

I. Letter to Shareholders



Dear Shareholders,

Looking back at 2020, due to the Covid-19, the global lockdown of countries and cities has affected the real economic activities. However, the U.S. Federal Reserve will implement an unlimited monetary erasing policy due to the impact of the epidemic. Central banks in various countries have followed suit. This has led to a flood of global funds and a surge in capital markets, especially in semiconductor-related industries. This has caused the global economy to be cold and the stock market is hot. In fact, the export performance of major countries mostly showed a major recession.

Thank to Taiwan's successful epidemic prevention, the domestic economic momentum supported by the government's strategic industries remained strong, which benefited Taiwan's semiconductors, notebook computers, and other remote office-related products, which benefited a significant

increase in exports. According to statistics from the General Accounting Office, Taiwan's economic growth was 2.98 % in 2020 among the best in the world.

A. Review of 2020 business performance

In 2020, the company continued to focus on "energy conservation, emissions reduction, intelligence, and automation" as the main axis of development, strengthened the goal of digital transformation, refined marketing and production automation, and actively improved the business intelligence management system (BI), and used the digital platform to effectively control Operational status of production and sales bases around the world. Therefore, individual revenue and current net profit can still grow by 5% and 9% respectively. In the consolidated financial report, although overseas subsidiaries in Europe, America and Southeast Asia are affected by the epidemic, shipments have decreased, which has reduced consolidated revenue by 4% compared with the same period last year. However, due to proper cost and expense control and lower income tax expenses, consolidated net profit still grew by 8%.

a. The implementation results of the strategic development plan in 2020

1. Green Energy Development:

In 2020, it obtained the Offshore Wind Power Substation Project, and the 2MW Energy Storage (BESS) in New Mexico, USA, and launched the nine-ditch motor of the fishery special waterwheel to help the aquaculture industry save energy and reduce costs, and continue to promote the development of green energy.

2. Intelligence/digitalization:

Import the BI platform to visualize the complex operating data of the group and improve management efficiency. In addition, a CRM system has also been established to obtain global business opportunities simultaneously with related enterprises, and the inquiries and quotation systems are connected in series to improve the efficiency of business quotation. As for the factory, the planning of unmanned robotic line and unmanned assembly line has been completed, as well as the layout of the external sales of major equipment power monitoring systems.

3. Manufacturing center layout and automation:

Obtained an external order for monitoring systems for key equipment in 2020, and completed the establishment of three internal production centers (Taiwan, Mainland China, Vietnam), as well as Taiwan's in-plant electricity and air pollution control system, and the construction of production equipment AI health diagnosis and preventive maintenance system.

4. R&D achievements and forward-looking product development:

In 2020, the company has achieved fruitful research and development results, and won 11 awards in 29th Taiwan Excellence Awards. Among them, the automotive motor and driver 50-130kW series (high-efficiency new-generation electric vehicle power system) won the Gold Award. In addition, 43 patents were obtained in 2020. In terms of energy saving, emission reduction, intelligence and automation, forward-looking products have been developed in 2020, including: PM&SRM high-efficiency motors, E-HOUSE, MHm diagnostic systems, fleet management systems, logistics-based AGVs, epidemic prevention robots, Smart retail, robot joint system, water-cooled permanent magnet synchronous inverter duty ice water machine, smart energy-saving-networked commercial air-cooled inverter duty box machine, intelligent monitoring ultra-high power density low-voltage motor, networked multifunctional vector frequency converter, intelligent monitoring inverter duty permanent Magnetic motors and electric vehicle power systems, etc.

b. 2020 financial status, execution result of business plan, and profits

1. Result and profit analysis of 2020

1-1 Parent company alone

Table 1

	2020	2019	Change
Net operating revenue	19,819,029	18,873,312	5%
Operating income	1,075,034	1,114,970	-4%
Current net profit	3,511,358	3,221,717	9%
Total comprehensive profit and loss for the current period	7,262,630	5,675,634	28%

In terms of operating income, the Energy and Engineering Division has obtained Internet Data Center (IDC), offshore wind power and many engineering contracts, and its operating income has grown significantly over the same period; the sales of air conditioners and other home appliances in the Home Appliances Division have been booming, and revenue has also grown over the same period. Although the heavy power and green energy business units are limited by the impact of the epidemic in overseas markets such as North America, Europe and Southeast Asia, sales have declined, and revenue has declined slightly. On the whole, the company's individual revenue has grown significantly due to engineering and home appliance revenue. An increase of 5% last year.

In terms of operating profit, the increase in the proportion of engineering revenue caused a slight decrease in the company's gross profit margin. In terms of operating expenses, due to the increase in the rate of recycling and disposal of household appliances levied by the government, operating expenses increased slightly. Overall, operating profit decreased by about 4%.

In terms of non-operating income and expenditure, in 2020, due to more dividend income from cost-based investment companies and the increase in financial assets measured by fair value, the non-operating income and expenditure increased profits compared with the same period last year. In addition, the income tax expense was lower than that of the same period last year, mainly due to the decrease in the income tax imposed on undistributed surplus, which resulted in a 9% increase in the company's current net profit compared to the previous year.

In addition, the total comprehensive profit and loss for the current period increased by 28% compared with the same period last year, mainly due to the recognition of the unrealized value-added evaluation benefits of equity instrument investment measured at fair value through other comprehensive profit and loss, and the conversion of the financial statements of foreign operating institutions arising from the appreciation of the Taiwan dollar difference.

1-2. Consolidated report of the company and subsidiaries

Unit: NT\$1,000

	2020	2019	Change
Net operating revenue	45,823,430	47,909,358	-4%
Operating income	3,534,057	3,536,445	-0%
Current net profit	3,811,648	3,518,780	8%
Current comprehensive net profit	7,603,587	6,039,690	26%

Consolidated operating income declined slightly, mainly because the shipments of electromechanical products in North America, Europe and Southeast Asia were affected by the Covid-19. Due to the impact of the epidemic, the oil & gas industry in North America has suspended capital expenditures. Under the dual influence, sales of mechanical and electrical products have declined; As for electronic control and appliance products, sales are not as good as the same period, which is due to the weak market demand for machine tools and machinery due to the U.S.-China trade war.

However, domestic energy, electrical and mechanical engineering has grown substantially, and domestic sales of home appliances have benefited from energy-saving subsidies. In addition, air-conditioning related industries have also benefited from growth.

In terms of consolidated operating profit and consolidated net profit for the current period, due to strict cost and expense control and employment-related subsidies provided by various countries to reduce costs, consolidated operating profit is comparable to the same period last year, while non-operating income and income tax have improved profitability. The company-wide consolidated net profit for the current period grew by 8%. In addition, the total comprehensive profit and loss for the current period increased significantly by 26%, mainly due to the recognition of the unrealized value-added evaluation benefits of equity instrument investment measured at fair value through other comprehensive profit and loss, and the conversion difference in the conversion of the financial statements of foreign operating institutions caused by the appreciation of the Taiwan dollar.

c. Financial strategy and shareholders' equity

Engaged mainly in R&D, production, and sales of industrial products in a mature traditional industry, the company has adhered to the principle of stable operation in financial strategy and determined proper liability/equity structure every year, according to expected cash flow, taking business plan into account, need of capital and working capital, and return on equity (ROE), based on actuarial estimation.

Table 1

Year	Credit rating	Net profit (NT\$100 M.)	Cash flow ratio	Current ratio	Debt ratio
2018	twA+(stable)	34.76	23.86%	241.22	36.41
2019	twA+(stable)	35.18	29.21%	216.55	37.73
2020	twA+(stable)	38.11	28.35%	232.90	36.05

Given steady cash flow generated by business activities and adherence to stable and sustainable business strategy, Taiwan Ratings has been granting the company twA (stable) credit rating since 2012, enabling the company to float unsecured commercial papers or common corporate bonds on the primary market, in place of banking loans, cutting funding cost by near 40%, thanks interest spread of near 30 bps, plus prolonged funding period, which leads to long-term stable funding cost. Since 2015, Taiwan Ratings has further upgraded the company's credit rating to twA+, manifesting the company's solid credit standing, which boosts the company leverage and flexibility in fund raising and price negotiation, a solid cornerstone for the company to cope with various business challenges.

With the world being plagued by continuously trade frictions and Covid-19 in recent years, the company, in the face of economic and financial tumult, will continue to seek strategic growth, boost products' cost competitiveness, and uphold a flexible supply chain, which will entail funding need several times previous years for establishing distributed production mode, carrying out smart manufacturing, and implementing digitalization via acquisition or alliance. Amid an economic environment full of uncertainty, the company will, as usual, maintain sufficient cash position and solid capital structure, to cope with the changeful situation and pursue sustainable development.

Backed by stable operation and finance, TECO Group has been able to create reasonable investment value for shareholders invariably. Based on other consolidated comprehensive income in calculation, return on shareholders' equity hits 11%. Over the past year, the company has further improved return on shareholders' equipment via adjusting organizational and financial structure, such as consolidation of some invested businesses, implementation of share buyback, and liquidation of assets. In the future, the company will continue embrace necessary measures, to uphold its long-term value.

B. Summary of 2021 business plan

Looking ahead at 2021, the vaccine has come out and started to be used. The economies of various countries are gradually recovering. The main forecasting agencies have forecasted substantial growth in the global economy. The Chief Accounting Office of the Executive Yuan predicts a domestic economic growth rate of 3.83%, and some agencies predict it can reach more than 4%, and the growth momentum is expected to be better than that of most economies. The main operating strategies and growth plans for 2021 are explained as follows:

a. Existing career growth plan

Facing a year of mild recovery in the overall operating environment, the company will strive for energy-saving and intelligent business opportunities based on the existing foundation. The electromechanical business will make full use of the existing global production and sales layout, strengthen the sales of high-efficiency permanent magnet motors, synchronous reluctance motors, medium and high voltage inverters, and expand the application market. At the same time, deepen the cooperation relationship with customers through digital management to grasp potential business opportunities.

The home appliance business continued its growth momentum last year, continued to increase the profitability of inverter duty energy-saving products, and combined with the comprehensive installation of air-conditioning in primary and secondary schools, and the business opportunities for large-scale revenue; at the same time, the development of high-efficiency and energy-saving products such as magnetic levitation centrifuges, combined with energy management systems and engineering management Ability to further expand the business opportunities of air-conditioning projects.

In addition to the continuous execution of orders that have already received more than tens of billions of dollars, the energy and engineering business will cooperate with the rapid growth of cloud application requirements to expand the computer room engineering business opportunities of IDC data centers at home and abroad; at the same time, it will continue to actively participate in the government's policy promotion of renewable energy development. Promote

the development of smart green energy technology, including microgrid systems, energy storage systems, and energy management equipment.

b. Strategic growth plan

1. Electric vehicle powertrain:

Continuing the 50-130kW new-generation power system completed last year, more research and development resources will be invested in the development of power-integrated solutions, and the construction of a dedicated production line for electric motors and power system testing equipment will be completed. Actively strive for commercial vehicles and passenger vehicles. Business opportunities for cooperation with domestic and foreign automakers and system manufacturers.

2. Renewable energy:

The company will use its own key equipment and system engineering advantages to develop renewable energy related businesses including solar power stations, offshore wind power land substations and energy storage systems, and will further extend to the operation of solar power stations and the use of big data technology to develop solar wisdom Diagnose the monitoring system to strengthen the maintenance and operation business.

3. Digitization and Intelligent Automation System:

In addition to continuously strengthening the establishment of corporate headquarters decision management system (BI) and customer relationship management (CRM) platforms, it will also develop industry 4.0 intelligent system integration technologies and modules through the construction and investment of unmanned processing and assembly production lines.

In the logistics industry application, the introduction of AI advanced image visual driving warning system improves the intelligent and safe transportation of moving vehicles and integrates a global intelligent management platform.

In the smart transportation system, the development of contactless AR glasses recognition technology, with the intelligent multi-vehicle automated guided vehicle (AGV) system, provides a one-stop smart logistics solution.

In the future, system application technologies and business models that combine service-oriented robots are also the focus of development to strengthen the proportion of software value-added and system integration businesses.

4. Strategic development related to energy and intelligence

In addition to the above plans, in the future, the company and Walsin Lihwa will strengthen the close relationship of the strategic alliance through a share exchange. Under the complementary sharing and full cooperation of domestic and foreign resources, the company will accelerate and expand the company's solar energy, energy storage, and the development of production line intelligent automation, automation application modules and electric vehicle-related businesses.

c. Company Governance

In 2020, the company has outstanding performance in corporate governance, including:

- ✓ Selected for the first time in the Dow Jones Sustainability Index (DJSI), and is a new company in the world listed in the "Electrical and Mechanical Industry" category.
- ✓ Selected in the latest year 2021 Sustainability Yearbook (The Sustainability Yearbook) published by the international sustainability assessment agency S&P Global, and won the annual best progress award in the global electromechanical industry, indicating that the company's sustainability performance is among the global peers of the top 15%.
- ✓ Won the Gold Award of Taiwan TOP50 Corporate Sustainability Report for seven consecutive years.
- ✓ Ranked in the top 5% of corporate governance evaluations for six consecutive years.

As a pioneer in the global electromechanical manufacturing industry, in addition to continuing to uphold the concept of sustainable operation and implementing corporate governance standards, the company has established a "CSR Working Group" to deeply embed CSR concepts in the corporate culture, including the launch of the "Employee Commonwealth Passbook", Continue to promote and sponsor the TECO Cultural and Educational Foundation's commitment to activities such as "Science Teaching in the Countryside" and "Art Appreciation", and use strict standards to lead the group to realize the vision of energy saving, emissions reduction, intelligence, and automation, and create sustainability for employees. Develop the working environment, provide customers with more value-added services, and create the best return on investment for shareholders.

Chairman: Sophia Chiu
 President: Chao-chi, Lien
 Accounting chief: Tommy Wu