internal and external audits.

Risks relating to the development process and product lifecycle (C)

The ever-increasing complexity of technologies and products, shorter development cycles and dynamic customer demands 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. If we are unable to execute our development plans, this could result in delays and increased development costs.

This situation is exacerbated by the fact that some of our products are highly dependent on the degree of commercial success achieved by individual customers in their own markets. Furthermore, there is the risk of losing future business and design wins if we are unable to deliver volumes above our contractual obligations if called upon by customers to do so. These factors could have an adverse impact on Infineon's liquidity and results of operations.

A structured project management system is in place to handle development projects, including those of a customer-specific nature. To help us identify potential project risks at an early stage and use specific measures to counter these risks, we require projects to have clear project milestones, ongoing verification procedures and clearly defined limits of approval authority.

Product quality assurance is of crucial importance. Shortfalls in product quality can lead to product recalls at our customers and related potential costs for liability claims. In addition, quality risks could also damage Infineon's reputation and thus have a significant adverse impact on its future business, liquidity and results of operations.

To avoid quality risks, we have adopted various quality management strategies such as "FMEA" (Failure Mode and Effects Analysis) and "Six Sigma" in order to prevent or solve problems and to continue to improve all our business processes. Our Group-wide quality management system has been certified for a number of years in accordance with ISO 9001 and ISO/TS 16949 and also encompasses the development processes of our suppliers.

Our processes and initiatives to ensure continuous improvement are aimed, among other things, at identifying and eliminating the causes of quality-related problems at an early stage.

Risks relating to the availability of qualified employees (C)

One of the key factors in our success is qualified employees. There is a general risk of not being able to recruit enough people or people who are sufficiently qualified to work at Infineon, of losing existing qualified staff or failing to provide them with adequate training, and of not retaining people in the business. A lack of technical or management personnel could, among other things, restrict future growth and hence adversely impact Infineon's liquidity and results of operations.

To counter these risks, Infineon has set up its own work group. The specific remit of this work group is employee recruitment, retention and training.

Business continuity risks (C)

An increasing number of events, such as extreme weather conditions (e.g., floods, drought, storms) and other damaging events (e.g., earthquake, fire, chemical accidents, power failures) could pose a threat at any time to our production facilities and office buildings in all the main operating segments and thus have an adverse impact on our business success.

We counter these risks on an individual site basis with appropriate mitigation measures, business interruption insurances and other business continuity structures, all of which are reviewed regularly by conducting stress tests to ensure their appropriateness and effectiveness.

Financial risks

Currency risks (C)

The international orientation of our business activities creates cash flows in a number of currencies other than the euro, primarily in US dollars. A significant share of revenue, operating costs and capital expenditures is denominated in US dollars and correlated currencies. For the most part, Infineon generates a US dollar surplus from these transactions.

Specified currencies 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 and despite hedging measures, exchange rate fluctuations could adversely impact Infineon's results of operations.

Risk of default of banks and financing partners (C)

The relatively high level of our holdings of liquid funds (gross cash position) exposes us to the potential risk of a default of one or more of the banking and financing 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.

Further information regarding the management of financial risks is provided in note 28 to the Consolidated Financial Statements. p. 150 ff.

Other financial risks (C)

In principle, there is a risk that a breach in the financial covenants of capital market instruments (such as the net debt ratio) might lead to a credit event (default) and potentially to a cross-default, resulting in possible changes to existing or outstanding debts. However, this risk is currently considered to be very low. Nonetheless, regular monitoring of our projected Segment Result and of our liquidity and debt enables us to identify any aggravation of this risk at an early stage and to apply appropriate countermeasures.

Tax risks (C)

Infineon could be exposed to tax risks arising from prior assessment periods and changes in tax legislation or jurisdiction. Unforeseen tax expenses might occur relating to prior assessment periods that have not yet been the subject of a tax audit or are currently the subject of a tax audit in the various countries in which Infineon operates. The realization of any of these risks could result in fines and penalties and therefore have an adverse impact on the Group's financial condition, liquidity and results of operations.

Infineon adopts a number of strategies to mitigate these risks. These include, among others, regular employee training, a Tax Compliance Management System for selected sites, and internal audits to ensure adherence to important compliance regulations in all legal entities of the Group (Framework for Internal Controls in the Tax Process).

Legal and compliance risks

Regulatory risks (B)

Compliance risks

There is a risk that, due to inappropriate business conduct by employees, Infineon could violate antitrust regulations or laws combating bribery and corruption. Potential consequences might include heavy financial penalties, compensation claims, the cost of external support (such as lawyers' fees), damage to Infineon's reputation and exclusion from tendering for public contracts.

We have therefore introduced a Group-wide Compliance Management System (CMS) to manage these compliance-related risks in a systematic, comprehensive and sustainable manner. We continue to refine the key elements of our CMS. One of the ways we are doing this is by providing specific employee training designed to prevent, detect and react to compliance-related incidents. The Corporate Compliance Officer reports on a regular basis to the Chief Financial Officer, the Management Board as a whole and the Investment, Finance and Audit Committee of the Supervisory Board.

Export control risks

As a result of the increasing complexity and frequent changes to export control regulation in all the countries in which Infineon operates, there is a risk of not complying fully with all applicable national and international export control laws and regulations, which might result in fines and penalties. This could have an impact on Infineon's results of operations or could influence the availability of export permits.

The central Export Control department is responsible for the implementation of effective measures relating to export control legislation and foreign trade to avoid sanctions and fines being imposed on Infineon. To prevent divergence from the relevant regulations, Infineon has introduced organizational measures (such as appointing local managers responsible for export control) and implemented training measures for all the employees concerned. It is also using Group-wide approval routines in all relevant processes, conducting internal audits of export control and implementing other control measures.

Data protection risks

In principle, there is a risk that there could be a violation of laws and regulations relating to the processing and use of personal data, which could lead to data breaches, resulting in severe penalties and/or reputational damage. The Data Protection Management System (DPMS) established by Infineon to mitigate this risk sets out rules and standards for the Group-wide processing of personal data and monitors compliance with these rules and standards.

Other legal risks (C)

Risks arising from the Qimonda insolvency

The insolvency proceedings relating to Qimonda and the resulting actions of the insolvency administrator expose Infineon to potential risks, which are described in detail in note 24 to the Consolidated Financial Statements. p. 136 ff.

Provisions are recognized in connection with these matters as of 30 September 2023. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy as of that date. 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.

Risks relating to intellectual property rights and patents

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

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 on selling the products concerned. Any such outcome could, in turn, have an adverse impact on Infineon's financial condition, liquidity and results of operations.

One of the ways in which we counter patent-related risks is by adopting a specific patent strategy. This includes patent searches in relation to development projects, the systematic registration of our own patents and patent cross-licensing arrangements with major competitors. However, no such opportunities exist to safeguard against risks of this nature in the case of companies specializing in the exploitation of patent rights.

Further information regarding litigation and government inquiries is provided in note 24 to the Consolidated Financial Statements. p. 136 ff.

Risks arising from our global operations

Our global business strategy requires the maintenance of research and development locations and manufacturing sites throughout the world. The location of such facilities is determined by market entry hurdles and by technology and cost factors. Risks could therefore arise if economic and geopolitical crises were to impact 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 also restrict business activities. In addition, 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 to Infineon's intellectual property no longer being sufficiently protected or to intellectual property developed by Infineon in China not being freely transferable to other countries and locations, thus impairing Infineon's financial condition and results of operations.

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 risk situation as a whole remains essentially unchanged from the previous year. We are currently not aware of any individual risks capable of jeopardizing Infineon's going-concern status.

Significant opportunities

Opportunities arising from decarbonization, digitization and the strategic approach "Product to System" have already been included in the forecast report and are described here as additional overarching opportunities.

The classification into "A", "B" or "C" in brackets after the respective title of the opportunity is carried out in the same way as the classification for the risks.

Opportunities arising from decarbonization and the acceleration of the energy transition

With a constantly growing world population and increasing industrialization, global demand for energy is rising. Electric power is becoming the most important energy form of the 21st century, while renewables are playing a key role in curbing 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 intends to become carbon-neutral by 2050.

To achieve this target, it will be necessary to develop renewable sources of energy at a faster rate than originally envisaged. This should lead to an increase in demand for our products, as Infineon's semiconductors enable electric power to be generated more efficiently from renewable energy sources. Indeed, they offer efficiency gains at all stages of the energy industry's conversion chain, whether in generation, transmission, storage 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.

Opportunities arising from digitalization

The trend towards digitalization offers substantial business potential for Infineon. This is reflected in the optimization of internal processes, such as for our interconnected manufacturing lines on a global scale, as well as in sales and administration. Furthermore, our portfolio of sensors, microcontrollers, power semiconductors, security chips and security solutions, as well as specific software, puts us in an excellent position to successfully exploit growing market potential. The strategic approach "Product to System" we have already implemented makes us very well prepared to penetrate and develop the markets involved. Good examples already apparent today include automated driving, the smart home and the advancing development of the IoT.

Additional opportunities are arising from accelerated and/or broader market penetration by digital products. In this context, the issue of "security and data integrity" plays a very important role. We are able to address this issue by offering our customers appropriate security chips and security solutions.

Opportunities arising from our strategic approach "Product to System"

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

The principal opportunities are described in the following section, divided into "Strategic opportunities", "Operational opportunities" and "Financial opportunities", which are to be seen in addition to the future business prospects mentioned in the forecast report. However, these represent only a selection of the opportunities available to Infineon. Our assessment of opportunities is also subject to continual change. This reflects the fact that our business, our markets and the technologies we deploy are constantly subject to new developments, bringing with them fresh opportunities and causing others to become less relevant or otherwise changing the significance of an opportunity from our perspective.

Strategic opportunities

Opportunities arising from cyclical market and sector trends (A)

Growth opportunities relating to data centers and mobile applications

The ongoing trends in the areas of artificial intelligence (AI) training and machine learning (ML) are reflected in the high level of demand for solutions that will ensure efficient and effective power management (high-voltage and low-voltage power transistors, driver ICs and control ICs) for data centers.

Opportunities arising from the growth of semiconductor content in vehicles

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

We are 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 electromobility (i.e., hybrid, plug-in hybrid and all-electric vehicles) but also for power units in vehicles with combustion engines. Moreover, the trend towards automated and assisted driving offers great potential for our sensors and microcontrollers.

Opportunities arising from new technologies and materials

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 areas such as research and development into 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).

We therefore see numerous opportunities for working with new materials, such as SiC and 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.

Opportunities relating to market access and activities in China

China is one of the world's largest automotive markets, and its growth potential remains high. In particular, high rates of growth for electric-powered vehicles make China one of the largest markets for electromobility.

The expansion of renewable energy sources in China has also become hugely important. 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.

Operational opportunities

Opportunities relating to our ability to meet supply requirements with available capacity (C)

Our in-house manufacturing capacities, together with those of our external partners, provide us with a degree of flexibility to meet demand. In particular, the further expansion of 300-millimeter production and the planned new investment in the fourth manufacturing module in Dresden (Germany), the second fully automated 300-millimeter factory at the Villach site (Austria), the third manufacturing module in Kulim Phase 1 (Malaysia) currently under construction, and the new planned expansion of wide band gap capacity in Kulim Phase 2 (Malaysia) will strengthen our ability to meet the growing demand for power semiconductors. Furthermore, additional production capacity, including external capacity, can help to meet future customer demand.

Financial opportunities

Currency opportunities (B)

Just as there are risks arising from currencies, as described in the risk section above, there are also opportunities for Infineon in this area if exchange rates move in a way that is favorable to the Group. This may have a positive impact on Infineon's financial condition, liquidity and results of operations.

Other opportunities arising from Infineon's liquidity situation (C)

Our current liquidity position, which is described in detail in the chapter "Review of liquidity", p. 55 ff., provides us with the financial headroom for organic growth and growth by acquisition and enables us to make use of favorable refinancing conditions, if necessary.