

I. Letter to Shareholders



Dear Shareholders,

Looking back on 2021, because of COVID-19 and its variant Omicron, the global lockdown affected real economic activities, resulting in severe inflation and supply chain disruptions. Major international ports are congested, and freight rates have soared. The prices of bulk materials such as copper and iron have increased significantly, and there is a global IC shortage. Therefore, the profitability of the overall industry are compressed. Although Taiwan has been affected by the pandemic since May 2021, domestic production capacity has continued to increase, and exports are thriving. Major constructions of domestic public and private sectors have also progressed forward. Taiwan's economic performance in 2021

was among the best in the world, with an annual economic growth rate of 6.28%.

A. Review of 2021 business performance

The company's business focuses on the three main areas of mechatronics, energy, and air conditioning, striving for the following business opportunities: 1. Regarding "smart manufacturing," the company has continued to exercise the two core competencies of advanced power control and electromechanical integration, promote the business opportunities of AMR(Autonomous Mobile Robots) applications, and fully develop EV powertrains. Orders have increased by 15% and 250%, respectively. 2. Regarding "smart energy," the company focuses on renewable energy-related constructions. We have received more than NT\$ 4.7 billion orders, and we have also obtained IDC engineering projects from different clients. 3. To develop more "smart city" solutions, the company uses digital tools to enhance operational efficiency and improve performance. We are also actively strengthening the energy efficiency and networking functions of air conditioning products to provide users with value of energy management.

(1)The implementation results of the strategic development plan in 2021

- a. Green energy projects were extremely fruitful in 2021. The company obtained the Hai Long onshore step-down substation turnkey project. TECO accounts for 35% of the market in the field of Onshore substations of offshore wind power. Regarding solar energy projects, we have achieved 7.1 MW of self-developed projects, and the total scale of orders has reached 11.4 MW. Regarding energy storage, in addition to completing the PCS localized production target and participating in the bidding of Taipower's energy storage demonstration project, we have achieved orders of up to 6 MW in private self-developed energy storage. Many companies are vying to work with us.

Regarding electric vehicle powertrains, in addition to completing independent production lines for electric motors in Taiwan and Wuxi and putting them into mass production, we also completed the development testing of 250 kW vehicle powertrains and participated in the "Electric Bus Demonstration Project" of the Ministry of Transportation and Communications. Many automakers in the commercial vehicle market are using TECO powertrains to complete prototype development and performance testing. A considerable order value is expected in 2022.

The company continues to promote digitalization to improve operation management efficiency, including revenue, gross profit margin, delivery time, quality, etc., and connects with the improvement plan tracking system. In addition to CRM, we built the TOS (TECO Order System) to obtain global business opportunities simultaneously with affiliated companies.

Regarding smart manufacturing, we invested in building an advanced smart rotor automatic production line for small motors and unmanned motor assembly line, gradually achieving a full process smart factory for motors. Regarding products, we also strengthened components and solutions for intelligent and automated manufacturing, including "join modules of collaborative robot," "networked DC servo drives," "smart following vehicles," "diverse smart logistics multiple-vehicle systems," etc.

- b. R&D achievements and forward-looking product development

The company's R&D results were fruitful in 2021, winning 14 awards in the 30th Taiwan Excellence Awards. Among them, the "TECO Smart Anti-Epidemic Robot" was nominated for the Silver Award,

the highest honor in the competition. We also obtained 29 patents in 2021. Regarding energy conservation, emission reduction, intelligence and automation, we developed forward-looking products in 2021, including: “High-power and high-voltage electric vehicle powertrains” used in electric buses, industrial-use “smart monitoring very high power density forced ventilation low-voltage motors,” “IE3 premium efficiency pressure-resistant explosion-proof motors,” “variable speed energy-saving permanent magnet motors for air conditioning systems,” “smart monitoring low noise circulating water pump motors,” etc.

(2) 2021 financial status, execution result of business plan, and profits

a. Consolidated report of the company and subsidiaries

Unit: NT\$1,000

	2021	2020	Change
Sales Revenue	52,557,027	45,823,430	14.7%
Operating Profit	5,069,358	3,534,057	43.4%
Net Income	5,502,191	3,811,648	44.3%
Total comprehensive income for the current period	26,976,650	3,811,648	254.8%

Regarding Sales revenue, the annual growth was 14.7%. Mechatronic products grew by 14%, mainly because of the relatively low impact of the pandemic in China and Europe, so the demand has recovered. There are also energy efficiency transformation business opportunities in China, so the revenue of various affiliated companies increased significantly. Household air conditioning products grew by 13%. In addition to the revenue from “air conditioning in every class in primary and secondary schools,” the logistics business of Taiwan Pelican Express also increased. Engineering revenue and equipment revenue also increased by 16%. In addition, because of the rise in share prices of financial instruments held, the revenue generated by the valuation gain on financial instruments recognized by subsidiaries also increased significantly.

Regarding operating profit, the annual increase was 43.4%, mainly because of the increase in gross profit and decrease in operating expense ratio. The overall gross profit margin in 2021 was comparable to the same period in 2020. But the gross profit increased because of revenue growth, boosting operating profit. Regarding operating expenses, the operating expense ratio decreased because of expense control during the pandemic.

Regarding the net income for the current period, the annual increase was 44.3%, mainly because of the dividend income and the increase in net investment income or loss accounted for under the equity method from non-operating income and government pandemic subsidies received by American subsidiaries.

Regarding the total comprehensive income for the current period, the annual increase was 254.8%, mainly because of the substantial increase in the unrealized valuation gain on financial instruments held by subsidiaries.

b. Parent company alone

Unit: NT\$1,000

	2021	2020	Change
Sales Revenue	22,940,571	19,819,029	15.8%
Operating Profit	1,376,984	1,075,033	28.1%
Net Income	5,013,134	3,511,358	42.8%

Regarding Sales revenue, the annual growth was 15.8%. Regarding mechatronic products, the demand for motors and inverters has gradually recovered. Both prices and volumes have grown considerably, resulting in revenue growth of nearly 20%. Household air conditioning products have benefited from work-from-home business opportunities, coupled with large orders from “air conditioning in every class in primary and secondary schools,” we received the largest order of 42,000 air conditioning units among domestic brands, increasing revenue by NT\$1 billion in 2021. There was also a 14% increase in engineering revenue.

Regarding operating profit, the annual growth was 28.1%. The cost of the complete appliance because of the inflation of raw materials and freight rates have soared, which affected the gross profit and gross profit margin. However, through raising prices and improving production efficiency with production automation and intellectualization, the company reduced the impact of rising costs on gross profit margin. In addition, the control of operating expenses during the pandemic was significantly effective. Therefore, the operating income grew by 28.1%.

The net income of the current period increased significantly. The investment income accounted for under the equity method in non-operating income increased significantly compared to the same period in 2020. In particular, the revenue and profits of affiliated companies in China and Europe increased significantly. Furthermore, the gain on disposal and valuation gain on financial instruments recognized by subsidiaries also increased significantly. Therefore, the net income of the current period grew by 42.8%.

(3) Financial strategy and shareholders' equity

Engaged mainly in the R&D, production, and sales of industrial products in a mature industry, the company's financial strategy has always focused on stable operation. Every year, the company actuarially plans the cash flow and determines the proper financial structure based on the business plan, capital expenditures, working capital requirements, and shareholder returns.

Table 1

Year	Net profit (NT\$100 M.)	Cash flow ratio	Current ratio	Debt ratio
2019	35.18	29.21%	216.55	37.73
2020	38.11	28.35%	232.90	36.05
2021	55.22	126.64	213.81	29.98

Given the steady cash flow from operating activities and adherence to a stable and sustainable business strategy, Taiwan Ratings has granted TECO "twA" (stable) credit rating since 2012, enabling the company to use financing tools with lower interest rates to greatly reduce financing costs. 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.

B. Summary of 2022 business plan

Regarding 2022 prospects, the global economic outlook is still affected by Omicron and inflation. The Directorate-General of Budget, Accounting and Statistics of the Executive Yuan predicts a domestic economic growth rate of 4.42%. The growth momentum is expected to continue to be better than that of most economies.

The main operating strategies and growth plans for 2022 are explained as follows:

1. Existing career growth plan

In Green Mechatronic Solution business group, the demand in North American market has grown strongly this year because of rising oil prices. Moreover, under the huge pressure of "carbon neutrality," electrification program for U.S. Oil & Gas transmission and distribution pipelines, and waste heat recovery will help the growth of inverters and energy-saving solutions. In addition, the company provides carbon-neutral solutions, including high-efficiency motor drive systems, waste heat recovery power generation, and equipment inspection-free system, for energy intensive Industries such as electronics, petrochemicals, steel, and paper industries, expanding direct sales.

Regarding Intelligence Energy business group, given the spread of 5G/big data/cloud services and TECO's exceptional technologies, IDC engineering business is expected to grow strongly in domestic and foreign markets. More than 3 billion orders in related projects were received in 2021. The target revenue of 2022 grew by 30%. As for renewable energy creation and energy storage business, benefiting from Taiwan's renewable energy policy, renewable energy is expected to account for 20% of power generation by 2025. The growth of TECO's orders and revenue is highly expected.

Regarding Air and Intelligent Life business group, the company continues to focus on providing full-field smart air conditioning and energy management as well as contributing to a new ESG carbon-neutral lifestyle. In addition, the company will create new business opportunities, including integrating the Group's resources and IoT technology to launch home-delivered smart refrigerators that meet the last mile of refrigeration and freezing demands. The new rent-to-own operating model accelerates the promotion of air conditioning energy-saving solutions.

2. Strategic growth plan

Adhering to TECO's vision of "energy conservation, emission reduction, intelligence, and automation," in addition to existing business, the company's strategic growth plan will continue to focus on electric vehicle

powertrains, renewable energy business opportunities, and enhancing digital/smart production to improve operating ability!

Among them, the company will continue to expand OEM business opportunities for EV powertrains, with a target growth of more than 60%. In addition, with the localization of electric buses and the 10-year subsidy policy of NT\$90 billion, TECO expects to obtain more than 80% of the market share of domestic electric bus powertrains. The completion of the EV motor production line in India this year will facilitate nearby order intake and production.

In response to grid stability problems caused by renewable energy, the global energy storage market is estimated to grow at a CAGR of 45% to about 70 GWh by 2025. Taiwan's market will see an annual storage demand of 1 GW after 2025. TECO has integrated its energy management system and electric power engineering experience using its own PCS technology to actively pursue the Taipower energy storage demonstration project, laying the best strategy for the upcoming solar-plus-storage business opportunity.

Regarding digital transformation, TECO has entered the "digital optimization" stage. The BI system, initiative and performance management platform, AI-based process/quality inspection system, AI order prediction system, and smart supply chain management platform will be introduced one by one. The smart manufacturing production line will be expanded simultaneously to make TECO's global supply chain more resilient!

3.Sustainable development

The company has been included in the Dow Jones Sustainability Index (DJSI) and S&P Global's The Sustainability Yearbook for two consecutive years. We have also won the Platinum Award of Taiwan's Top 50 Corporate Sustainability Reports for eight consecutive years, and we won the Climate Leadership Award for the first time. We have been ranked in the top 5% of corporate governance evaluation for seven consecutive years. The company has achieved outstanding sustainability operation and corporate governance performance. We have been recognized by domestic and international equitable evaluation agencies!

In 2021, TECO completed the first phase of the "20% emission reduction in ten years" mission ahead of schedule, including carbon footprint verification of iconic products, the construction of the rooftop solar power plant in the Chung-Li plant, and qualification to issue certificates for self-generated and self-consumed green power. This year, the company announced the target of "50% emission reduction in ten years" by 2030. The scope of implementation has expanded to overseas plants, further moving toward carbon neutrality. In addition, as mentioned in the strategic growth plan, the company will actively create and pursue various energy-saving business opportunities, establishing the cornerstone of sustainable development with sustainable products.

In conclusion, the company will continue to uphold the concept of sustainable operations and implement corporate governance standards to create a sustainable work environment for employees, provide services with more added values to customers, and bring the best interests to shareholders.

Chairman: Sophia Chiu
President: George Lien
Accounting chief: Tommy Wu