



November 23<sup>rd</sup>, 2020

Dear Fellow Shareholders,

As stated in the letter to our shareholders on Nov. 20<sup>th</sup>, the board of directors has resolved to form a strategic alliance with Walsin Lihwa Corp., via share swap in capital increment, to strengthen long term partnership.

In order to make the resolution fully understood, we would like to elaborate more details on how we could create more shareholder value in the future via the alliance. Significant benefits will arise for our company from the landmark alliance in the four collaborative fields, namely green energy, PV power, core business, and smart manufacturing. Especially from "PV power market" and "Smart manufacturing", in addition to financial and business synergy, the alliance is also line with our commitment to energy conservation and emission reduction of " 20% emission reduction in one decade" (2015~2025). The details are stated as below:

1. U.S. PV power market

Walsin Lihwa's U.S. subsidiary Borrego has made major inroads into the local PV power market, with main businesses including project development, EPC (engineering, procurement, and construction), and operation and maintenance. In 2019, total capacities of the Borrego's PV power projects topped 119.24 M. TECO can supply its BEES (battery energy storage system) to Borrego. BEES now has around 11-14% share on the renewable-energy storage market. That will be a huge opportunity for Teco.

2. Smart manufacturing

TECO can help Walsin Lihwa improve its business performance and product quality with its expertise in smart manufacturing and other related fields. For instance, via the alliance TECO can take part in the latter's NT\$4.6 billion plan to build smart production lines at its electric wire and cable plant in Yangmei, in the northern Taiwan city of Taoyuan to achieve win win situation.

Besides taking the purpose and benefit of the strategic cooperation into consideration, the board of directors has carefully evaluated the share-swap case from the following



three angles before giving it a green light, in order to uphold shareholders' benefits:

- (1) Evaluation on the share-swap ratio & Judgement of reasonableness: The ratio was set on of the opinion of PwC, based on due diligence and the three appraisal methods of market price, net assets and EPS (earnings per share), as well as also certified by the opinion on the reasonableness issued by CPA Wu Meng-ta of Crowe Horwath.
- (2) Effect on EPS: New shares to be floated for the trading will account for 8% of the total shares in circulation, after taking into account dividends from Walsin Lihwa's new shares to be obtained by the Company and the benefits from the synergy to be created by the alliance are expected to offset, or even surpass the diluting effect, creating significant long-term value for our shareholders.
- (3) Legal compliance: The share swap has been carried out according to article 156-3 of the Company Act and there are numbers of cases done in the past. In order to comply with the relevant regulations and non-disclosure agreement, it is not allowed to reveal any related information when the Company host investor conference dated on November 17<sup>th</sup> before the case was resolved by the board of directors. The case still needs to be ratified by the Financial Supervisory Commission, which will review the case, according to its necessity, reasonableness, and potential benefits.

Based on the management concept of sustainability, the Company has been pushing "green energy business" and "digital transformation" in recent year, as a result of which Teco has been selected as an emerging-market constituent stock of 2020 DJSI (Dow Jones Sustainability Index).

Therefore, during evaluating the share swap case with Walsin Lihwa, the Company believes the partnership will help Teco to realize the commitment " 20% emission reduction in one decade" (2015~2025) earlier than it was expected, other than only on synergy of business. Teco will set up a task force carrying out various tasks related to the alliance, so as to maximize its synergy. In line with the corporate-governance principles of honesty, openness, and transparency, the company welcomes any good-will opinion from shareholders, as your support is indispensable for the Company's stable development and its effort to create values for all the shareholders.



Chairman, TECO Electric & Machinery Co., Ltd.  
Chwen-Jy, Chiu (Sophia Chiu)

A handwritten signature in black ink, appearing to read "Sophia", written over a horizontal line.