

## I. Letter to Shareholders



Dear Shareholders,

External environment fluctuated in 2018, posing multiple challenges for enterprise. Volatile factors include prolonging China-U.S. trade friction, stagnant Brexit, attempt by North Korea to return to the international arena, and slackened market of crude oil and raw materials. However, continuing expansion of the electric-car market has triggered demands for auto motors, and the automation and AI current has fostered huge business potential. In the quest for sustainable development, the company has adhered to the vision of "energy conservation, emission reduction, intelligence, and automation," pushing the automation, smart production, and consistency of the company's production bases

worldwide and rolling out innovative high-performance and smart products, in order to uphold strong growth momentum, minimize the effect of external changes, and retain steady profits.

### A. Review of Business Performance in 2018

Analysis of the company's business performance in 2018 follows:

#### a. Parent Company

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	20,879,719	21,301,208	-1.98%
Operating profit	1,410,943	1,507,068	-6.38%
Profit for the year	3,150,089	3,092,358	1.87%

Motor's order intake and sales picked up significantly, thanks to increased share on domestic and Australian markets, plus robust demands from power generation and oil & gas industries in North America. Affected by sluggish realty market and private consumption, sales of home appliances and power devices dropped. In general, the company's 2018 revenue scored slight decline of 1.98%.

In response to China-U.S. trade war, some orders for the U.S. were shifted to Taiwan for production, dampening gross margin. Consequently, the company has endeavored to cut material and other costs, reduce product weight and size, to boost competitiveness. Still, affected mainly by profit margin drop of air conditioning products, overall gross margin decreased by 0.9%. The company, though, managed to decrease operating expense by near NT\$70 million, via working-flow improvement and outlay rationalization, as a result of which operating profit only declined by NT\$96 million.

Continuing sales and profit growth of affiliates in China, North America, and Australia led to increase of NT\$330 million in investment income under equity method in 2018. In 2018, the company's net profit increased by 1.87%.

In 2018, the company had a remarkable performance in R&D, launching high-power smart motor, permanent-magnet motor for electric car, smart air quality and air-conditioning energy management system for hospitals, and service-oriented robot, which won the company 15 awards of Taiwan Excellent Award, the highest among electromechanical manufacturers.

## b. Consolidated Financial Statements

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	50,104,927	50,942,521	-1.64%
Operating profit	3,520,486	3,496,200	0.69%
Profit for the year	3,475,969	3,544,248	-1.93%
Total comprehensive income for the year	3,908,980	4,326,037	-9.64%

Sales in China grew, thanks to the policy separating production and sales, increased market share of large-sized motor and air-separation equipment, grasp of the business opportunities related to "Road and Belt" program, and focus on gear reducer and explosion-proof electric machinery. Sales in North America and Europe both scored double-digit growth, thanks to brisk demands for large-sized motors and gear reducers, respectively, while sales growth in Australia exceeds 5% and domestic sales also grew, despite exclusion of the revenue of Kuenling Air. After excluding the contribution of Kuenling Air, operating income still grew slightly by NT\$60 million, due to merger of regional organizations and further rationalization of expenses. Affected by loss in the valuation of financial assets and reduced investment income, current net profit dropped by 1.93%, while total comprehensive income also tumbled by 9.64%, due to decline in unrealized valuation income from equity investment instruments.

**B. Outline of 2019 Business Plan**

In the coming year, the company will continue embracing the vision of "energy conservation, emission reduction, intelligence, and automation," focusing on IoT-enabled motor digital service, double growth for inverters, electromechanical equipment sales program, overseas electromechanical engineering, and smart communities, so as to sustain sales growth.

- For energy conservation and emission reduction, the company has engaged in the RD& on high-efficiency low-energy consumption permanent-magnet motor for use as motive force, and the development, via utilization of "synchronous reluctance assisted permanent magnet technology," of traction power modules, for deployment in the markets of electric cars and electric vessels. The company is also actively foraying into the supply chain for offshore wind-power turbines, plans to engage in the grid-connection power control panel and assembly of wind turbine, using Taiwan as a springboard for inroads into the markets of Japan, South Korea, and Southeast Asia.
- To achieve intelligence and automation, the company will establish industry IoT at all of its factories, on the basis of MES (manufacturing execution system), which will be coupled with big-data analysis in forging smart electromechanical factory solutions. Automated guided vehicles and service-oriented robots will also be applied, to further boost the operating efficiency of factories.

**C. External Competition, Legal and Microeconomy**

The global economy is expected to remain sluggish in 2019, according to the prediction of major forecast bodies. The Cabinet-level Directorate General of Budget, Accounting, and Statistics forecasts that Taiwan's economy will score 2.27% growth in 2019, compared with the forecasts of other bodies ranging 2.18-2.45%. Faced with even steeper challenges, the company will continually strive for technology innovation, accelerate to enhance the technology level and installation of automatic and intelligent production equipment, in order to minimize the impact from external unfavorable factors to sustain the business growth and profit.

The company has been granted golden award of Taiwan Top 50 Corporate Sustainability Report Award for five years in row and Corporate Citizen Award by Commonwealth magazine for seven consecutive years. As a vanguard of Taiwan's electromechanical industry, the company will continue adhering to the concept of sustainable development and, in response to the need for innovative technology and the current of Industry 4.0, will dedicate to the development of IoT and smart environment-friendly products, in the hope of turning in a good performance amid stern international environment and creating optimal benefits for shareholders and investing public, in return for their longstanding support and patronage.

Chairman Sophia  
TECO Electric & Machinery Co., Ltd