

## I. Letter to Shareholders



Dear Shareholders,

Looking back at 2019, beset by multiple uncertainties, including, Sino-U.S. trade friction, deteriorating Japan-Korea relationship, and Brexit, global economy and trade slackened, with major exporting nations scoring lackluster performance. Taiwan, however, staged an adequate performance, thanks to transferred orders resulting from the trade war, Taiwanese firms returning to Taiwan for investments, strong exports of information and communication, audiovisual, and electronic components and parts, and continuing private investments.

Adhering to the theme of "energy conservation, emission reduction, intelligence, and automation," the company managed to retain steady profits in 2019, via global deployment for tapping the needs of HVAC industry, solution sales of electromechanical products, PM/EV motors,

and remote smart health management for motors, plus lowering influence of external fluctuations via control and management projects.

### A. Review of 2019 business performance

#### a. 2019 business status

##### 1. Automation

- Production automation

Inaugurated in July 2019, the Vietnamese plant in Becamex industrial park boasts cutting-edge environment-friendly process and automated smart production line, promising to become the group's major production base.

- Automated marketing: Implement marketing digitalization plan, expanding and optimizing various high-performance marketing platforms and gradually executing business intelligence systems, to induce precision marketing and facilitate growth.

##### 2. Products:

- Motor: In addition to high-efficiency smart motor, ship motor, permanent-magnet motor, and electric-vehicle motor.
- Automation and intelligent systems: New inverter series has been applied successfully in industrial fan and exhaust fan, industrial air conditioning system, metal processing, and vertical transport system, in addition to inroads into the realms of tension control for high-end servo market, smart grinder for mobile-phone glass, and lathe shaft.
- Energy and engineering: Successful inroads into offshore wind power, micro grid, Internet data center (IDC), smart building, PV power, and energy storage system, pocketing orders exceeding NT\$10 billion in value in 2019.
- Home appliances: Rollout of variable-frequency electromagnetic-suspension centrifuge for high-end energy-conservation market and whole-series variable-frequency DC light business air conditioners.. Concerning refrigerators, in addition to expanding domestic market share for medium- and large-sized whole-series variable-frequency models, launch first indigenous variable-frequency business 1000L refrigerator and residential refrigerator with automatic switch between freezing and preserving modes, the first such model in Taiwan.

#### b. 2019 financial status, execution result of business plan, and profits

Consolidated report of the company and subsidiaries

Unit: NT\$1,000

|                                  | 2019       | 2018       | Change |
|----------------------------------|------------|------------|--------|
| Net operating revenue            | 47,909,358 | 50,104,927 | -4.4%  |
| Operating income                 | 3,536,445  | 3,520,486  | 0.5%   |
| Current net profit               | 3,518,780  | 3,475,969  | 1.2%   |
| Current comprehensive net profit | 6,039,690  | 3,908,980  | 54.5%  |

- Consolidated operating revenue: In contrast to slackened domestic demands in Taiwan and China, revenues from major overseas markets grew, except Southeast Asia, where revenue dropped slight, due to intensified competition. Meanwhile, due to change in policy for non-strategic investments, leading to reduction in the number of acquisitions, overall revenue dropped from the previous year.

- Operating income: Thanks to higher gross margin for motor sales in North America and cost control at mainland Chinese plants, operating income rose by 0.5% over the previous year.
- Current net profit: Driven by increased non-operating income on rebounding global financial market and gain on valuation for financial assets and increased investment benefits, current net profit grew by 1.2%.
- Current comprehensive net profit: Due to increased unrealized gain on valuation for financial assets, current comprehensive net profit shot up 54.5%.

#### 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 into account business plan, 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 |
|------|---------------|-------------------------|-----------------|---------------|------------|
| 2017 | twA+(stable)  | 35.44                   | 31.43%          | 236.16        | 37.10      |
| 2018 | twA+(stable)  | 34.76                   | 23.86%          | 241.22        | 36.41      |
| 2019 | twA+(stable)  | 35.18                   | 29.21%          | 216.55        | 37.70      |

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 50 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 a litany of economic black swans 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. In recent years, application of IFRS9 accounting criteria has inflated book value of shareholders' equipment, due to unrealized gain on valuation for financial assets. After deducting unrealized gain on valuation, return on shareholders' equity has still stayed at 6.3-7.4%. Based on other consolidated comprehensive income in calculation, return on shareholders' equity hits 10%. Over the past year, the company has further improved return on shareholders' equipment of 0.18% of a percentage point, 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 2020 business plan

#### a. Organic growth plan

Despite the existence of multiple variables in the general environment, the company will still spare no effort in seeking growth of core business, such as electromechanical products, for which the company has set up a task force to develop new products, such as permanent-magnet motor, auto electrical machinery products, and medium-voltage inverters. In addition, via global-account centralized management, the company will consolidate customer relationship and tap potential business opportunities and employ IIOTT to expand solution sales, in addition to offering customers platform for real-time maintenance, technology modification, and other services.

Already with over NT\$10 billion worth of orders in hands, the energy and engineering division will take advantage of smart automatic-control technology for engaging in the realms of PV power system, micro-grid, energy storage system, and energy management equipment, materializing the company's vision of "energy conservation and emission reduction." As for home appliances business, the company will continue the business strategy of 2019, dedicating to the development of whole-series variable-frequency energy conserving products for the sake of higher margin, plus enhancement of the value of air-conditioning engineering projects via employment of energy management system and high-end, high-efficiency, energy-conserving business air conditioners.

## b. Strategic growth plan

### 1. SmartAuto

Dedicate to strengthening R&D capability and seeking strategic alliance, strategic investments, and merger and acquisition (M&A) opportunities, while striving to expand penetration rate of SmartAuto products to enhance revenue and profit via the following approaches:

- ✓ Applications of SmartAuto industry: industrial automation, robot, e-house integrated industrial air conditioning.
- ✓ SmartAuto module and system: knuckle system of collaborative robot, AGV and key components and parts, smart energy-storage power conversion system (PCS), MHm diagnostic system.
- ✓ SmartAuto control and industrial network: Motion servo controller, human-machine interface (HMI), programmable logic controller, industrial-computer controller, industrial Ethernet, 5G controller.
- ✓ SmartAuto product series: low-/medium-voltage inverter, integrated M+I machine, servo drive and motor, reducer, MS/CB, smart logistics products, such as transport and delivery robots, and smart retail products, such as automated smart vending machine, smart home-delivery cabinets, and smart locker.

### 2. Deployment and automation of manufacturing centers

To cope with the needs of growth of regional markets and capacity distribution, set up four major production centers (mainland China, Taiwan, Vietnam, and India) via integrating existing low-voltage motor production lines and supply chains. Introduce key process automation and global situation-room system, taking advantage of the company's IIoT technology, for real-time monitoring and improvement of the operation of major production and maneuvering of supply chains, via digitalized management. Meanwhile, given robust demands for energy-saving high-performance auto motors expected in mainland China and Asia-Pacific, continue investments in automated electric-wire winding production lines for use in permanent-magnet motors, and rotor visual kinetic equilibrium and automated magnetization and magnet-detecting equipment, to enhance quality liability and competitiveness of such new products.

### 3. Development of forward-looking products:

SmartAuto control and industrial network: Motion servo controller,

- ✓ Energy conservation:  
PM & SRM high-performance motor, E-House, VB/VBAC
- ✓ Emission reduction:  
EV motive-force system, ultra high-performance medium-voltage motor
- ✓ Intelligence:  
E-ID, MHm diagnostic system, AGV, auto fleet management, smart retail
- ✓ Automation:  
HD Precision bearing, knuckle system of robot, Matrix Converter

## C. External competition, legal requirement and Macro Economy

Looking ahead at 2020, impacted by COVID-19 pandemic, major forecast bodies have predicted global economy will decline in the year. Taiwan's Cabinet-level Directorate General of Budget, Accounting, and Statistics (DGBAS) forecasts that Taiwan's economy will grow by 2.37% in 2020, compared with 2.4-2.7% growth rates predicted by other forecast bodies. In the face of the challenging environment, the company, in addition to the development axis of "energy conservation, emission reduction, intelligence, and automation," will implement digitalization, intensify marketing and production automation, thereby inducing growth with precision marketing. Moreover, while it will building secondary supply chain for parts of SmartAuto and electromechanical products, forming a remote backup mechanism to minimize the impact from external unfavorable factors to maintain steady growth and profitability.

The company has been granted the honors of golden award for Taiwan Top50 corporate sustainability report for six years in a row and corporate citizen award by Commonwealth magazine for eight years running. Adhering to the concept of sustainable development, the company has pledged to "20% emission reduction in 10 years" and rolled out "employee public-service account" this year, materializing the group's vision of "energy conservation, emission reduction, intelligence, and automation" according to the strictest criteria, thereby leading employees to contribute to a sustainable society, as well as forging an working environment with long-term development potential for employees, providing customers services with competitive value, and creating optimal investment returns for shareholders.

Sophia Chiu, Chairman  
Lien Chao-chi, President  
Lin Hung-ming, Accounting chief