

I. Letter to Shareholders



Dear Shareholders,

Stuck in "low-growth" trap, the global economy declined by 2.4% in 2016, the worst performance since the global financial tsunami. Strength of recovery in the U.S., Japan, and Europe failed to meet expectation and growth in China and emerging economies slowed down, which, plus uncertainty resulting from Brexit, dampened demand on the electric-machinery market. However, thanks to years of effort in energy conservation, carbon abatement, smart application, and automation, the company still managed to take advantage of new business opportunities, thereby retaining steady profits.

A. Review of Business Performance in 2016

Analysis of the company's business performance in 2016 follows:

a. Parent Company

Regarding revenue, benefited from replacement demand and energy-performance subsidies, sales of refrigerators expanded further in 2016, when revenue of power business also grew substantially, thanks to income listed quarterly, in line with progress in the construction, from major engineering projects. Revenues from other businesses, though, dropped, due to decline in global demand for infrastructural projects, shrinking investments in oil- and mineral-related lines, insufficient orders and languid sales of electric-machinery products. The company's overall revenue reached NT\$20,274,047 thousands, dropped by 7% in 2016.

Due to increased shares of higher-margin custom products and variable-frequency products, the company's gross margin advanced by one percentage point in the year. Meanwhile, operating expense decreased by NT\$100 million, thanks to continuous rationalization of personnel and other expenses. The company's operating profit reached NT\$1,615,152 thousands. As a result, operating income only dropped 0.14% slightly. As for non-operating income and expense, the company saw investment returns increase by NT\$100 million, thanks to increased investment returns from the merger of Century Development Corp. and the company's Italian subsidiary Motovario, plus income from disposal of stakes in Straits Construction Investment (Holdings) and Hangzhou Xizi-IUK Parking System Co.,Ltd. Overall net profit grew by 9.57%.

As for R&D, the company successfully developed a number of new products, including large-scale water-recycling pump motor, medium-voltage variable-frequency motor for industry-grade chiller, IE4 motor for Japan and China, anti-dust blast motor, netcom inverter, cloud-end EMS, and R32-coolant series models. Thanks to its heavy R&D investments, the company won Taiwan Excellent Award for six items and 23 domestic and foreign patents.

b. Consolidated Financial Statements

Consolidated sales revenue reached NT\$49,923,836 thousands, grew by 3% in 2016, due to the acquisition of Century Development and Motovario, while Operating profit reached NT\$4,189,481 thousands, grew by 11%. The growth of unrealized gain on valuation of available-for-sale financial assets resulted into higher total comprehensive income for the year. Overall, Profit for the year reached NT\$4,036,998 thousands, grew by 15% and Total comprehensive income for the year was NT\$4,360,290 thousands, grew by 678%.

B. Outline of 2017 Business Plan

Major domestic and foreign forecast bodies predict that the global economy will grow by 2.4-3.3% in 2017, higher than 2016. International prices of raw materials, including oil and metal, have stabilized, helping oil/gas and mineral customers to attain steady revenue growth, which will benefit the company's sales. Taiwan's economy will also perform better than 2016, with growth forecast reaching 1.5-1.8%. In addition, the government is pushing "accelerated transformation of industrial structure" and "expansion of infrastructural investments" programs, boosting domestic investments and growth, which will benefit the company's business for electric-machinery products and engineering projects.

In 2017, the company will develop around a number of axes, and separate producing and marketing&sales of motor, providing systematic products based upon customer request. The company keeps improvement of existing product lines, and continuing dedication to smart products, automated production equipment, and other related products, such as G2-server electric machinery, so as to enhance the company's overall productivity, develop energy saving and carbon reduction, green energy, and deepen operating strategy overseas, upgrade product competitiveness.

Electrification products will be integrated, the cost will be controlled so that the company can gain more market share. Overseas subsidiaries will be integrated as well, and develop emerging market, water and power related market. The company will attempt to get order from infrastructure, domestic and overseas project, keeping challenging the goal of high growth and grasping business opportunity of energy saving and carbon reduction. Meanwhile, launching I+M+G (Inverter, Motor and Gear Reducer), a transmission solution based upon the trend. The company hopes to provide system products to various kind of customers, and inject more powerful energy in sales revenue.

In addition, the company will step into the realm of PV ESCO, installing PV panels on the roofs of the group's factories, on top of micro grids and smart energy management system, key components for smart city, which have been developed by the company. Regarding electric machinery, the company will roll out IP66 water- and dust-proof anti-blast motor and E510s IP20 inverters, which have obtained EU functional-safety certification. As for home appliances, the company will launch air conditioners featuring CSPF-grade energy performance. The aforementioned new products will inject fresh growth momentum for the group. Meanwhile, the company will invest further in India, Africa, and ASEAN, consolidating overseas business network and expanding global deployment.

The company has been granted the golden award of Taiwan Corporate Sustainability Awards (TCSA) for the TOP50 category for three years in a row, and the corporate citizen award by Commonwealth magazine, in addition to top 5% in corporate-governance evaluation. As an advocate for sustainable development in the electric-machinery industry, the company will, in adherence to its integrity-based management concept and conformance to the global current of energy conservation and carbon abatement, dedicate to the development of smart environment-friendly products and march towards the goal of becoming a global corporate guidepost, thereby creating maximum benefits for shareholders and paying back our shareholders and investing public, in return for their long-term support and patronage.

Chairman Sophia

TECO Electric & Machinery Co., Ltd