

SK hynix

75th Annual General Meeting

Letter to Shareholders



Dear shareholders,

Looking back at 2022, uncertainty in the business environment persisted throughout the year due to the combination of several macroeconomic factors; supply chain disruption, caused by the COVID-19 pandemic, followed by the high inflation and high interest rate environment, and rising geopolitical risk resulting from the intensifying competition among governments surrounding the semiconductor industry.

Yet, under a challenging landscape, I remain proud of what our company has achieved. Based on the industry leading technology and product competitiveness, we posted the record sales, created a more balanced business portfolio, and expanded our next generation premium product offering.

While we are proud of our employees for their passion and dedication, we believe these results would not have been possible without the encouragement and support of our shareholders.

We deeply appreciate the steadfast trust and support of our shareholders.

2022 Financial Results

In 2022, despite of a weakening demand amid an uncertain macroeconomic environment, we achieved a record-high consolidated revenue of KRW 44.6 trillion, which is up by KRW 1.6 trillion year-over-year.

Agile response to the rapid changes in the market demand helped to achieve our sales. We have flexibly shifted the focus of our product mix from Mobile to PC/Server, expanded sales of high-capacity premium products, and strengthened our SSD business for datacenters after the acquisition of Solidigm.

In the meanwhile, our operating profit decreased year-over-year to KRW 6.8 trillion, down by KRW 5.6 trillion, due to a sharp drop in memory prices resulting from deteriorating market conditions in the second half of the year.

DRAM, Strengthening the Competitiveness of Next-Generation Products

2022 was the year when SK hynix's strength in DRAM was yet again reconfirmed. With our customers, we have developed and completed the product qualification of 1nm DDR5 for Server for the first time in the world.

Moreover, our High Bandwidth Memory (HBM), a next generation strategic product critical to the implementation of AI, which requires high performance computing resources, became No.1 in terms of the market share by a large margin based on our industry-leading technological competitiveness and strategic partnerships with major global customers.

In addition, we are on track to continue to develop leading edge process technologies to further reduce the cost. Despite of the fact that our 1nm product is the first product to deploy the next generation Extreme Ultra Violet (EUV) process technology, we have shortened the ramp-up period, the time it takes to reach maturity in yield, than the original plan, and expanded the portion of 1nm mass production by 20% by the end of 2022, thereby further strengthening our cost competitiveness.

NAND, Expanding Market Presence & Product Portfolio

After acquiring Solidigm, we expanded our NAND market share by more than 20%.

In addition, we made our product portfolio more balanced in Enterprise SDD, which is a growth market, and we continue to strengthen our profitability by focusing more on high profitability product offerings than in the past.

Moreover, we expanded the mass production portion of our leading edge 176-layer up to 60%, which is the highest level in the industry, to step up our efforts to further strengthen our cost competitiveness. And at the same time, we have developed the industry's first 238-layer 4D NAND to further strengthen our competitiveness in NAND.

Building a Foundation to Overcome Challenges and Become a First Mover in the Future

The memory industry has been slow since the second half of 2022 due to lagging demand against high inventory levels. We hope to leverage the current situation to building on our business fundamentals for greater competitive advantage over mid-to-long term. We will streamline our capital and operational expenditures and build on this competency to be able to draw on our efficient cost management during the upturn.

While we remain disciplined with our operations, we will continue with our necessary R&D and capex investments of our next-generation nodes to ensure we are well-positioned to lead the future market.

In the short run, we will be ready to deal with changes in the macroeconomic landscape including full-scale DDR5 adoption from launch of new CPUs, greater demand for high-performance servers, and the reopening of China.

In the longer term, digital transformation – such as AI and autonomous driving – that will make our life much more convenient, must go hand-in-hand with improvements in memory technology and demand. As there is only a handful of companies that can realize such tech-innovation, the memory market will inevitably undergo long-term growth.

Therefore, our company will remain committed to maintaining and advancing the competitive edge of our HBMs, which currently holds significance in AI computing, and we will strive to secure advanced technologies and products that will be developed in line with future evolutions across the computing architecture, such as Processing in Memory (PiM), next-generation memory solutions based on Compute eXpress Link (CXL), and computational storage.

Going forward, instead of acting alone, we will engage in close cooperation other global big tech companies and position ourselves as the industry-leader in the future AI computing environment.

Proactively Responding to Global Risks

The intensifying US-China competition, the prolonged Russo-Ukrainian War, and escalating conflict in the Taiwan Strait imply the rising possibility of the current global geopolitical landscape to become the new normal, which will evidently lead to increased business uncertainty.

As a response, we have established a dedicated organization end of last year for purpose of sensing geopolitical risks, so that we can identify and respond to global uncertainties in advance.

We will effectively respond to upcoming global and regional issues, and establish and implement the best global business strategies in light of geopolitical risks to enhance the sustainability of our business.

Sharing Success with our Shareholders

To ensure stable provision of shareholder value, in January last year, we announced our Shareholder Return Policy for the period spanning 2022 to 2024 which includes details on the introduction of quarterly dividends, increased base dividends by 20% from KRW 1,000 per share to KRW 1,200 per share and an additional 5% pay out from our annual free cash flow.

Based on this policy, KRW 300 worth of quarterly dividend was paid out in 2022, and a fourth quarter dividend of KRW 300 was decided by the Board of Directors in light of our negative free cash flow for the year. Therefore, annual dividends per share will be KRW 1,200, and a total of KRW 825.2 billion worth of dividends will be paid out.

Going forward, we will continue to do our best to generate free cash flow drawing on our business competitiveness, and increase shareholder value in return. Moreover, we will explore various ways to enhance shareholder value and to engage in proactive communication with shareholders.

Our “PRISM”-based ESG Initiatives

In response to the needs of various stakeholders, SK hynix announced its ESG strategic framework “PRISM”, serving as standard in implementing our ESG activities and effectively communicating with stakeholders.

Consisting of five key pillars of Pursue, Restore, Innovate, Synchronize and Motivate, our PRISM framework represents why we pursue ESG management, our targets and how we will be achieving them. In addition, we have disclosed to the public 27 targets across the framework that we plan to achieve by 2030.

Global ESG rating agencies are evaluating our ESG efforts with positivism. Sustainalytics, a global ESG ratings and analytics firm has elevated our ESG risks to “Low”, acknowledging our response to dealing with climate change and efforts to seek efficient water stewardship. We have been rated ‘A’ for two consecutive years by MSCI ESG Ratings.

We will continue to be a force for positive influence by regularly sharing our progress and disclosing our PRISM-based ESG activities with greater transparency.

Journey to Become a Leading Global Semiconductor Company

Twenty years ago with our sales at around 3 trillion won, we began the journey ranking 20th in the market. Now, after having overcome intense competition and difficulties both big and small, we have grown to generating 15 times greater sales of 44.6 trillion won and becoming the 3rd largest global integrated device manufacturer and the 2nd largest memory chip supplier.

Along our journey, we have encountered and overcome numerous challenges, which served as stepping stones for greater growth. Drawing on this momentum, we will work through this period of challenging conditions with discipline and will continue to raise the bar to becoming an industry-leading semiconductor provider.

And what we reap will be shared with all of our shareholders.

I would like to once again express my sincere appreciation for your continued support in SK hynix.

Thank you.

March 2023



Park Jung-ho, Chief Executive Officer and Vice Chairman, SK hynix

