

## 【Samsung Electronics Q2 Earnings Call】

Welcome everyone, this is Ben Suh from investor relations.  
Thank you for joining our second quarter 2022 earnings call.

For additional details regarding our quarterly results, please refer to our earnings presentation, which is available on our IR website at [www.samsung.com/global/ir](http://www.samsung.com/global/ir).

On the call today,  
I am joined by the following representatives from each business unit  
EVP 한진만 representing Memory  
EVP 피재걸 for System LSI,  
EVP 강문수 for Foundry,  
EVP 최권영 for Samsung Display Corp, which I will call Display in the presentation,  
VP 김성구 for Mobile eXperience,  
VP 김영무 for Visual Display.

I want to remind you that some of the statements we will be making today are forward-looking, based on the environment as we currently see it. All such statements are subject to certain risks and uncertainties that may cause our actual results to be materially different from those expressed in today's discussion.

Before reviewing our quarterly results, I want to confirm the second quarter dividend.

Today, the Board of Directors approved a quarterly dividend of 361 won per share for both common and preferred stock. Based on the annual dividend payout under the current dividend policy, the total quarterly payout is 2.45 trillion won, and will be paid in mid-August.

Now, I will move on to the results for the second quarter.

Despite a highly challenging business environment marked by inflationary and supply chain issues, we recorded the Company's second highest quarterly revenue and a new all-time high for a second quarter at 77.2 trillion won.

The DS Division led such performance by achieving a new quarterly revenue record for a second quarter in a row, by actively adjusting the product mix to meet solid server demand and increasing the supply of system semiconductors; in addition, the DX Division posted significant year-on-year growth on solid sales of premium smartphones along with strong sales of seasonal digital appliances such as air conditioners.

Gross profit increased by 0.2 trillion won sequentially to 30.9 trillion won, mainly due to profit focused memory sales and yield improvement in Foundry. Gross margin also increased slightly to 40.1%.

SG&A expenses increased 0.2 trillion won quarter-on-quarter to 16.8 trillion won as our continued investments in R&D outpaced reductions in advertising & promotional spending. As a percentage of sales, they were also up slightly.

Although profits in the DX Division declined due to macro issues such as increased material and logistics costs and currency effects, we delivered a similar operating profit quarter-on-quarter at 14.1 trillion won. Operating margin improved moderately thanks to across-the-board improvements in the DS Division.

On a year-on-year basis, operating profit increased by 12%, or 1.5 trillion won, also led by the DS Division.

I will now briefly review the results of each business unit.

In Memory, although bit growth came in below guidance due to weaker-than-expected mobile/PC demand, results improved both quarter-on-quarter and year-on-year as we maintained ASP by preemptively shifting our focus to meet solid server demand and by maintaining our disciplined sales strategy. The positive effects of a strong dollar also contributed.

In system semiconductors, operating profits were up 61% quarter-on-quarter, achieving a record-high as S.LSI expanded sales of DDIs and volume-zone SoCs; and Foundry yields entered our targeted trajectory for advanced nodes as we increased supply to global customers.

In addition, we further improved our technology competitiveness through the world's first mass production of the GAA process and supply of 200-megapixel image sensors.

For Display, the mobile panel business delivered its highest ever 2Q revenue and operating profit, thanks to continued solid demand by our major customers for their flagship models, despite weak seasonality for smartphones. The large panel business surpassed its yield target for QD Display, but its results still weakened due to initial ramp-up costs of QD Display and a decline in LCD ASP.

For the MX Business, earnings decreased sequentially due to elevated operating costs, mainly in material and logistics, and adverse currency effects, but revenue rose year-on-year as an improved component supply enabled increased sales of new premium models, such as the S22 and Tab S8-series. The Network Business saw its revenue grow slightly compared to the previous quarter with consistent sales, as it continued to pursue new opportunities, highlighted by the addition of DISH Network as our newest US customer.

In VD, earnings decreased due to a decline in revenue caused by sluggish global TV demand and a rise in sales costs, but we reinforced our market leadership by focusing on the premium segment, which includes QLED and Super Big TVs. Digital Appliances saw its profits decline due to lingering cost-burden issues, but it achieved record-high quarterly revenue for a second consecutive quarter thanks to the increasing global expansion of Bespoke products and a strong start of seasonal air conditioner sales.

Regarding currency effects relative to the Korean Won, the component businesses benefited from the strong dollar, resulting in an approximately 1.3 trillion won company-wide gain in operating profit compared to the previous quarter. The DX Division, however, experienced some adverse currency impacts.

Next, I would like to share our business outlooks for the second half of the year.

Under expectations that macro uncertainties are unlikely to dissipate, we will actively monitor demand trends to respond swiftly and flexibly. DS will focus on operating a high-value-added portfolio, expanding advanced nodes, and adopting new applications; DX will continually reinforce our leadership and lineups in premium segments. And we have started a full-fledged expansion of multi-device experiences based on SmartThings, which has a global user base of 230 million.

Now for each business unit's outlook:

In Memory, we expect fundamental server demand to remain solid, but macro issues are likely to cause continued weakness in PC/mobile demand. While closely monitoring impacts on the demand side, such as releases of new mobile products by our major customers, we will continue to focus on our high-value-added/high-density portfolios.

For System LSI, we plan to further increase our volume zone SoC business and strengthen our leadership position in image sensors by expanding our customer base for 200-megapixel products.

For Foundry, we aim to exceed market growth by adding new global clients while we continue to reinforce our technological competitiveness, including through the development of the 2nd generation GAA process and by evolving derivative processes of existing nodes.

For Display, in the mobile panel business, we anticipate that earnings will grow, driven by new smartphone launches and increased entry into new application areas such as automotive and gaming.

In the large panel business, we expect earnings to improve with the shutdown of LCD production and increasing demand for QD Display.

The MX Business will work to secure solid profitability on multiple fronts. We will target sales of foldable products to surpass those of the Galaxy Note-series as we fully mainstream the segment by delivering a differentiated consumer experience enabled with global partnerships. We will also expand the Galaxy Ecosystem through successful launches of wearable products, and boost overall operational efficiency.

For Network, we plan to maintain revenue growth momentum by actively expanding our overseas businesses and by meeting domestic needs for 5G installations in a timely manner. We will also continue to reinforce our technology leadership in 5G core chips and Virtualized Radio Access Networks.

For VD, we aim to capture demand in the premium market during strong seasonality by expanding sales of strategic products, such as Neo QLED, Super Big and Lifestyle lines.

For Digital Appliances, we will focus on improving profitability by increasing sales of premium products, strengthening B2B and online sales, and working to further enhance cost efficiency.

Turning to capital expenditures. Capex in the second quarter was 12.3 trillion won, with 10.9 trillion won invested in the DS Division and 0.8 trillion won in Display. Capex in the first half of the year totaled 20.3 trillion won, with 17.6 trillion won invested in DS and 1.5 trillion won in Display.

Similar to last quarter, memory investments concentrated on infrastructure at P3 and on capacity expansions and process migrations at fabs in Hwaseong, Pyeongtaek, and Xi'an to address future demand; Foundry investments focused on increasing production capacity of advanced processes of 5-nano and below.

Next, I would like to share some of our key activities in sustainability management.

To start, in June, we published our 2022 Sustainability Report, which includes our key activities and achievements for the past year, such as the reinforcement of the Board's oversight function of sustainability management, expansion of sustainability management activities by businesses, and our joining of the UN Global Compact, or UNGC. For more details, please refer to the Sustainability Report, which is available via our website.

Meanwhile, in recognition of our efforts to enhance the energy efficiency of our products and work sites, we were honored at the beginning of May with our ninth Sustained Excellence Award for Product Brand Owner—the highest level of recognition in the manufacturing sector in the US Environmental Protection Agency's Energy Star Awards—and we also received the Partner of the Year Award for Energy Management, the highest level of EPA recognition.

In addition, 11 models of our new TV products for 2022, including our Neo QLED 8K, earned "Reducing CO2" certification as a part of the Carbon Trust's carbon footprint labeling.

The DS Division achieved a waste recycling rate of 97.5% through its multi-pronged approach towards recycling; it received Global Recycling Standard certification by developing eco-friendly cleanroom garments using waste plastic bottles; and it brought two more of its worksites to the platinum level for Zero Waste to Landfill. Additionally, to reduce GHG emissions, we

developed and then installed process gas treatment equipment at our domestic worksites. We expect to reduce GHG emissions by approximately 190,000 tons monthly through this in-house technology.

Along with such activities, we are currently establishing a comprehensive, mid-to long-term environmental strategy that includes a climate change response, and we expect to be able to share detailed plans in the near future.

We will continue to systematically promote sustainability management and are committed to transparently communicating our ESG direction and achievements with our stakeholders.

I will now turn the conference call over to the representatives from each business unit to present second quarter performances and outlooks for their corresponding business segment. We will start with the Memory Business. Thank you.

Good morning, This is Han Jinman from the Memory Global Sales & Marketing Office.

For the Memory market in the second quarter, server demand remained solid, but demand for consumer products, such as mobile, weakened due to widening impacts of macro issues. As a result, DRAM and NAND shipments were below Bit Guidance.

However, our performance improved both year-on-year and quarter-on-quarter as ASP stayed at a better-than-expected level thanks to our disciplined sales strategy to meet the market demand, and also the benefits of a strong dollar.

In DRAM, For Server, there were some disruptions in Set Builds due to supply issues for certain components, but continued expansion of the proportion of high-core CPUs kept fundamental end demand on a solid trend and memory demand on an upswing. Inventories increased at major PC OEM companies due to low sell-out amid intensifying macro issues such as inflation, and demand weakened accordingly.

Mobile experienced weak demand trends as well, as consumer sentiment worsened due to lockdowns in China and price instability caused by the prolonged Russia-Ukraine war.

We achieved the highest sales of server products in the industry for any quarter by optimizing our portfolio and actively responding to solid demand centering on Servers.

However, We missed guidance for total bit growth due to weak demand for consumer products such as PCs and mobile devices.

Next, I will talk about the NAND market. For Server SSD, Along with continuously rising demand for high-density products thanks to investments by datacenter customers, demand extended to low-density products as customers bid to minimize set build disruptions caused by a shortage of active/passive components.

For Client SSD, Set shipments were flat due to weak purchase demand for PCs attributable to macro issues such as inflation, But SSD content-per-box and attach rate kept growing thanks to the rising proportion of high-end products.

For mobile, despite the continued trend toward high-density, demand weakened as overall consumer sentiment deteriorated due to the persisting Russia-Ukraine war and lockdowns of major cities in China.

We continued to expand the proportion of high-density products of 512Gb and higher for server SSD and actively responded to the high-density trend in client SSD and mobile, helping us maintain a decent ASP.

However, overall Bit Growth came in below guidance as mobile demand was much weaker than expected. Now, let's move on to the outlook for the second half.

For server, even though server demand and macro issues show a relatively weak correlation, there is a possibility of customers' temporal inventory adjustment amid some IC components supply problems as well as a concern over widespread economic recession and geopolitical issues.

However, centering on major datacenter companies, investments in core infrastructure and new growth areas, such as AI and 5G, are expected to keep expanding, so fundamental demand should stay solid.

On the other hand, consumer products like PC and mobile are more sensitive to macro factors than servers are, and current forecast indicates that related demand is likely to weaken in the second half of the year. And for PC, it is possible that the risk may spread to enterprise segments that were expected to remain relatively solid; and we cannot rule out chances of positive effects on consumer demand during the year-end promotional season.

For mobile, chances of a recovery in consumer sentiment toward the end of the year are likely to depend on various factors such as economic policies of major countries and the stabilization of commodity prices. In addition, high-density adoption is expected to continue, given launches of new mobile products by major customers.

Amid the highly volatile market situation, we are planning to maintain our stance of operating an optimized portfolio that centers on high-density/high-value-added solutions, based on supply flexibility in accordance with market conditions and customer needs.



For product-specific strategies, As always, DRAM will improve the quality of its business by staying disciplined against excessive expansion of sales, and flexibly managing supply in line with demand.

NAND will focus on creating demand mainly for high-density products while considering characteristics of high price elasticity; and will continue to strengthen our market leadership by actively responding to demand based on our excellent cost competitiveness.

Finally, as an industry leader, we are sustaining our efforts to reinforce ESG management. For example, based on our accumulated product technology as a leading memory company, we are working to establish a recycling business model that will produce a virtuous circle and streamline resource use.

Moreover, as our customers' business patterns shift from ownership to usage based, we will make great efforts to develop business models that reinforce our customers' agility and flexibility and also improve the future investment efficiency of our memory business.

Thank you.

Good morning, this is Jae Geol Pyee from the System LSI Business.

Demand for products in major applications was sluggish due to impacts of unfavorable economic conditions such as geopolitical issues and inflation, but S.LSI earnings improved quarter-on-quarter, lifted by a growing supply of major components such as DDIs and volume-zone SOCs and also by positive effects of foreign exchange movements.

We further solidified our leadership in image sensor technology through the world's first supply of 200-Mega pixel sensors. In addition, we also established a foothold to expand our automotive SoC business by securing US customers in addition to our ones in Europe. Also in 2Q, we reclaimed the number-one position for DDI revenue.

In the second half, despite high uncertainties such as weak demand for finished products and inventory adjustments at customers, we aim to exceed revenue and profitability growth compared to last year by expanding our lineup of 5G SOCs and by expanding our customer base to maximize supply of our technology-leading 200M pixel image sensors .

Thank you

Good morning, this is Moonsoo Kang from the Foundry Business.

In the second quarter, we achieved our highest ever second quarter revenue thanks to solid demand for advanced processes centering on HPC and sustained demand and yield improvement in mature processes.

We also achieved our highest 2Q profit through price realization and cost improvements, taking another step closer to securing future investment resources through our own capabilities.

In addition, we have strengthened our technological competitiveness through the world's first mass production of the 3-nano GAA process, accomplished in June. We also worked to prepare advanced processes for automotives and to continue to evolve derivative processes through optimization of PPA, or Performance, Power, Area, and process development of RF, or Radio Frequency, to expand applications.

In the second half of the year, despite uncertainties related to geopolitical issues and inflation, we maintain our view that HPC and 5G-related demand will remain solid.

As we are responding flexibly to demand predictions via close cooperation with our customers, we aim to exceed market growth through yield improvement of advanced processes alongside a proper pricing strategy.

In addition, we plan to add to our base for future growth by advancing the completion of second-gen GAA process development and expanding our customer base for large-scale orders.

Lastly, in October, we will hold off-line forums for the first time in 3 years due to the pandemic. We will strengthen customer networking by holding our Samsung Foundry Forum in the US, Europe, Japan, and Korea; and our Samsung Advanced Foundry Ecosystem Forum in the US.

Thank you

Good morning, I'm Kwonyoung Choi from the Business planning department at Samsung Display.

In the second quarter, for the Mobile Display business, overall demand for the smartphone market declined due to deteriorating consumer sentiment attributable to inflation and rising interest rates.

However, we achieved solid earnings growth thanks to strong sales for flagship smartphone models based on our proprietary technologies and product performance.

Our profit increased year-on-year, backed by positive effects of foreign exchange movements, with a continued increase of OLED adoption by laptops and portable gaming devices also contributing to the growth.

For the Large Display business, losses persisted due to a decrease in LCD ASP and initial costs of QD Display development. However, we expect a full-blown increase in sales and profit margin from the second half of 2022, driven by rapid improvements in the QD Display yield and a rising number of brands adopting QD Display products.

Next, let me share the market outlook and Samsung Display's core strategies for the second half of 2022

In the second half, for the smartphone market, we expect earnings to improve half-on-half as a number of major customers plan to release new products. However, we expect earnings to be more volatile than they were last year due to a number of difficult-to-predict external factors.

We expect our OLED panels to continue to record sales growth, given the high demand for their use in premium products, which are relatively unaffected by economic fluctuations.

For laptops, although we forecast that the market will contract due to an overall downturn in consumer markets, we expect our OLED display sales volume to keep growing, driven by rising consumer preference for displays featuring high resolution and a fast response time.

Meanwhile, for the large display market, Our QD Display will feature in

TV and monitor makers' new products, which are scheduled to roll out in earnest around the globe.

Samsung Display will channel all of its efforts to promote the excellence of QD display to consumers by launching joint promotions with our customers, aiming to lead the premium market

Thank you

Good morning and good afternoon. This is Sung-Koo Kim from the MX Business.

I would like to share our Q2 results for 2022 and the outlook for the MX Business for the second half of the year.

In Q2, geopolitical issues and concerns over inflation on top of continued seasonally weak demand caused the smartphone market to decrease compared to the previous quarter.

For MX, revenue and operating profit decreased QoQ due to the market situation, but revenue was up compared to Q2 last year. Even though total revenue of smartphones and tablets decreased QoQ, sales of flagship models remained solid.

The supply disruption in Q1 was mostly resolved in Q2, and that contributed to the sequential increase in the Galaxy S22 sales which were driven by the Galaxy S22 Ultra, the top model in the series.

Also, the Flagship Galaxy Tab S8 series, which embraced growing demand for big-screen, premium tablets, continued strong sales.

However, profitability decreased QoQ due to increased material costs caused by recent price increases for components and logistics as well as headwinds from exchange rates.

Let me now share the outlook for the second half of this year. Given the persistent geopolitical volatility and economic uncertainties, we expect market demand for smartphones in the 2nd half to stay similar YoY or grow by a low-single-digit percentage.

Despite the challenging market conditions, MX plans to expand sales with a focus on flagship products.

In particular, through a successful launch of new foldable models, we will strive to solidify foldable products as a key category in the flagship market. To that end, we are committed to preparing thoroughly in all areas, including product completeness and supply.

The new foldable models feature upgrades in design and durability, and in addition, close collaboration with global leading partners has helped us provide richer experiences tailored to the form factor.

We will secure sufficient supply in advance to ensure we can meet the demand of every customer who wants to experience our new products right after release.

By doing so, we are striving to make our foldables the mainstream that our customers love even more than they did the Note series and achieve continued high growth to drive flagship-centered revenue growth.

Meanwhile, although the smartwatch market in 2nd half of 2022 is forecasted to feel effects of economic uncertainties in the short term, we will try to maintain high growth momentum with the release of new watch models.

The new Watch models will be Unpacked alongside the new foldable models in the second half, and their more intuitive and convenient Galaxy connected experience will help us expand sales of Galaxy Ecosystem devices.

Going beyond providing customers with convenient technology and devices, Samsung will add valuable experiences and enrich customers' everyday life through services such as Samsung Wallet, which was introduced in Q2.

Moreover, in collaboration with the overall DX businesses, we are making broad efforts to provide richer multi-device experiences based on SmartThings, including through the introductions of various life scenarios customized to individual life patterns.

Finally, given expectations that the market will remain uncertain for some time, we will endeavor to maintain profitability in the double-digits in the 2nd half by improving our product mix centering on flagship products through fully mainstreaming foldables and by continually enhancing operational efficiency to respond to challenges such as adverse currency effects.

Thank you.

Good morning, I'm Youngmoo Kim from the Sales and Marketing Team of Visual Display.

First, I would like to review the market conditions and our performance in the second quarter of 2022.

Market demand for TV contracted both quarter-on-quarter and year-on-year, the former caused by entering weak seasonality and the latter due to the base effect of last year's pent-up demand as well as a decrease in consumer confidence resulting from high interest rates, inflation, and other factors.

For Samsung, our performance declined due to a decrease in revenue amid declining market demand and cost increases related to intense market competition, but we improved the quality of our sales mix and are maintaining our leadership by focusing on expanding sales of premium products, such as Neo QLED/Lifestyle.

Next, I would like to talk about our outlook for the second half of 2022.

For TV market, Although there are opportunities to expand sales, such as peak seasonality and global sporting events, several macroeconomic risks are likely to continue to cast uncertainties on overall TV demand.

Samsung will closely observe the rapidly changing market, and we will capture peak-season demand and secure profitability by focusing on strategic products such as Neo QLED, Lifestyle and through strategic partnerships with major channel partners.

At the same time, we will proactively target Signage market, where B2B demand has been more active recently while also further solidifying our status as the market leader with innovative products such as Micro LED and Odyssey Ark.

Thank you.



Thank you. That sums up the second quarter results presentations. Before we move on to the Q&A session, I would like to share several data points in key business areas. However, once again, we will not be providing annual guidance, considering the persistently high macro and geopolitical uncertainties.

In the second quarter, for DRAM, our bit growth increased by a mid-single-digit percentage; and ASP was flat quarter-on-quarter. For the third quarter, we expect market bit growth and our bit growth to stay flat compared to 2Q.

For NAND, our bit growth compared to the first quarter decreased by a percentage in the high-single-digits, while ASP increased by a low-single-digit percentage. In the third quarter, we expect market bit growth and our bit growth both to rise by around 10% quarter-on-quarter.

For Display in the second quarter, the mobile portion of revenue was a percentage in the high 90s; and sales volume declined sequentially by a percentage in the high single digits.

In mobile in 2Q, shipments were approximately 62 million units for smartphones and 7 million units for tablets. Smartphone ASP was USD 281. For 3Q, we expect smartphone shipments and ASP to rise quarter-on-quarter and tablet shipments to stay similar.

For TVs, sales volume in the second quarter declined sequentially by a percentage in the mid-20s. For the third quarter, we expect sales volume to increase by a high-single-digit percentage.

Thank you. I will now move on to the Q&A Session.  
First, we will start taking questions from the conference call.

## Q&A

<Q – Ricky Seo >:

I have two questions.

-The first question is about the inventory. It seems that the company's inventory is increased by about 9% Q-o-Q. With that in mind, can you give us some details about the reasons for the inventory increase, the company's position regarding the higher inventory, and also your expectations going-forward about your inventory levels?

- Second question is towards the MX business. The company has been emphasizing connectivity for example, that connects the mobile device with other devices such as tablets, wearables, or PC. The company, I've been told, is told is expecting this to be a source of additional synergy and has been focusing on actively developing new products. With that in mind, can you give us some more details about what kind of solutions the company is developing, its strategy, and some updates on new products?

<A>:

- To answer your first question about inventory, as you will recall, there was the sort of serious global supply chain issue last year and watching that the company has since been continuously looking for ways, first of all, minimizing the impact on our business and also allowing us to supply products without disruption to our customers.

And strategically, since end of last year, we have been securing inventory around the key components to a close cooperation with the key suppliers.

Now, the supply chain situation actually worsened as we have through this year with the Russia-Ukraine war and also some lockdowns in parts of China. And so watching that, we have been increasing our inventory levels this year and this was actually one of the key factors of why we were able to continue stable supply of products throughout the first half.

Regarding our outlook on inventory, we do expect that our inventory will be adjusted to fair balanced levels during the second-half especially around the DX business. With that said, given the fact that these macro uncertainties are

continuing to exist, we will at the same time maintain a flexible approach while closely monitoring the situation. We will also be implementing an affair or a balanced inventory policy at the DX business in connection with market situations.

- To answer your second question about the connectivity, we see that competitive paradigm in the market is shifting from the smart phone, the mobile device standalone to an ecosystem experience that is centered around the smart phone and that is why we have been continuing to strengthen the connectivity experience between ecosystem devices such as tablet, laptops, and wearable. This effort to strengthen the connectivity experience is not just within the MX business, but also it is at a corporate level including the VD and our domestic or digital appliances business.

For example, now customers are able to control and manage various home appliances such as TVs using the smart things from their smartphone. They are, for example, able to continue to watch a video from their smartphone seamlessly on to their TV opening the buds case with trigger of window on either a TV or smart monitor or the freestyle projector, so that the user can connect the buds to these devices with just one click.

These are some of the examples of how we are providing a very convenient user experience that covers multiple devices in the home.

Actually, our concept of this smart things connectivity goes beyond connectivity between our own devices. We have been carrying out do the smart thing, the smart thing daily lives campaign, where we show our customers the various scenarios that they can actually experience themselves by connecting not only our products and services, but also third-party devices such as light or power curtains in the home to provide a customized experience for that fits for everyone.

And so based on the smart things, our aim is to go beyond just providing a convenient technologies or devices, but to become recognized as a premium brand with stronger position and value that actually makes life richer through a multi-device experience.

<Q- Peter Lee>:

I have two questions.

- The first question is about the memory side. You did miss your second quarter growth guidance by a significant margin. Can you give us some backgrounds or to why it came in so low?

- The second question is to the VD side. I think the market is concerned about a lot about TV demand going-forward. Can you share your second half outlook for TV demand, your plans about the premium segment lineup and also how you plan to defend your profitability.

<A>:

- To answer your first question about the memory, actually, in second quarter, our performance, our business results in terms of both revenue and profits grew on a quarter-on-quarter and year-on-year basis.

Thanks to healthy pricing and also positive impact from FX. But that second market, memory market conditions were not easy. It was very challenging. It was not so in the case of server, where server demand continued to remain solid, but it was on the consumer products that were hedged due to various macro issues including the rise in commodity prices due to the extended war going on.

Within the consumer product, the demand for mobile was lower, particularly more than expected. And so that was the main reason why our shipment for DRAM and NAND came in lower than what we had originally expected. And between DRAM and NAND, NAND which has a higher exposure towards consumer products, had a more prominent decrease in shipments.

Now, looking towards the second half, we think that the second half there will be a mix of upside and also risk factors. So, given this uncertainty, we think that the best approach would be to continue to carefully watch the market and respond flexibly. In the case of NAND, I think the outlook is that demand for consumer products would be somewhat weak consumer products such as PCs or mobile.

But then when sense the market at least at the end user level, there is definitely a very clear demand for more storage capacity at the device level. So, we are currently discussing ways of tapping that together with our customers.

- Answering your question about the TV, you've asked for some all about our outlook for the TV market. Currently looking towards the second half there, it would be seasonality positive, there will be positive seasonality, and also there are some sports events, which would be an upside factor. But then there are also other macro variables that are difficult to predict. And so, overall, the visibility about demand in the second half is limited.

And so, given this uncertainty of market demand, our focus, is to gain a stronger edge in the premium segment and also to secure profitability by continuing to expand high value, high-end products and also optimizing our internal operations.

And so, our strategy towards the premium segment is number one to continue focus on premium sales around the Neo QLED product, but also same time lead the ultra super large size 90-inch-plus market by increasing the sales of our 98-inch offering and also to introduce new sizes using Micro LEDs, which currently is offered in the 110 inch. We'll be adding new sizes such as 89 inches in order to open up new territory within the premium market.

<Q – J.J. Park>:

- My first question is on the system LSI, the Exynos business. There are, I think, concerns about the competitiveness of that business in the market. We've been hearing some rumors that the company may fold up that business. Can you confirm whether those rumors are true? And if not, how does the company plan to increase the competitiveness of its Exynos business.

- Second question is towards the foundry. The foundry has been making significant investments over the past several years and that has resulted in growth of its top line above market growth rate. But I guess the profitability wise, it's not at a satisfactory level from the market perspective. And so, can you give us how what you expect in terms of the foundry business profitability in the future?

<A>:

- To answer your question about the Exynos business, the rumor that we may fold the business is completely not true. We're currently in the process of reviewing, revising our SOC business model with a focus on gaining mid to long-term competitiveness by efficiently delegating or dedicating our resources appropriately.

Within this new resource plan, the focus is on strengthening the competitiveness of the next generation mobile Exynos. And currently, we are focusing on expanding the market share of our key customers by increasing the level of cooperation with a leading IP holders for each area.

And also starting the development cycle early on so that we have the core competitiveness.

Also to further strengthen the competitiveness of the SOC we are looking into improving the business model, which is currently more relying on the dependent on the mobile side to we're trying to expand that to other applications such as wearables, laptop, and Wi-Fi products.

Also, at the same time, we are focusing on expanding the ecosystem partnership around the SOC by building stronger partnerships and new cooperations models with various companies within that value chain such as OEMs, ODMs, the module companies, and software vendors.

- To answer your question about the foundry profitability, at least we think that the demand will remain solid especially around the advanced nodes. And so, our plan is to continue our investments by analyzing multiple factors including the two long-term market, global customers demand, economic outlook, profitability so that we are able to continue as table supply.

In terms of our timeline, our plan is to start operation of our pyeongtaek new line in 2023 and Taylor in 2024. We also think that we'll be able to continue to improve our profitability by introducing healthier prices and also improving our cost side, so that we're able to fund our investments from our operation. So, if we are able to continue our growth momentum that we see, we expect that we will be able to reach a level of profitability, where we will be able to source the funding of investment from our own operation.

<Q – Jeff Kim>:

- My first question is about the memory, the server demand visibility. I think there are some concerns in the market that in the second half even server demand be slow down. Can you give us your views of the server demand in the second half?

- Second question is about the display, while the overall display market globally is going through a difficult period, SEC relative was able to deliver positive results. Can you give us some more details of how that was possible.

<A>:

- You've asked about server demand. I think one thing we noticed about server demand is that it's relatively less sensitive to geopolitical issues or macro issues and that's because servers have sort of an interest in infrastructures that enables a lot of the things we do in daily lives and at work that we take for granted.

And so there is that nature as an infrastructure essential. And then there are some new growth areas such as AI, where investments into core infrastructure is continuing to expand.

Another thing, we've been noticing in the market, is that many enterprises are now adopting, what's referred to as a hybrid server that combines their on-servers together with a data center public cloud servers in parallel. And so that is also adding to a solid support for a fundamental server demand.

And sir, despite the recent resilience in server demand, I think, it's difficult for us to say that everything would be optimistic, because as you mentioned, there are some reasons to be concerned such as there are some still IC parts that are going through a supply disruption and also if the global economic recession occurs as some are concerned, I think at that point, even the server customers will have to go through an inventory adjustment, which may impact the memory demand at our end.

And so our assessment of the server market is that uncertainty is at high levels and that actually we are updating our forecast and outlook at any time in order to improve the fidelity of our forecasts. And an example of how that works is, what we did in the second quarter, where we were able to optimize our

product portfolio earlier on, so that we are able to fully capture the demand on the server side, and record the highest quarterly server sales in the industry.

Looking towards the second half, there are some upside factors. For example, the mass production of DDR5 at full scale, the market is expected to therefore expand and therefore server markets are expected to record meaningful increase in share. And so, our approach to that is to continue to maintain and optimize product portfolio around the high-end and high-density solution products. But maintain a supply that's flexible and fit to the demand.

- To answer your question about the display and the relatively better performance compared to competitors, well, first of all, if you just look back on the market, as you mentioned overall, the economic environment is challenging. The display market this year has been going through a decreasing demand and also a decline in ASP so, it's a challenging market.

We are concerned about these market volatility such as well as the possibility of an economic recession. And so we are carefully monitoring market demand and also the supply chain. Despite these challenging environment, as you mentioned, there seems to be a divergence of company results. And the reason why we are pulling away from the other competitors and staying healthy I think it's mainly explained by the fact that we're able to preemptively start to readjust our business strategy.

As you recall based on our market analysis and analysis of consumer needs, we have decided to fold our LCD business, several years ago, and have been going through that process. We completely closed down the LCD business as of the first half of this year and we were able to actually focus our resources building a full lineup of OLED offerings that covers not only the mobile, but also IT and also the QD display and that has actually given us the fundamentals to weather through a various disruptions that we've been going through the past several years, including the pandemic and the rapid decline in market demand and despite that maintain a stable performance.

Going forward, we will continue to focus on building our competitiveness on these different applications such as mobile IT, auto, and QD displays and focus on providing -- focus on developing our technologies and providing greater customer satisfaction.



<Q – Nicolas Gaudois >:

- Good morning, and thanks for taking my questions. The first one is on memory in light of and demand uncertainty in the market, we believe that memory makers are reconsidering and reducing the initial capital spending budget into 2023, does it actually apply to some soon as well and could we apply a reduction in overall CapEx and with the public spending in the near term and into next year?

- And secondly, regarding the foundry business for the emitter get along second generation i.e. 3GAA. What is the development stages now and mass production time and how are you executing it in winning large-scale customers for 3GPP. Thank you.

<A>:

- First to start to answer your question about memory, I guess a good place to start is about our memory market outlook. As we've been talking, we do agree that there is a possibility that memory markets may be somewhat weak in the second half, but as we mentioned updating our demand for weekly and even a daily basis. So, I think at this point, the best approach we can take is to not be too optimistic or too pessimistic about the memory market, but to just continue to check all of the factors we can both internally and externally and respond flexibly to what we see.

Now despite all of that uncertainty and changing forecast, our overall investment principles still stand. As we have mentioned several times, our basic principle and approach towards investments is to continue to make the appropriate level of inventory and advanced node investments in order to capture mid to long-term demand, long-term demand, but at the same time manage our facility equipment investments more flexibly closer lead tied to the actual industry situation. So, that principal still stands valid.

Now, that's that with the huge amounts of uncertainty in the market driven by a wide variety of macro issues. We will place priority and using inventory to continue our supply. And also regarding our short-term equipment related investments, wouldn't you agree that at this point to just flexibly respond by revisiting the situation.

- You've asked about the update of our 3GAA -- the second-generation 3GAA development process. As you know, compared to first generation, the second generation further improve the size, performance, and power efficiency.

Also we have adopted an improved development process, so that we are able to do checks from stage-to-stage during the development phase. And also we have designed the development process so that resources are intensively invested in the upside of the first part of the development process so that we're able enable to ramp up the initial yield. And so, our overall development is on track with mass production aiming for 2024.

Regarding the orders, we have already secured multiple large-scale mobile customers. And we're currently under discussion, negotiation with a large number of HPC and mobile customers. And we expect that the size will continue to grow.

<Q – SK Kim >:

- The first question is about memory supply outlook for second half and next year as I do agree that currently at least the second half demand, there's a lot of uncertainty around that. Another factor regarding a supply side is that there are some disruptions in the equipment supply the lead time. And that according to us is slowing down the process migration of especially the DRAM node. Given all of those factors, what is your outlook on DRAM supply, memory supply for this year and next year?

- Second question is about the display the display side. As you mentioned, Samsung Display had taken the pre-emptive initiative to restructure its businesses and preparing for future. With that in mind, can you give us more details of which specific business areas Samsung Display is preparing for?

<A>:

- To answer your question about DRAM supply, yes, given the high level of uncertainty that we see going forward, our basic approach is to continue to maintain an optimized product mix, so that we're able to stably supply products that the customers actually need.

Now looking for next year as you mentioned, there are possibilities of equipment lead times being delayed due to continued issues in the component, the parts supply if there are delays in the equipment deliveries, this would cause delays in migration to the advanced nodes.

And also considering the difficulty at the advanced nodes in terms of production, this is causing already some restrictions in bit growth throughout the industry.

So, with that structural constraint in production, we expect there may be actually a quite low level of bit growth in the DRAM at an industry level. What's happening at the same time is that the new product markets are opening up especially around the new interfaces such as DDR5 and LPDDR5X.

And so, with the variety of products being introduced, it's going to be critical for the memory companies to start with a right product mix in place and so that is why we have been focusing on sensing the market demand and closely cooperating with the customers.

Now, with that outlook, our basic policy towards supply next year would be to maintain a flexible inventory policy, based on close collaboration with our customers and also, to carefully monitor the market with a very wide product lineup prepared, so that we are able to emphasize profitability in terms of our supply.

- To answer your second question, which was about the Samsung Displays future growth and business strategy, as you mentioned, we have been sensing market changes in the mid to long-term perspectives and have taken the pre-emptive initiative to change our business structure. Now going forward, we will continue to take this mid to long-term strategic approach that tries to look at for example, market and technology changes at least with a five-year horizon.

Some of the key areas that I can emphasize within that strategy would be number one, trying to find new applications for OLED. Currently, smartphone OLED penetration is already around 40% levels and that's why we're trying to find other applications, where OLED can be placed LCDs. This will be for example in IT automotive or gaming could be new OLED applications. So, we're focusing on emphasizing the advantages of OLED versus LCD and also preparing the technologies to actually implement OLED in these application areas.

The second area that we're focusing on is areas that would grow significantly as a part of this fourth industrial revolution, basically meta-verse or another words, AR and VR applications. These applications actually demand extreme level display performance, and so, we are preparing that technology including a micro displays.

Especially in the case of meta-verse, it's not a market that's already existing, where we will be entering, but actually it's going to be a new market that's created from ground up and so it's important to not only have the display right, but also both have the upstream and downstream infrastructure well prepared and that's why we are actually getting ready to play a leading role in creating this infrastructure, the supply chain, ecosystem around the meta-verse by developing the technology and also contributing the display business know-how that we have accumulated as a leader in that space.

Finally, we will answer questions that were submitted online in advance.

We have been accepting questions via our webpage in advance of an earnings release as a part of our efforts to strengthen communications with individual investors and enhance understanding of the Company, and we received a wide variety of questions for this quarter.

I believe the majority of the submitted questions were sufficiently answered during the Q&A session; we will answer one more question on a topic that garnered a high level of interest from our shareholders, but was not addressed during Q&A.

<Q >:

The question is: “Amid heightened concerns over an economic slowdown in the second half of this year, what is the Company’s outlook for smartphone demand? And against this backdrop, what are the Company’s sales strategies and measures to secure profitability?”

Sung-Koo Kim representing Mobile eXperience will answer this question.

<A>:

Yes, to answer your question, I think I can start from the outlook of the smart phone demand. Actually, at the start of this year, the smart phone market in the second half was expected to record a mid to high single digit growth in terms of both revenue and volume. But recently our outlook had been revised. And as we stand today, we believe that in the second half due to various market uncertainties, the smartphone market would either be flat or record, only a small amount of growth.

However, we think that still in the mid to long-term a growth will continue, especially around the flagships. And the reason, we believe that is number one, because there is a greater need of from consumers for premium experiences or and also in the emerging countries market countries to support disposable income is increasing. And also, there is a greater penetration of new technologies that's affordable.

And so, overall, we think that on a full year basis, smartphone shipments we think that our level would slightly decrease given the shrinking market, but then actually we will focus on increasing our revenue as well as ASP on a year-on-year basis, on a full year basis by increasing the sales of our flagship.

To translate into specific details, in the second half, we will continue to maintain the cells momentum of our S series and also use the new foldable series that will be launched in order to deliver sales volumes that are above the sales volumes we used to record while using the Note series.

Also, the shift towards the premium segment will continue on our Eco device since as well as we increase sales around the large screen size premium tablets and wearable new models. So, with all of that, we are expecting that our overall product mix will be further enhanced. So, while we make those advances on our sales side internally, we will continue to work on optimizing and raising the efficiency of our overall process across development, manufacturing, and logistics to deliver double digit revenue growth on a full year basis year-over-year -- and also focus on maintaining our double-digit operating profit.

I would like to thank everybody who shared their valuable opinion, and we will be sure to refer to them in our decision-making process.

That completes our conference call for this quarter. We wish all of you and those close to you stay strong and in good health. Thank you.”