

## I. Letter to Shareholders



Dear Shareholders,

Looking back, the global economy continued to expand steadily in 2017, both electromechanical and home appliance market grew mildly. However, businesses were impacted by a number of adverse factors, including rising raw-materials and labor costs and exchange-rate swings on the global financial market.

The company managed to stage a good performance in sales growth and profits, minimizing the effect of adverse factors via gains and breakthrough in energy conservation, emission reduction, smart application, and automation, thanks to continuous quest for technology innovation, constant upgrading

of automation and intelligent production equipment/technology and increase of installation rate.

### A. Review of Business Performance in 2017

Analysis of the company's business performance in 2017 follows:

#### a. Parent Company

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	21,301,208	20,274,047	5.07%
Operating profit	1,507,068	1,615,152	-6.69%
Profit for the year	3,092,358	3,481,480	-11.18%

As for business turnover, sales of electromechanical products grew, thanks to the effects of a number of policies, including organizational adjustment separating sales and production for heavy-electric, green-energy, and electric-control divisions, and intensified integrated sales of electromechanical products, such as foray into the North American market for electric-control products, intensified cultivation of small-motor products, shipment of big motors to Australia, and expanded market share in mainland China. Sales of power division grew significantly, thanks to influx of engineering orders. Home-appliances division, though, had a lackluster performance, due to weak domestic demands and the fire at the Kuanyin plant, which dampened refrigerator sales. The company's overall sales, however, still grew by 5% in 2017.

As for operating profit, despite international price hike of raw materials and exchange-rate swing, gross margin scored slight decline of 1.8%, thanks to higher production efficiency via investments in automated and intelligent equipment and improved product quality and quality via design change. Operating expense dropped by near NT\$50 million, due to improved flow and rationalization of expenses.

Concerning non-business income/outlay, investment returns decreased by NT\$110 million, due to the adverse effect of rising raw-materials cost and renminbi exchange rate on the profit of the mainland Chinese subsidiary and the one-off outlay for rationalization of the European subsidiary. Overall speaking, the company's current net profit declined by 11%.

#### b. R&D

As for R&D, the company successfully developed a number of new products, including high power density general induction motor, premium breaker motor, apparatus of 2000 amp electric brush, IE3 Exd motor, NEMA Premium large horse power motor, series of E510s IPP, series of JSDG2S, smart grid, CSPF new efficient air-conditioner, new efficient fridge, series of multi tube VRF and R32 refrigerant. The company won Taiwan Excellent Award for 17 items and 65 domestic and foreign patents.

## c. Consolidated Financial Statements

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	50,942,521	49,923,836	2.04%
Operating profit	3,496,200	4,189,481	-16.55%
Profit for the year	3,544,248	4,036,998	-12.21%
Total comprehensive income for the year	4,326,037	4,360,290	-0.79%

In the aspect of consolidated sales revenue in addition to Taiwan, North America, Australia, and mainland China where sales grew further, significant gains were made in tapping the markets of India and Vietnam, sustaining overall sales growth. Operating expense declined by near NT\$240 million, thanks to rationalization of outlays. Operating profit still tumbled by 16%, due to raw-materials price hike, weak U.S. dollar, and intensified competition. Overall speaking, consolidated current net profit slipped by only 0.79%.

**B. Outline of 2017 Business Plan**

Looking ahead, in line with the vision of “energy conservation, emissions reduction, intelligence and automation,” the company will focus on new products, new applications, and new markets in 2018.

a. Energy conservation, emissions reduction: Thanks to upsurge of environmental awareness worldwide, development of high-efficiency motors, continuing improvement of inverters, and contribution of high-performance home appliances, sales of green-energy products are expected to score double-digit growth. In addition, the company has completed deployment in offshore wind power, PV power, electric-car motor, railway construction under the government’s “Forward-Looking Infrastructure Development Program,” and ship motor, driving the company’s development in products related to energy conservation and emission reduction.

## b. Intelligence and automation

The Mhm electromechanical-equipment healthy management system, newly developed by the company, has been maturing, sparking strong demands on the market. New digital service combining electromechanical technology and big-data analysis has started to generate revenue. In addition, via cooperation with machinery plants, expand sales of servo products, introduce service-oriented robots, and develop gear reducer, generating double-digit growth in related revenue. IoT (Internet of Things) has been introduced to the operation of factories by combining industrial big data with AI machine learning, greatly improving manufacturing flow and enhancing production efficiency.

## c. Overseas market

The company will actively tap Vietnamese, Philippine, and Indian markets, in order to consolidate overseas presence and expand global deployment.

**C. External Competition, Legal and Microeconomy**

Despite benefit of expected gradual recovery of global economy on the sales of the company’s electromechanical and other business divisions, 2018 will still be a year of rigorous challenge for the company, given multiple variables for global situation, including Sino-U.S. trade war, volatile North Korea issue, Russia’s presidential election, and domestic nine-in-one municipal elections, which will affect raw-materials prices and market environment.

Faced with changeful and highly competitive market, the company will speed up integration of the group’s resources, addressing both corporate social responsibility and industrial upgrading, in actively developing forward-looking green-energy, automated, and smart products, new industries, new services, and new market opportunities, in order to consolidate competitive edge and attain growth in both revenue and profits.

The company has been granted golden award for “Taiwan Top 50 Corporate Sustainability Report” for four years running, on top of “corporate citizen award” granted by Commonwealth magazine. As a driver for the sustainable development of the electromechanical industry, the company will continue adhering to the integrity-oriented management concept and being dedicated to the development of smart environment-friendly products, in line with the global current of energy conservation and carbon abatement, in addition to marching towards the goal of becoming a corporate guidepost of the world, so as to create maximum benefits for shareholders and provide ample giveback to shareholders and investing public, in return to their longstanding support and patronage.

Chairman Sophia  
TECO Electric & Machinery Co., Ltd