

I. Letter to Shareholders



Dear Shareholders,

2015 turned out to be the sternest year in international politics and economy since the global financial tsunami, due to the effect of a litany of adverse factors, including Greek debt crisis, slowdown of the Chinese economy, and collapse of energy and other raw-material prices. On the domestic front, affected by weak demand of global trade, investments and exports declined continuously, with GDP growth falling short of 1%, the lowest since 2009. Faced with shrinking external and domestic demands, which dampened both revenue and profit, the company still continued development of smart and variable-frequency products, which offer higher added value, and foraying into new markets, new industries and overseas acquisitions, in order to uphold the foundation for sustainable development.

A. Review of Business Performance in 2015

Analysis of the company's business performance in 2015 follows:

a. Parent Company

Unit: NT\$ thousand

	2015	2014	Change
Sales revenue	21,809,717	24,256,762	(10%)
Operating profit	1,617,491	1,949,849	(17%)
Profit for the year	3,177,291	4,062,960	(22%)

As for sales revenue, sales of home-appliances business grew further, due to replacement demand and expanding need for white goods. Demands for motors, however, slackened, due to plunge in capital outlays of the oil and mining industry and sales decline of other businesses on sluggish business of downstream industries. Overall revenue dropped 10% in 2015.

As for operating profit, thanks to the result of negotiation for procurement and increased share of custom and variable-frequency products boasting higher gross margin, gross margins of major business divisions and the entire company increased. In addition, operating expense decreased by NT\$200 million in 2015 than 2014, due to adjustment in production/marketing strategy, reduction of inventories, and further rationalization of personnel outlays and expenses. Despite the savings, operating profit still dropped, due to shrinking revenue.

As for non-operating income and expenses, thanks to intensified restructuring and management of equipment investments, investment income, excluding listed income from disposal of land in Wugu of New Taipei City in 2014, investment profit still increased by NT\$530 million in 2015 than 2014. Overall speaking, the company's net profit slipped 22% in 2015.

To cope with rigorous market challenge and sustain long-term development, the company successfully developed a number of cutting-edge products in 2015, including monitoring system for smart motor, IE5 ultra high-efficient variable-frequency permanent magnetic motor, IE4 ultra high-efficient induction motor, pan-American high power-factor medium-voltage excellent-efficiency motor, multi-task electric-voltage vector inverter, cloud-end variable-frequency multi-split type air conditioner, cloud-end smart sea-water heat-dissipation air conditioner, dual variable-frequency multi-unit central conditioning system, and R32 environment-friendly coolant air conditioner, on top of the obtaining of 31 domestic and foreign patents.

b.Consolidated Financial Statements

Unit: NT\$ thousand

	2015	2014	change
Sales revenue	48,598,573	53,748,466	(10%)
Operating profit	3,787,627	4,422,836	(14%)
Profit for the year	3,514,116	4,402,267	(20%)
Total comprehensive income for the year	560,158	8,992,173	(94%)
Profit attributable to: Owner of the parent	3,177,291	4,062,960	(22%)
Non-controlling interest	336,825	339,307	(1%)
Comprehensive income attributable to:Owner of the parent	359,066	8,448,923	(96%)
Non-controlling interest	201,092	543,250	(63%)

Consolidated sales revenue declined in 2015, due to sales drop of main business on market factor and continuing business adjustment of subsidiary Tecom. The acquisition of Italian firm Motovario in mid-October, however, will boost sales revenue. Operating profit slipped 14%, due to drop in consolidated sales revenue. Other comprehensive income shrank on drop in the unrealized gain on valuation, due to drop in prices of shares of Taiwan High-Speed Rail and momo-com Inc., listed as available-for-sale. Overall speaking, current consolidated net profit plunged 96%.

B. Outline of 2016 Business Plan

Looking ahead, the Cabinet-level Directorate General of Budget, Accounting, and Statistics predicts that Taiwan's economic growth will reach 1.47% in 2016, slightly higher than the 2015 level. The economic outlook, however, is shrouded in uncertainty, due to a number of adverse factors, including shrinking public outlays, low-lying prices of crude oil and other raw materials, and continuing slowdown of the Chinese economy. To cope with the challenges, as well as potential opportunities, of the uncertainty, the company will continue developing new products, new applications, and new markets, adhering to the concept of "energy conservation, carbon abatement, intelligence, and automation."

For domestic sales, induced by the subsidy of the Ministry of Economic Affairs for high-efficiency motors, the company will consolidate its core business by marketing intelligent high-performance motors. In addition, the company will deploy in the markets of smart micro grid and cloud-end smart air conditioner, tapping energy-conservation and the Internet-of-things businesses, so as to expand market share.

For exports, newly developed high-performance motor IE3+, medium-voltage inverter, and new servo products will hit the market successively, boosting overseas sales. Overseas sales will also benefit from moderate economic recovery in North America, the company's effort to solicit new OEM customers, and other business opportunities. Business in the European market will benefit from the effect of integration resulting from the newly acquired company. In addition, the company will step up marketing and investments in emerging markets, in line with its globalization strategy.

In sum, to cope with changes in domestic and external economies, the company will continue the quest for revenue and profit growth, the materialization of the norms for corporate governance, and fulfillment of corporate social responsibility. In 2015, the company's effort was acknowledged by a number of awards, including top 5% in the evaluation of corporate governance, the corporate citizen award for the fourth year running granted by Commonwealth magazine, and the gold award for the traditional manufacturing industry of the "Taiwan Corporate Sustainability Awards. In line with the concept of management of integrity and the vision of energy conservation, automation, and intelligence, the company will dedicate to the development of smart environment-friendly products, so as to create maximum benefits for shareholders and give payback to shareholders and investing public, in return to their long-term support to and patronage of the company.

Chairman Sophia

TECO Electric & Machinery Co., Ltd