

SK hynix

74<sup>th</sup> Annual General Meeting

# Letter to Shareholders

## Dear Shareholders

It is with great pleasure and privilege that I address you in writing for the first time since the establishment of SK hynix.

We began 2021 hoping to return to normalcy, but our high hopes were instead met with business uncertainties as the pandemic prolonged and geopolitical risks constrained global supply chains. Despite such challenging circumstances, we were able to post record-high earnings by focusing on enhancing our competitiveness in quality and technology.

On March 26 this year, we will celebrate the 10<sup>th</sup> anniversary of SK hynix. The transformation the company has undergone is truly remarkable, considering it was only a decade ago that its very survival was at stake. Our growth is even more impressive when looked at more closely; our assets and revenue have grown 5.6 times and 4 times respectively, and the number of our employees has increased from 23,000 to nearly 40,000. Accordingly, SK hynix's market capitalization has increased nearly ten-fold from KRW 10 Trillion to a KRW 100 Trillion level.

While I am extremely proud of our employees for accomplishing such transformation with relentless passion and dedicated effort, I know it would not have been possible without your unwavering support and trust for the past ten years. For your invaluable support, I am deeply grateful. I would now like to share with you our 2021 business results and future plans in more detail.

## 2021 Business Results

In 2021, we achieved record-high consolidated revenue of KRW 43 Trillion, surpassing the previous record set in 2018. We actively increased bit shipments, mainly addressing IT demand for non-face-to-face communication and the mobile market in Greater China. Higher ASPs for all DRAM applications and better-than-expected NAND pricing also contributed to our 35% revenue growth compared to the previous year.

Our operating profit increased 148% year-over-year to KRW 12.4 Trillion, backed by further unit cost reduction by increasing the leading edge 12nm and 128-layer in the product mix. Most notably, our NAND business is now in the black as we more than offset the drop in ASP with faster cost reduction, contributing to profit improvements.

### DRAM, Agile Response to Demand Changes in the Market

2021 was a year when SK hynix's strength in the DRAM business was confirmed once again.

With growing demand for non-face-to-face interactions such as working-from-home arrangements, we proactively responded by sharply increasing the sales of our high-density products for PC, mobile, and graphic applications. In the server market, we attained the largest market share based on our best-in-class quality, already well-recognized by key global datacenter customers.

We are also prepared to extend our market leadership into the next-generation market. SK hynix was first to develop and launch next-generation strategic products such as DDR5 and High Bandwidth Memory (HBM3) for which demand is expected to grow rapidly. Equipped with competitive quality, we are ready to leverage the momentum of the growing datacenter demand, requiring high performance computing workloads including AI and machine learning.

Meanwhile, our cost reduction activities are well on track, in the form of technology development and mass production transfer for the next-node process. We were also successful in adopting next-generation Extreme Ultra Violet (EUV) process, beginning with 1nm technology mass production for mobile application, to be proliferated to PC and server products going forward.

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## NAND, Achieving Both Quantitative & Qualitative Growth

As a latecomer to the NAND market, SK hynix's efforts have continued for years to achieve economies of scale and to narrow gaps with leading players in terms of technology and cost. As a result of surpassing the market average in bit shipments and continuing unit cost reductions over the past two years, we recorded highest-ever NAND revenue and turned a profit in 2021.

In terms of revenue composition, we significantly improved our product portfolio to enable qualitative growth. By focusing on the sales of high-value-added high-density mobile products, we reduced our exposure to the relatively volatile channel and low-end smartphone markets. At the same time, we steadily improved our presence in the SSD market, raising our datacenter SSD and PC SSD revenues by six and two times respectively in just two years.

This is a result of rapidly transferring the leading-edge tech node to mass production and securing strong product competitiveness. We have also solidified our position as the company with the highest portion of 128 layer and above. Year 2021 was indeed a year when we achieved a concrete turnaround in all aspects of business, including profitability, market share, and technology.

On a separate but equally significant note, SK hynix completed the first phase of acquiring Intel's NAND business unit last December. By doing so, we reduced our reliance on DRAM and boost our growth potential in NAND business. On December 30, 2021, the newly-acquired NAND business was established as a new subsidiary of SK hynix and was named "SOLIDIGM", setting forth to begin a new paradigm in solid-state drive business.

Backed by its leadership in PCIe standards, SOLIDIGM boasts its high capabilities in solution development and vast knowledge and expertise in computing architecture. As SOLIDIGM and SK hynix do not have much redundancy in NAND market segments and product portfolios, we expect to see maximum inter-company synergies to achieve further growth of our NAND business and evolve into a true "Memory Solution Provider".

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## Sharing Success with Our Shareholders

I am pleased to announce that a decision was reached at the Board of Directors to raise the total dividend to KRW 1.06 Trillion, up 32% year-over-year, and to pay out KRW 1,540 per share. We believe the decision reflects our sound 2021 earnings and is in line with our intent to share the fruit of our growth with our valued shareholders. The dividend is based on the Dividend Policy<sup>1</sup>, in effect for a 3-year period between 2019 and 2021.

Meanwhile, our Shareholder Return Policy for the next 3-year period from 2022 to 2024 was approved by the Board in January, 2022, and the details are as follows:

First, annual fixed dividend will increase by 20% from KRW 1,000 per share to KRW 1,200 per share. On top of this, we will maintain the existing dividend calculation of paying an additional 5% out of annual free cash flow.

Second, for more stable provision of shareholder value, we will start quarterly dividend from this year. We plan to start quarterly dividend payments from the Q1 of 2022 by amending the Articles of Incorporation at the upcoming AGM.

Lastly, we will use around 50% of the cumulative free cash flow from 2022 to 2024 to fund shareholder returns.

Going forward, we will continue to share our success with our shareholders by generating free cash flow continuously and improving our shareholder return policy.

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<sup>1</sup> Dividend Policy for 2019-2021: Annual fixed dividend per share KRW 1,000 + 5% of free cash flow in additional dividend

## Leadership in ESG Initiatives

ESG management requires company-wide efforts from a long-term perspective. Therefore, we have established an ESG strategy organization, which reports directly to CEO, and set up the ESG Management Committee.

To achieve our RE100 goal by 2050, the first among Korean companies, we set an interim target of using renewable energy for 33% of our energy consumption by 2030 and are now making detailed plans for execution. Recently we formed the Carbon Management Committee and completed preparations to speed up our corporate activities to address climate change.

Moreover, SK hynix was the first memory semiconductor company to issue a Green Bond of USD 1 Billion. We are accelerating our ESG Management in various areas including improvement in water management, publication of Human Rights Impact Report, and ESG consulting for our suppliers.

We have also strengthened a board-centered responsible management system to enable the Board's role as the top decision-making body and its faithful check and balance of management. Ha Yung-Ku, who has been serving as a Senior Independent Director, was appointed Chair of the Board, and the Independent Director Nomination Committee is now comprised solely of Independent Directors. To enable the Board to oversee the company's mid- to long-term strategy and determine key executives' evaluation and compensation, the roles of the existing Committee have been fortified.

Our efforts are being recognized by global ESG rating agencies. We have received top ratings in carbon management and water security from Carbon Disclosure Project (CDP). Our ESG rating from MSCI has been upgraded for two consecutive years, reaching an A in 2021. In the Dow Jones Sustainability Asia Pacific Index, SK hynix is the only semiconductor company to be included for twelve consecutive years.

## 2022, A Start for a New Growth Story

We expect this year's business environment to remain challenging.

The COVID-19 pandemic, which has prolonged for more than two years now, is showing signs of gradual improvement worldwide, however it is still too early to expect a return to normal daily life. Moreover, global economic uncertainties and supply chain risks require us to make swift responses.

From memory demand perspective, although demand growth for IT devices may slow down due to base effect, overall memory demand growth is expected to remain sound with CapEx increase from major datacenter customers, driven by the acceleration of enterprises' digital transformation and the advent of cloud-enabled metaverse. High-end smartphones on the back of 5G penetration are also expected to drive memory demand growth.

In the longer term, the Big Wave of technology including AI, autonomous driving, and machine learning will increase the importance of more advanced data storage-transfer-management capabilities. Together with the evolution of computing architecture, competition among SoC makers and the technology convergence will require us to build new competitiveness that is distinct from the past.

In the face of the upcoming era and environment, SK hynix will not be a follower but a leader of the new competitive landscape.

## Enhancing Technology Leadership

To turn change into an opportunity for future growth, what is most important is to enhance our fundamental competitiveness.

In DRAM, we will speed up 1nm tech transition and improve operational efficiency to establish the foundation for the highest profitability in the market. In addition, with EUV optimization in operations, we will maintain technology leadership in 1bnm and 1cnm next-generation nodes as well.

In NAND, we will extend the cost leadership that we secured at the 128-layer technology into the 176-layer technology. And based on successful PMI of SOLIDIGM, we will maximize synergies to firm up our position as No. 2 company focusing on the high-value-added solution market to secure a stable profit structure.

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### Securing Infrastructure for Future Growth

We will also prepare key infrastructure required for future growth such as Fabs, R&D Center in a timely manner.

The Yongin Semiconductor Cluster has the purpose of not only securing Fab space in order to support long-term demand growth, but also providing a foundation for mutual growth with raw material, component and equipment suppliers to build a Korea-based semiconductor ecosystem and a strategic hub for the future.

We plan to establish an R&D center in Silicon Valley, right at the center of advanced ICT industry where many Big Tech companies are located. Establishing our core R&D base in Silicon Valley would allow us to strengthen our technology leadership.

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### Pursuit of Becoming a Global Best-in-class Technology Company

We will continue our efforts to preemptively respond to a future business environment, which will feature rapid change and high complexity that we have yet to experience.

In the face of diversification of future ICT and technology limitations, no company can survive on its own. SK hynix will move on from the existing way of working to pursue open collaboration with customers, suppliers and various partners.

Furthermore, we will reduce environmental impact based on technological innovation and R&D, and work to ultimately secure environmentally-friendly manufacturing process for a sound semiconductor ecosystem. In particular, we will consider ESG in all key management decision-making processes to become a global best-in-class company in all aspects to meet the rapidly changing needs of societal expectations and requirements.

### We will meet the expectations of our shareholders by achieving greater growth


Dear Shareholders,

SK hynix will not rest on the laurels of our past achievements. Based on our global technology leadership, we will continue to respond to the rapidly-changing environment. We will proactively identify the unmet needs of our customers in our constant search for opportunities to lead the market. By collaborating with the world's best Big Tech companies, we will strive to find solutions to overcome technological and business limitations and diligently prepare to become a best-in-class company.

I would like to once again express my sincere appreciation for your continued support and trust in SK hynix. Your interest and expectations have always been a great inspiration and driver for change for us. I ask you to share my belief in the unlimited potential of SK hynix and continue to share our journey forward.

Thank you.

March 2022



Park Jung-Ho | CEO & Vice Chairman of SK hynix