

## VII. Review of Financial Status, Operating Results, and Risk Management

### 7.1 Analysis of Financial Status

Unit: NT\$thousand

Item	Year	2019/12/31	2018/12/31	Difference		Remark
				Amount	%	
Current Assets		43,946,576	43,760,371	186,205	0	
Fixed Assets		16,742,830	17,363,543	(620,713)	(4)	
Intangible Assets		5,200,634	5,557,343	(356,709)	(6)	
Other Assets		33,204,364	25,300,029	7,904,335	31	Note 1
<b>Total Assets</b>		99,094,404	91,981,286	7,113,118	8	
Current Liabilities		20,293,826	18,141,380	2,152,446	12	
Non Current Liabilities		17,095,788	15,348,991	1,746,797	11	
<b>Total Liabilities</b>		37,389,614	33,490,371	3,899,243	12	
Equity attributable to owners of parent		56,706,504	53,678,660	3,027,844	6	
Capital stock		19,676,929	20,026,929	(350,000)	(2)	
Capital surplus		7,389,577	7,647,215	(257,638)	(3)	
Retained Earnings		26,390,805	25,221,021	1,169,784	5	
Other equity		3,249,193	783,495	2,465,698	315	Note 2
Non Controlling Interest		4,998,286	4,812,255	186,031	4	
<b>Total Stockholders' Equity</b>		61,704,790	58,490,915	3,213,875	5	
Note 1: The reason for the increase in other assets: mainly due to the adoption of IFRS 16 for the first time and recognition of lease contracts as right-of-use assets.						
Note 2: The reason for the increase in other equity: mainly because the financial assets held by the Group measured by fair value through other comprehensive profit and loss generated unrealized value-added benefits in 2019.						

## 7.2 Analysis of Operating Results

### 7.2.1 Operating Results

Unit: NT\$thousand

Item	Year	2019	2018	Difference		Remark
				Amount	%	
Sales Revenue		47,909,358	50,104,927			
Operating Costs		(36,428,606)	(38,052,253)			
Gross Profit		11,480,752	12,052,674	-571,922	(5)	
Realized(Unrealized) Profit from Sales		897	(15)	912	(6,080)	Note 1
Gross Profit - Net		11,481,649	12,052,659	-571,010	(5)	
Operating Expenses		(7,945,204)	(8,532,173)	586,969	(7)	
Operating Profit		3,536,445	3,520,486	15,959	0	
Non-operating Income and Gains		903,009	765,802	137,207	18	Note 2
Profit before income tax		4,439,454	4,286,288	153,166	4	
Tax Expense		(920,674)	(810,319)	-110,355	14	
Net Income		3,518,780	3,475,969	42,811	1	
Other comprehensive income		2,520,910	433,011	2,087,899	482	Note 3
Total comprehensive income		6,039,690	3,908,980	2,130,710	55	Note 4
Analysis and explanation for changes:						
1. Mainly due to the decrease in inventory at the end of the current year, resulting in an increase in realized profit.						
2. Mainly due to the increase in interest income, dividend income, and financial asset appreciation benefits measured at fair value through profit or loss, resulting in an increase in net non-operating income.						
3. Mainly due to the increase in the value-added benefits of financial assets measured at fair value through other comprehensive income in the current year, resulting in an increase in other comprehensive benefits.						
4. In summary, the total comprehensive benefits of this year will increase.						

### 7.2.2 Change in gross profit: No need of analysis since the change is less than 20%.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for the Current Year (2019)

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash Flow from Operating Activities (2)	Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
17,535,566	5,928,542	4,352,737	19,111,371	-	-

- A. Analysis of change in cash flow:
- Operating activities: Through lean inventory management in 2019, no matter whether the inventory balance of TECO itself or major affiliates at home and abroad decreased compared with those at the beginning of the period, the revenue from TECO's sales to affiliates companies also fell due to impact. Overall, the decline in the number of days benefiting from consolidated inventory turnover and the acceleration of receivables recovery have effectively improved capital efficiency and increased cash inflows.
  - Investing activities: Purchase of real estate, plant and equipment is the main reason for cash outflow from investment activities
  - Financing activities: The payment of cash dividends, payment of borrowings and lease liabilities are the main causes of cash outflows from financing activities.
- B. Remedy and liquidity analysis for insufficient cash: not applicable.

### 7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$thousand

Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
19,111,371	4,101,179	9,762,108	13,450,441	-	-

- A. Analysis of change in cash flow in the current year:
- Operating activities: Affected by the Covid-19 epidemic, revenue is expected to decline compared with 2019, while inventory is being increased to ensure the supply of raw materials is not in doubt. Although this year's business activities still maintain a net cash inflow, the inflow will be greater than in previous years decline.
  - Investing activities: The core business aims at energy saving, intelligence and automation, and expands equipment capital expenditures and industrial mergers and acquisitions. It is expected that investment activities in this year will generate net cash outflows, and the outflow will increase significantly from previous years.
  - Financing activities: In addition to the maturity of corporate bonds this year, the cash dividend payment rate also increased from last year. Therefore, it is expected that this year's financing activities will generate a net cash outflow of a greater magnitude than in the past. Considering that the cash on the account is scattered among the accounts of related companies, under the situation of the cash inflow of the individual industry, it must be responded to through bank financing or capital increase.
- B. Remedy for Cash Deficit and Liquidity Analysis: Not Applicable

## 7.4 Major Capital Expenditure Items

### 7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT\$thousand

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure	
				2019	2020~2021
2019 Capital Expenditure – new equipment, equipment renewal and capacity expansion	Working Capital	2019/12/31	1,022,000	1,022,000	
2020 Capital Expenditure – new equipment, equipment renewal and capacity expansion	Working Capital	2020/12/31	1,460,000		1,460,000

### 7.4.2 Expected Benefits

In addition to increasing the output of large size and small size motor, home appliances and system automation, the above equipment renewal projects are expected to help reduce production costs and improve the quality of products.

## 7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

### 7.5.1 Equity Investment Policy

In response to economic development trend and increasing competition, both on domestic and overseas fronts, investments are mainly for vertical or horizontal integration of the company's core businesses, including electric machinery, energy engineering, and home appliances, for materialization of the corporate vision of "energy conservation, emission reduction, intelligence and automation" and strengthen digital transformation, thereby actively invest in green energy related projects to build Asia's largest industrial motor intelligent production line in Vietnam, offshore wind power construction operations, and participate in related land substation business opportunities, and gradually expand overseas market share and gain profit through global production and sales layout.

### 7.5.2 Major reasons for profits or loss:

The company recognized NT\$30,410 thousand of investment income based on equity method in 2019, less than 2018's NT\$114,143 thousand, due to decreased income from investments in TPI Bearings.

### 7.5.3 Investment plan for the next year

In the coming year, the investment plan will focus on energy saving, intelligence, automation, and digitalization, in addition to equipment replacement. Newly developed energy-saving permanent magnet high-efficiency motors for heavy power and green energy businesses, electric vehicle motors, automated electrician winding lines, rotor visual dynamic balancing, and automatic magnetization and magnetic detection equipment, etc. R & D of servo control modules in the field of digitalization and non-industrial control (M + I all-in-one machine, collaborative robot joint system, industrial computer server, production line and warehouse handling and receiving robot, etc.), intelligent automatic control technology for energy engineering. Actively invest in solar photovoltaic power generation systems, micro-grid systems, energy storage systems and energy management equipment, as well as home appliance business planning, full-line frequency conversion energy saving and high-end high-efficiency energy-saving commercial space development, etc. Also applies the IIoT technology developed by the company, introduces key process automation and globalized war room systems, and comprehensively monitors and improves the overall efficiency of the plant's equipment in a digital management manner. In addition, Nangang Biotechnology Park and India 's Bangalore International Science and Technology Park will develop the park 's infrastructure and service centers one after another this year and next year, providing R & D, breeding and other spaces, as well as automation and technology-based standard factories..

## 7.6 Analysis of Risk Management

### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

A Effects of Changes in Interest Rates on Corporate Finance, and Future Response Measures

	2019	Unit: NT\$Thousand
Interest Income or Loss(1)		54,689
Sales Revenus(2)		47,909,358
Operating Income(3)		3,536,445
(1)/(2)		0.11%
(1)/(3)		1.55%

The Company's net interest expense for the year 2019 was NT \$ 54,689 thousand, accounting for 0.11% of annual operating income and 1.55% of operating profit, which represented an increase from the year 2018.

Looking forward to this year, the United States cut interest rates sharply, Europe and Japan continued to expand loose monetary policy, and China also expanded loose monetary policy to pay attention to market liquidity. However, global funds have been tightened slightly due to poor economic outlook, and overall there is little chance of interest rate rise.

In order to reduce the impact of interest rate changes, the company will timely adjust the position of Taiwan and foreign currency borrowings, or reduce interest rate risk by fix rate corporate bonds etc.

B. Effects of Changes in Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

2019

Unit: NT\$thousand

Exchange Gain or Loss(1)	(39)
Sales Revenues(2)	47,909,358
Operating Income(3)	3,536,445
(1)/(2)	(0.00008%)
(1)/(3)	(0.0011%)

The company's 2019 foreign exchange loss was NT \$ 39 thousands, which was mainly due to the natural risk aversion achieved by the overseas related companies and the foreign exchange position of the parent company, which caused conversion gains and losses accounted for a small percentage of overall revenue. Looking forward to this year, the global economy will be negatively affected by Covid-19. The central banks of all countries have adopted quantitative easing policy, the market volatility has increased greatly, the currency trend of the United States as the main trading country are volatile, and foreign exchange risk management challenges are high. In addition to continuing paying attention to exchange rate fluctuations, the company implements the following countermeasures.

- a. In addition to natural risk hedging associated with positions of assets and liabilities, the company will undertake substantial risk hedging via forward forex transactions.
  - b. The financial department will maintain close contact with the forex department of corresponding financial institutions and constantly collect information on change in exchange rate, so as to firmly grasp trend and change in international exchange rates and respond actively, in forward forex transactions and foreign exchange settlement, to offset the adverse influence of exchange-rate swings.
  - c. The financial department regularly do internal evaluation reports for hedge on net asset and liability of foreign currency, so that the management team can determine if the company do the hedge or not.
- C. The impact on company's performance resulted from inflation and counter measures

The main material that the company mainly used are steel, copper and alumina. It affects purchase cost to a certain extent, however, it is expected that the recovery of world economy and oil&gas, mining exploring will raise the company's operation.

TECO purchases materials using contract to negotiate prices. When the price grows, TECO can negotiate with the suppliers. In this case, there is no significant disadvantage toward company's performance based upon price vibration. However, the company will still evaluate cautiously the trend of metal price and match up the operation drafting the appropriate strategy.

### 7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

- A. The company abstains from high-risk and high leveraged investments.
- B. At the end of 2019, outstanding loans extended by the company amounted to NT\$206,538 thousands.
- C. In 2019, the outstanding amount of the endorsement and guarantee extended by the company reached NT\$1,608,066 thousand, for the company's subsidiaries, affiliates, and business partners. The company has obtained the financial statements and business profile information of the endorsement guarantee company at ordinary times, analyzes its profit situation, in order to evaluate the risk of the company's endorsement guarantee, and plans the risk reduction plan in advance

- D. In 2019, derivatives held by the company was forward exchange trading, whose corresponding traders were mainly international financial institutions with outstanding credit. In addition, the company traded with many financial institutions to diversify risks, minimizing the possibility for default. Therefore, credit risk for the company in derivatives trading is very low. Moreover, derivatives held by the company are mainly for the purpose of risk hedging and the ensuing income/loss can be offset by the income/loss in the risk-hedging category, minimizing the market risk.
- E. The company has formulated a number of investment guidelines for cutting risk, including “Procedure for the Acquisition and Disposal of Assets,” “Procedure for Lending Capital to the Others”, “Procedure for the Endorsement and Guarantee,” and “Procedure for the Trading and Disposal of Derivatives.”

### 7.6.3 Future Research & Development Projects and Corresponding Budget

In recent years, TECO has gathered the R & D strength and market experience of the company's R & D units at home and abroad, and through the cooperation of industry, education and research, has strengthened its core business and actively invested in the green energy industry. In wind power generation, solar power converters, rare earth permanent magnet motors, vehicle electric power components, robot arm transmission motors, medium voltage inverters, sensor-free feedback permanent magnet motor drives, low-torque precision servo motors, high-speed spindle motors, IE5 synchronous reluctance motor driver, high-order algorithm, Internet of Things application, etc., launched several important R & D projects.

For the operational needs in response to mid- and long-term research and development of new technologies and products, and short-term product cost-effectiveness improvement, TECO's R & D team actively seeks external resources, and operates technical consultation, cooperation, introduction, etc.

Starting from existing core technologies such as rotating electrical machine and generator design, motor drive and design, power electronic control and design, gateway technology, etc., it integrates new market needs, industrial specifications, new material applications, sensor application technologies, wireless network technology, and In the field of green energy industry technology, coordinate overall R & D strategy and technical planning

The company formulates its future R&D plan on the following bases:

- A. Grasp and analysis of industrial development, government policy, and market trend;
- B. The establishment and rooting of key technologies;
- C. Competitiveness relative to rivals in Europe, the U.S., and Japan;
- D. Global market positioning and technological integration;
- E. Grasp of R&D progress and quality.

Therefore, TECO is expected to continue or initiate the following R & D directions in 2020 in order to comply with the new European regulations in the existing product market and develop high-value-added innovative applications for existing marketing channels, while seeking specific commercialization of emerging technologies and creating new market opportunity, while seeking the specific commercialization of emerging technologies and the creation of new markets.

- (a) Development of new-generation steel shell motor
- (b) Development of series products of ultra-high power density induction motors
- (c) Development of high torque permanent magnet motor
- (d) Development of high-speed permanent magnet motor and driver products
- (e) Development of synchronous reluctance high-efficiency motor products

- (f) Development of electronic control motor technology for air conditioning
- (g) Development of digital motor products
- (h) Research and development of low energy consumption inverter refrigerator
- (i) R & D of automotive motors and drives and joint development of complete vehicles
- (j) Development of components and drives for offshore wind turbines
- (k) Research and development of four-quadrant control of medium voltage inverter and industrial network and frequency conversion switching
- (l) High-end AFE and controller product technology research and development of electronic control product series
- (m) Development of KW-level four-quadrant wind power converter
- (n) Development of high IPLV magnetic levitation centrifugal unit
- (o) HVAC air conditioning system group control energy saving solution development
- (p) HVAC air conditioning system cloud monitoring expert diagnosis system development
- (q) R & D of air-cooled modular chiller
- (r) Development of full DC inverter air-cooled box machine
- (s) Extended research and development of high-efficiency inverter commercial refrigerator series
- (t) Development of efficient and short servo motor
- (u) IE5 synchronous reluctance motor driver development
- (v) Voice technology development for meal delivery robot
- (w) Development of image recognition technology for meal delivery robots
- (x) AGV multi-vehicle management technology development
- (y) Matrix converter prototype development
- (z) Development of next-generation high-performance servo drives
- (aa) Development of multi-axis servo technology
- (bb) Development of compact DC servo products
- (cc) EtherCat thin AC servo product development
- (dd) Ultra-thin and thin AC servo product development
- (ee) Development of hardware and software for the next-generation single-axis servo drive prototype
- (ff) Adjusting characteristics and selecting functional technology development
- (gg) Development of higher order adjustment function technology
- (hh) Development of speed ripple compensation function technology
- (ii) Harmonic suppression technology development
- (jj) I / O filter development
- (kk) Matrix converter system integration
- (ll) AGV multi-vehicle control technology
- (mm) Independent follow-up technology development
- (nn) mm Wave technology development
- (oo) AGV AI technology development



- (pp) Research and development of binary extremely low temperature refrigeration system
- (qq) Evaluation of the influence of extremely low temperature environment on motor characteristics
- (rr) Industrial Internet of Things:
  1. WiFi application system development
  2. Application of edge computing system
- (ss) Smart mobile platform
  1. Modularization of vehicle electromechanical system integration
  2. Collection and analysis of vehicle sensing data
- (tt) Data analysis:
  1. Development of equipment predictive maintenance technology
- (uu) Visual positioning and inspection module-applied to factory automation project integration
  1. Modular design image processing system architecture
  2. Modular development of image processing functions

The company’s general research institute oversees the overall R&D strategy, technology deployment and ongoing product R&D, with an eye on technological deployment and product development in short-, medium-, and long-term, including:

Term of R&D	Focus	Major R&D items
Short-term	Develop new-product application market, Enhance performance of existing products & Enhance product profitability and market share	High-performance servo motor and driver development
		Development of high power density motor series
		Steel shell motor product optimization
		Servo system controller development
		Optimization of cast iron motor products
		Research and development of commercial full DC inverter air-cooled box-type air conditioning units
		Extended research and development of high-efficiency inverter commercial refrigerator series
		Sinusoidal sensorless drive technology development
		Servo parameter automatic adjustment technology
		Car electric power kit development
		Smart battery and battery management system development
		Development of brake energy recharge technology
		Energy-saving electric vehicle verification technology research and development
		Development of verification technology for vehicle electric power batteries
		Single axis high performance servo drive
		Matrix converter technology development
AGV product development		
Single-axis high-performance servo drive technology development		
Development of next-generation inverter prototype		
Multi-vehicle AGV system development		
Mid-term	Accumulation of core technological strength & Development of new technological strength	Medium and high voltage inverter technology research and development
		Research and development of high-order frequency conversion technology
		New Generation Steel Shell Motor (FSR) Product Development

Term of R&D	Focus	Major R&D items
		High-speed permanent magnet motor and driver development
		High torque permanent magnet motor development
		Ultra-high efficiency magnetoresistive motor product development
		Electronic Control Motor (ECM) Technology Development
		Development of thin motor insulation system
		Digital home application technology on smart phones
		Gateway technology of electronic control product series
		Development of high IPLV magnetic levitation centrifugal unit
		HVAC air conditioning system cloud monitoring expert diagnosis system opened
		HVAC air-conditioning system energy-saving solution development
		Extended development of indoor service machines
		Multi-axis servo drive technology development
		Serialization of next-generation inverter
		Outdoor AGV technology development
Long-term	Deployment in new business scope	Digital motor product service development
		E-House system integration
		Integrated research and development of machine networking system
		Integrated R & D of micro smart grid system
		Focus on market research and development of precision servo system
		New generation digital home appliance system research and development
		MEMS research and development in high-efficiency large-scale power system
		New generation industrial servo system R & D
		Regional market-oriented industrial technology research and development
		Integrated R & D of multi-axis servo system
		Development of outdoor AGV prototype
		Serialization of next-generation inverter
		Multi-axis servo platform system integration research and development
		Next-generation all-in-one machine development
Driverless technology research and development		

**7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

None

**7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales**

Given the trend of shrinking workforce and green energy, the company takes into account global development trend, the government's industrial policy, own technological level, and growth potential of related industries. In addition to consolidating the company's technological edge in high-performance motive-force motor, application of environment-friendly refrigerant in home applications, and variable-frequency energy conservation, the company will intensively study international technological development and market trend for introduction of innovative methodology. In response to the trend of

shrinking employment population, the company will plan biotechnology forum, long-term technological development roadmap, and strategy and timetable for completion of development plan. In line with the need of green energy, the company will develop electric-car motor, wind turbine, peripherals of smart grid, energy-saving home appliances, and split air conditioning systems.

The company has set up forward-looking technology consulting committee in 2017, to track cutting-edge forward-looking technologies. Add R&D on gateway technology for electric-control product series, R&D on remote-monitoring technology for motor and generator, R&D on high-end servo motor drive, and R&D on reluctance motor and drive, and R&D on digital-home and mobile communications-linked security products. In addition, the company will associate various business air conditioners with applications of the Internet of things, intensify intensity and depth of technological detection, further strengthen horizontal technological cooperation among affiliates, and actively seek foreign technological cooperation, so as to enrich R&D contents and meet long-term needs of the society.

#### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

The company has been pursuing sustained growth via “pluralized management” and “global deployment,” and has been striving to project a quality corporate image for a globalized group by manifesting in-depth social care via TECO Technology Foundation and rigorous demand for quality and service. The company's crisis management plan covers its production bases worldwide and has helped the company respond properly to the ordeal of major incidents in recent years, thanks to the company's constant effort in fostering crisis-management capability. In the future, the company will continue simulating the outbreak of major incidents and formulate response plans, in order to safeguard the interests of shareholders.

#### **7.6.7 Expected Benefits from Risks Relating to and Response to Merger and Acquisition Plans**

None

#### **7.6.8 Expected Benefits from Risks Relating to and Response to Factory Expansion Plans**

None

#### **7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

None

#### **7.6.10 Effects of Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%**

The appointed representative of TECO's corporate director Yinge International Investment Co., Ltd.: Po-Chi, Huang transferred 4,270,085 shares at the price of shares under Yinger International

Investment (Share) Co., Ltd on 2019/01/23. This item is not an actual equity transfer transaction. The remaining directors (supervisors have been replaced by audit committee members) and 10% of the major shareholders have not been transferred or replaced in a large amount in recent years. Therefore, there is no significant impact and risk on the company.

#### **7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company**

None

#### **7.6.12 For litigation and non-litigation cases, specify the company and directors, supervisors, president, chief executive, and major shareholders with over 10% of shareholding, as well as affiliates. For major litigation, non-litigation, or administrative disputes with major effects on the interests of shareholders or stock prices, disclose the facts, target value, starting dates for litigation, major parties involved, and the status of the cases up to the publication of the yearbook**

None.

#### **7.6.13 Other Major Risks**

In order to strengthen information security management, ensure the confidentiality, integrity and availability of information, as well as the reliability of information equipment and network systems, the company has established information security policies as guidelines for information security risk management in company regulations. At the same time, under the information security risk management framework, build intrusion prevention systems / email anti-spam systems / endpoint anti-virus systems to gradually complete information security protection. Also regularly conducts data off-site backup systems and disaster recovery mechanism exercises to ensure that services are not interrupted.