REFINITIV STREETEVENTS

EDITED TRANSCRIPT

009830.KS - Hanwha Solutions Rights Offering Conference Call

EVENT DATE/TIME: DECEMBER 21, 2020 / 7:30AM GMT

REFINITIV

CORPORATE PARTICIPANTS

Yong Yin Shin *Hanwha Solutions Corp - CFO*

CONFERENCE CALL PARTICIPANTS

Youngchan Baek *KB Securities - Analyst*

Cindy Park *Nomura Financial Investment (Korea) Co., Ltd. - Analyst*

Dong-jin Kang *Hyundai Motor Securities - Analyst*

PRESENTATION

Yong Yin Shin - *Hanwha Solutions Corp - CFO*

Good evening. I am Yong Yin Shin, current Chief Financial Officer of Hanwha Solutions. This is my great pleasure to welcome all the investors, analysts, and reporters to today's presentation. Thank you all for making the time.

I would now like to begin today's presentation in regards to Hanwha Solutions' paid-in capital increase and new share offering. Please refer to the presentation material provided through our website. First, I would like to start by presenting the details of the capital increase. Allow me to bring your attention to page 4 and 5 of the presentation material.

Today morning, Seoul local time, our Board of Directors have approved a paid-in capital increase of KRW1.2 trillion. The capital increase will be funded through an issuance of newly registered common stocks amounting to a total of 31,414,000 shares. New shares will primarily be allocated to our existing shareholders, followed by a public offering of all remaining that are forfeited. The tentative price of a new share is KRW38,200, which will be finalized on February 29, 2021 (sic, see slide 4, February 19, 2021). Please refer to our public announcement for the details of the pricing.

20% of the newly issued shares will firstly be allotted to our employee stock ownership program. The tentative subscription schedule for employees and existing shareholders will be the 24th and 25th of February.

As publicly announced, out of the KRW1.2 trillion of new capital raised, KRW200 billion (sic, see slide 4, KRW600 billion) will be committed to facility investment, KRW300 billion to increase working capital, and KRW300 billion to acquisition of corporate securities.

Depicted on page 5, the raised capital will be injected into fields we foresee continuous rapid growth, specifically solar and hydrogen. KRW1 trillion and KRW200 billion will be committed to our solar and hydrogen business, respectively. In better detail, KRW400 billion to next-generation PV product development and production, KRW300 billion to downstream pipeline and project development capacity enhancement, KRW300 billion to investment in distributed-generation businesses. Lastly, KRW100 billion will be allotted to hydrogen production and storage, transportation, distribution business-related investments.

Now I would like to move on and elaborate on the background and expected outcome of this round of capital increase. Please turn your attention to page 6 and 7.

Due to an increase of initial investment for high-speed growth businesses such as solar and hydrogen, during the two years 2021 and 2022, we are currently expecting the investment required in these fields to exceed each businesses' operating cash flow temporarily. A capital increase was the logical decision in order to be preemptively secure the funds for these investment activities.

We foresee the investments to generate positive cash flow post-2023 when investment activities slow down and operating cash flow starts to rapidly ramp up from these business arms. This is when we expect enterprise value to also experience high-level growth in correlation with the financial returns of our initial investments.

In comparison with our projection of KRW9 trillion revenue and KRW700 billion operating profit for fiscal year 2021 generated from our petrochemical, solar, and advanced-material businesses, by fiscal year 2025 we are expecting to reach 2X growth in both revenue and operating profit once solar and hydrogen investments start to come to fruition.

I now wish to turn to our solar division's midterm business strategy. Please turn your attention to page 8 through 14. Looking back on 2020, it has been a monumental year for renewable energy as we have witnessed a series of key states declare long-term carbon neutrality and also see the structural transition from conventional fossil to renewable energy build broad consensus across both public and private sectors.

For the following 10 years, key institutions will see little room for debate that renewable power sources will aggressively replace fossil generation. And that PV along with other renewable generation will compose a majority of new build, thus experience rapid and sustainable growth.

In order to harvest and benefit from the growth of PV generation and maximize our corporate value, we are proactively engaged to evolve into a PV-rooted total energy solution provider. As constantly communicated throughout the year, our midterm strategy for solar is built on three key business pillars: competitive PV modules and systems, PV generation, and distributed energy.

Page 12 depicts our commitment to new cell module technology that will be commercialized in the coming five years. This is a good representation of our preemptive engagement to meet future customer needs and maintain competitive in the manufacturing space. Our first near-term goal to finalize development and production of a market-leading end-type bottom cell that will serve as a foundation for our ambitious plans to be the first company in the industry to commercialize a perovskite layer and bring to the market a pair of PerovTandem module that will have significantly better economics than the current standard PV products.

From a cell standpoint, our plan is to continue to focus on our strategic markets, such as the US and EU residential. And deliver not only PV solar panels but also combine energy storage and other system elements in order to capture additional value from the market.

The next page elaborates on our aspirations in the PV downstream and generation business. This year marks the beginning of our business to selectively acquire PV products in the US and EU for development and construction. As of now, we have completed the acquisition of approximately 2 gigawatts of project pipeline, including 300 megawatts in the US and 1.2 gigawatts in Spain. From 2021 and onwards, we expect annual pipeline acquisitions grow to reach 6 gigawatts to 7 gigawatts per annum.

Acquired projects will be developed and built out to generate revenue in a one- to three-year timeframe. Amid restrictive circumstances from the COVID outbreak, we will still target 900 megawatts of third-party project sales in the year 2021. During the following five years, we target to achieve sales of around 16 gigawatts, which will significantly contribute to our top line.

We will continue to consider various exit strategies along with optimal sales scheduling to effectively recycle capital and build out a virtuous business cycle. [That's the old] plans for distributed energy are described on page 14. As renewable energy production and consumption sees radical increase, we are pushing hard to build out a business model that will provide commercial and utility customers an optimal way to consume renewable energy. This will require state-of-the-art machine learning and data analytics, thus essentially be rooted in our growing energy database and software capacity.

We have identified four possible business models in this space. First and simplest is to provide clean energy through long-term power-purchase agreements with customers. Second is to provide financial tools to help customers acquire PV products and systems through a lease program. Third is to explore the opportunities to link renewable generation to our retail customer base. And fourth is to participate in grid service markets by contributing to the optimization of the transmission and distribution network through PPP applications.

This year, we commenced the electricity retail operations in Germany, with follow-on plans to develop energy platforms based on their growing database and software capacity. This will provide us a base camp to seek other various business opportunity in this realm. Proactive investment for the aforementioned business model transition will be made in 2021 and 2022. With gradual contributions from these new businesses, we forecast revenue to reach 2X by 2025.

Next, allow me to present our investment plans for hydrogen. I will be referring to page 15 through 18 of the presentation.

Solar and renewable energy undoubtedly is the biggest building block to achieve carbon neutrality. However, for specific industrial applications such as long-haul transport, industrial fuel, and energy storage, we are continuing to see room and importance for the contributions hydrogen can make. Many forecasts market demand to rapidly grow for the following 10 years to reach 40% to 50%, and according to respected market research groups, the growth rate only further increases onwards.

Hydrogen is an aspiration being pursued across several different business entities within the Hanwha Group. The Group level strategy is to address the full value chain for production, compression, storage, distribution, dispensing, and charging with affiliated companies to maximize synergy.

Not to neglect this business opportunity, 2020 marks the beginning of our efforts to develop enhanced electrolysis technology, with the targets to achieve 10-level efficiency with alkaline-level CapEx, based on ion-exchange membrane technology. For the following five years, our internal hydrogen research will also be matched with paralleled efforts to acquire inorganic technologies and explore corporate M&A opportunities. KRW500 billion will be committed to this effort.

We target to secure core electrolysis technology for hydrogen production by 2022, with commercial rollout starting in 2023. In late 2020, a joint pilot project with the Gangwon provincial government has commenced, which aims to utilize renewable and surplus energy for green hydrogen production. This pilot will serve as a crucial opportunity to secure optimal electrolysis technology and also provide a track record for future overseas projects.

As for investment activities in regards to hydrogen transport, we will acquire manufacturing technology and experience in regards to pressurized tanks, which will enable us to seek business in hydrogen fuel cell EVs and larger-scale hydrogen transport and distribution.

Thank you again for joining us today. This concludes my presentation.

QUESTIONS AND ANSWERS

Operator

Youngchan Baek, KB Securities.

Youngchan Baek - *KB Securities - Analyst*

(spoken in Korean)

Unidentified Company Representative

Yes, this is [Fara Kim]. To answer your first question, yes, I would be referring to the material that we've disseminated through our website. First, if you can turn your attention to page 11, that depicts the current CapEx investment plan for our solar business.

You can bring your attention to the diagram on the left. We've laid out the CapEx investment for year 2021 through 2024, and we've currently only numerized the investment for year 2021, which is about KRW500 billion. And I think we recommend that you estimate the other numerical values through the diagram. We've also -- I would like to mention that additional KRW200 billion is also committed, already committed to the CapEx investment.

Unidentified Company Representative

If we were to re-address the first question, we understand that the question was about our CapEx investment plans for 2021 through 2023. If I may bring your attention to page 11 of our presentation material, here we've depicted the investment schedule for our next-generation module development and production, but we've added numerical values for year 2021 and 2025, which is KRW500 billion and KRW600 billion, respectively. We apologize that year 2022 and 2023 are not depicted with numerical values, but please, we insist that you assume from the depicted diagram.

And as for our investments through PV downstream development and also distributed energy, this is not included in the CapEx numbers. We have included these numbers in the free cash flow numbers. We currently do not provide a five-year plan, but if you can bring your attention to year 2021, we are currently expecting a cashout of approximately KRW600 billion to KRW700 billion.

And if I were to further elaborate on what type of generation assets we currently plan to acquire, to be more specific, I would rather be referring to downstream pipelines rather than hardware assets. We are current -- our development and generation business will be consisting of project development and construction. So we would be acquiring brownfield project pipelines and take the assets to NCP or COD sales.

Unidentified Company Representative

Next, for our CapEx investments for our hydrogen business, we have depicted numbers of approximately KRW500 billion accumulated to year 2025. Out of the relatively larger investments, we are currently planning KRW300 billion investment for development of electrolysis technology and additional KRW900 billion for the commercialization of such technologies.

And in order to secure and acquire technology for highly pressurized tanks and also production facilities, we will do our best to accelerate the normalization of such businesses. Our current plan is to establish production facilities in Korea, United States, and Europe, and such investment will require funds of KRW290 billion up to year 2025.

Operator

Cindy Park, Nomura.

Cindy Park - *Nomura Financial Investment (Korea) Co., Ltd. - Analyst*

Thank you. I would like to present two questions. My first question is in regards to the CapEx investment for module production and sales. In alignment with the current CapEx investment plan, do you have any plans to increase module production capacity in the future?

The second question would be regards to the generation and distribution energy business. So hearing your business description, it sounds very much familiar with business models currently being pursued by players such as NextEra. So if there are any, could you please further elaborate on what relative competitiveness Hanwha may have in comparison with such players?

Unidentified Company Representative

Yes, please allow me to answer your question. Based on our conventional module technology, we do not currently plan any capacity expansion. However, we did mention that we will highly invest -- heavily invest in next-generation PV module and cell technology.

Our first step in such aspirations would be to shift from a P-type solution to an N-type PV solution to experience increased modular cell efficiency. After this first step, our second step of new-generation technology development will be to be the first in the industry to commercialize perovskite solar cell and module production. This we currently see -- during these efforts, we are currently expecting a natural increase of capacity. We believe that the market recognizes our capacity at 11 gigawatts per annum. We currently are expecting a natural increase of such capacity to a 16-gigawatts annual production heading into year 2025.

During the past 10 years of our experience in the solar industry, our main effort was to produce highly technologically advanced modules to our strategic markets. However, starting year 2020, our current focus will be shifted to expand our business in the downstream and distributed energy sector.

In regards to our downstream business, now our main focus was to be engaged in the EPC space. However, we have undergone structural reorganization and we are continuing to pursue further business opportunities in the generation and more downstream realm of such business.

Yes, if I were to address the second part of your question, what relative competitiveness we have in comparison with our competitors. As you understand, the downstream development business, it takes about one to three year timeframe in order to actually realize the revenue. And all development efforts are kind of shooting in midair to see what module costs and module technology we will be able to acquire in the future when the project is actually executed.

As a module manufacturer for the past 10 years, I believe we have a better understanding of the cost curve and also the technology curve of such module technologies in comparison with other developers. We believe that is one of the strongest benefits that we have in comparison with our competitors.

Operator

Dong-jin Kang, Hyundai Motor Securities.

Dong-jin Kang - *Hyundai Motor Securities - Analyst*

Thank you for the opportunity. My question would be in regards to page 7. We see a revenue and operating profit forecast for the coming five years. We believe this is kind of not in line with the market consensus, so it would be great if you can provide explanation for that.

And also, I bring your attention to page 11. On the right-hand side, you are currently projecting a KRW4.5 trillion revenue for year 2021, but we see that the increased revenue is approximately KRW1 trillion. We understand that such additional revenue will be coming from the downstream business and also distributed energy. However, the contributions of such businesses and their operating profits seems to be quite weak. It would be great if you could kind of shine some light on these numbers.

And also, going back to your comment that annual capacity will naturally increase to 16 gigawatts per annum, could you elaborate on when you foresee such capacity increases? And the next question would be about next-generation technology. You mentioned that you might convert to N-type technology and also introduce commercialized perovskite cells and modules. Do you have a detailed timeline to introduce such technologies to the market?

Unidentified Company Representative

Yes, if I may address your first question, our projection numbers not being aligned with the market consensus. Yes, we have depicted a KRW9 trillion revenue for year 2021; however, these numbers do not include our retail or development business that we owned. These numbers are not our consolidated numbers. We've not in the past provided our annual and yearly guidance for the fourth-quarter earnings calls. So it would be correct to take these numbers as a very conservative approach and not a consolidated projection and guidance.

Yes, and going back to the solar-related revenue of KRW4.5 trillion and KRW0.7 trillion operating profit, these numbers -- we do expect the downstream business to generate about KRW600 billion revenue. But we are seeing that the sales of such projects being postponed, especially because of the circumstances of the COVID outbreak. So yes, these numbers do not include such downstream revenue and we have pushed those back into the year 2021.

Yes, the 16 gigawatts annual capacity number would be referring to year 2025. To give you the exact numbers of what capacity increase we will see in year 2021, I apologize; we will have to give that guidance out during our fourth-quarter earnings call. However, in very conceptual numbers, during year 2022 through year 2025, it is -- we are currently expecting about the annual capacity increase of 1 gigawatt per year.

And as for the future timeline for our next-generation solar module technology, we are currently planning a 2-phase approach. The first phase being the N-type cells and modules; a second phase being the perovskite cells and modules. We are currently expecting about a two- to three-year development and commercializing timeframe for each phase.

Unidentified Company Representative

Thank you. This concludes the presentation.

Editor

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.