

## I. Letter to Shareholders



Dear Shareholders,

The global economy was confronted with multiple challenges in 2022. It was originally expected to enter the post-epidemic period and will usher in the global economic recovery. However, as the outbreak of the Russia-Ukraine war sparked price hikes of energy, food, and raw materials and impact of China's rigorous lockdown in Q2 on the global supply chain and subsequent rampant infections triggered by abrupt lifting of restrictive measures dampened production and consumption, multiple adverse factors which fueled inflation, leading to accelerated interest-rate hike in the U.S. and Europe, sharp currency devaluation against the greenback, global credit tightening, and financial market fluctuation.

As a critical component of the global supply chain, Taiwan was faced with demand decline in Europe, the U.S., and China under the global inflationary pressure, leading to economic downturn in Q4, following growth in the first three quarters. Meanwhile soaring energy prices also sparked investments and demands for energy conservation and green energy in both public and private sectors. With whole-year growth rate reaching 2.43%, Taiwan was still among best performing economies in the world.

### A. Review of 2022 business performance

#### a. Results from implementing 2022 strategic development plan.

The company focuses on the three major fields of electromechanical system, energy, and air conditioning:

1. For “Green Mechatronics”, the company possesses the two core capabilities of energy-conservation renovation and EV’s powertrain, enabling development of high-performance products and solutions for industrial and electric vehicle; 2. For “Intelligence Energy”, the company focuses on renewable energy and IDC(Internet Data Center) engineering project; 3. For “Air & Intelligent Life”, the company's products boasts Internet access, monitoring software, and energy saving.

In 2022, the company reaped abundant results in green-energy engineering projects, including turnkey engineering for Hailong onshore step-down substations, boosting the company champion of onshore substation engineering for offshore wind-power. In “Intelligence Energy”, the company focused on renewable energy-related engineering, for which it has secured orders worth over NT\$11 billion, as well as orders for various IDC engineering projects, plus plan to tap turnkey IDC (General Contract) engineering market in Southeast Asia. In solar power, TECO has built its own facilities totaling 10.4 MW in capacity, with total orders exceeding 15 MW in scale. In energy storage, in addition to materialization of Power conditioning system (PCS) indigenous production, backed by its abundant track record for energy-storage systems and technological team for EMS integration, it has obtained orders for constructing the energy storage facilities of state-run TaiPower Company and private sector, with the scale of orders having topped 130 MW.

In EV’s powertrain, besides the installation of dedicated motor production lines in Taiwan and Wuxi, China, a new Indian factory is scheduled for completion in Q2, 2023 and enters into trial production. Meanwhile after the passage of whole-vehicle test, TPower + 250 kW powertrain is slated for mass production in 2023. Under the "e-bus DMIT pilot plan" of the Ministry of Transportation and Communications, the powertrain will be adopted by major Taiwanese e-bus makers. Several domestic automakers have installed TECO's TPower 130 kW powertrain in their logistics e-trucks, scheduled for mass production in Q2, 2023, following completion of prototype and performance test. The company has also set sights on growing e-commercial vehicle markets in North America and India.

As for digital transformation, backed by the foundation of group's digital warehousing, the company has been promoting factory’s war room, for visualized monitoring and management of changes in such indicators as production costs, delivery, and inventory, in addition of integration of operation data of affiliates worldwide for firm grip on their key operational information and rapid response to market changes, thereby forging a resilient management strength. Meanwhile, for information security, introduce such mechanisms as intrusion prevention system (IPS), malicious-email screening, and data backup, so as to minimize management risk.

## b.R&amp;D achievements and cutting-edge product development

In 2022, the company reaped abundant R&D results, as evidenced by 12 items winning 31st Taiwan Excellence Awards, including silver award for "Intelligent Mobile Collaborative Robot". The company successfully developed cutting-edge products in the fields of energy conservation, emission reduction, intelligence and automation, including "high-power motor-gearbox integrated powertrain" for application in e-bus and e-truck; "large bipolar rigid-axis inverter duty smart motor", "IE5 ultra-high efficiency energy-saving permanent-magnet motor", "ultra-high performance smart drive control system for cooling tower", "high power-density energy-saving matrix inverter", and "smart logistics solution: smart precision positioning and navigational system for forklift" for industrial application, etc.

## c.2022 financial status, implementation of business plan and profit analysis

## 1.Consolidated Financial Statements

Unit: NT\$1,000

	2022	2021	Growth rate
Sales Revenue	58,315,216	51,248,387	13.8%
Operating Profit	5,073,654	3,760,718	34.9%
Profit for the period	3,992,010	5,502,191	-27.4%

The company's Sales revenue grew 13.8% in 2022, thanks mainly to the growth of electromechanical products and engineering projects. Electromechanical products scored 14.7% growth, due to sharp sales growth of affiliates, resulting from recovering demands in North America and Europe and booming business of high-efficiency energy-saving motors, inverters, and energy-saving systems, sparked by carbon neutrality and green energy policy of various governments. Meanwhile, revenue of engineering projects and equipment jumped 43.1%, due to successive execution of various engineering projects related to renewable energy, energy storage, and IDC. Revenue of home appliances and air conditioners remained flat for the second year in a row.

Operating profit rose 34.9%, thanks mainly to the contribution of electromechanical products, whose prices were hiked, price drop of commodity and NT dollar's depreciation against the U.S. dollar in the second half, and result of cost-reduction effort, and effective control of operating expenses.

Profit for the period dropped 27.4%, due mainly to valuation change of financial assets in Non-operating income and expenses.

## 2.Parent Company Only

Unit: NT\$1,000

	2022	2021	Growth rate
Sales Revenue	27,229,403	23,258,398	17.1%
Operating Profit	1,845,542	1,357,228	36.0%
Net Income	3,457,667	5,013,134	-31.0%

Sales revenue upped 17.1%, as revenue from electromechanical products advanced 12%, thanks to shipment to North America and Europe expanded in both volume and value, and revenue from engineering projects revenue soared 49%, thanks to successive execution of engineering projects related to renewable energy, energy storage, and IDC.

Operating profit leapt 36%, thanks mainly to price hikes of electromechanical products, and price drop of commodity and NT dollar's depreciation in the second half, plus higher production efficiency resulting from automated and smart production, adjustment of product mix, cost-cutting measures boosting gross margin, and significant effect of operating-expense control during the pandemic.

Profit for the year declined 31%, mainly thanks to valuation change of financial assets in Non-operating income and expenses and valuation loss of financial assets held by subsidiaries under equity method.

## d.Financial strategy and results

With main businesses focusing on R&D, production, and sales of industrial products, the company belongs to mature industry and thus has embraced the principle of stable operation in financial strategy for a long time. Based on general consideration of business plan, capital expenditure, need of working capital, and returns for shareholders, the company plans cash flow in a precision manner and proper financial structure every year.

Table 1

Year	Profit for the period (NT\$mm)	Net cash flow adequacy ratio %	Current ratio %	Debt ratio %
2020	3,811	134.73	233.41	36.01
2021	5,502	126.64	213.81	29.98
2022	3,992	117.78	222.11	31.82

Thanks to its stable cash flows from operating activities, as well as stable and sustainable operating strategy, Taiwan Ratings Corporation granted the company “twA” (Stable) credit rating starting 2012, enabling the company to secure financing at lower interest rates, slashing financing cost. Taiwan Rating has upgraded the credit rating to “twA+” (Stable) since 2015, highlighting the company business credit standing and increasing its bargain power and flexibility of funding raising.

## B. Summary of 2023 business plan

Given the adverse factors of global inflation, slackening demands, and inventory adjustment for the post-pandemic global economy, the Cabinet-level Directorate General of Budget, Accounting, and Statistics predicts that Taiwan's economy will grow 2.12% in 2023. To maintain revenue growth, the company will take advantage of demands concerning energy conservation and carbon abatement and tap new business opportunities related to energy transformation and electrification.

Key points of 2023 operating strategy and business growth plan

### a. Growth plan of existing business

In Green Mechatronic Solution, sales of inverters and energy conservation solutions are expected to benefit from production of shale-oil, electrification of conveyance equipment and waste-heat recovery, sparked by various countries' carbon neutrality policy, including the U.S., which has pledged to reach the goal by 2050. Taiwan also aims to attain net zero emission by 2050, a goal expected to spur industrial investments in energy conservation, energy storage, integrated smart system. With motor being an energy-intensive equipment, TECO has been offering end customers with overall energy-saving and carbon-abatement renovation plan and feasible solutions, an effort which has made major inroads into the Taiwanese and Chinese markets, especially in high carbon-emission fields, especially in iron & steel, papermaking and petrochemical industry. In the U.S. market, in addition to electrification of step-up stations for oil & gas pipelines and cogeneration systems for iron & steel and petrochemical industry, the company has also a firm grip on business opportunities related to E-Skid, green transportation, and hydrogen energy to boost revenue.

In Intelligence Energy, given popularity of 5G/big data/cloud-end services, TECO, backed by its outstanding technology, expects to continue enjoying robust growth in IDC engineering business, both on the domestic front and abroad, aiming to double orders from new customers/markets in 2023, on top of its total order intake exceeding 170 MW. In 2023, the company plans to further tap engineering opportunities of offshore substations for offshore wind farm, as well as related demands for gas insulated switchgear(GIS), spare generators, and offshore and onshore "E-house" solutions, the latest in collaboration with ABB. The company also expects to score robust growth in order intake and revenue related to renewable energy and energy storage, as the Taiwanese aims to boost the share of renewable energy in power generation to 20% by 2025, up from 2022's 8.6%, the latter representing 36% growth.

Air and Intelligent Life business group will continue focusing on provision of full-field smart air conditioning and energy management, contributing to the materialization of new life of ESG carbon-neutrality, and rollout of variable-frequency freezers for use by food factory and home-delivery low-temperature logistics plants. In technology strategy, it will provide AI freezing air-conditioning energy-conserving system, upgrade food safety and flexible cooling-power maneuvering with refrigerant quantum technology, and roll out changeable multi-temperature layer refrigerated chamber, in order to bolster revenue growth.

### b. Strategic development plan

In line with its vision of "energy conservation, emission reduction, intelligence, and automation," the company's development strategy will center on the three major axes of green-energy creation and storage, foray into potential markets connected with the government's New Southbound Policy, and establishment

of North American and Indian supply chains, to inject fresh momentum for corporate growth.

1. Energy creation and storage: Develop technology for producing core equipment of PV power devices and energy storage facilities, as a prelude to solar-plus-storage, then combine of energy management system and central-control information exchange platform, eventually develop into a comprehensive virtual green-power operator.
2. New southbound market: Focus on promotion of optimized product mix covering power, mining, e-vehicle, and HVAC, in addition to deployment in local sales services and supply chain.
3. Establishment of North American and Indian supply chain: Plan to set up motor factories in India and Mexico in 2023, to augment delivery and cost competitiveness.

Meanwhile in strategic development of technology, the company plans to develop PCS (power conditioning system) and high-voltage charging technology, as an offshoot of medium-voltage inverter, in 2023.

In terms of digital transformation, to intensify global integrated operation, it plans to introduce TOS/EQS operating logistics automation system and cloud-end digital collaboration system, for applications in project team collaboration, corporate information entry, and mobile offices in stages to augment productivity. Meanwhile, to intensify innovative AI data applications in design, quotation, and supply chain, to quicken production-sales linkage, shorten cycle time, and raise delivery punctuality.

#### c. Sustainable development

The company has been recognized by international sustainability evaluation institutions in three consecutive years and included in DJSI Emerging Markets Index and S&P Global Sustainability Yearbook, thanks to its outstanding performance in innovative management, talent cultivation, and supply chain management, the only enterprise included in the Electrical Components & Equipment category of DJSI Emerging Markets Index.

Under the pledge of "10-year 50% emission reduction," TECO has aimed to halve emission by 2030, according to which it will kick off global production base emission reduction plan this year, including inauguration of expanding PV power devices at its factory premises worldwide, so as to enhance the group's share of renewable-energy consumption, on top of establishment of sustainable supply chain, via assistance for smart and medium enterprises to conduct greenhouse-gas inventory and emission reduction. The company will launch internal carbon price system this year, in the hope of spurring employees to actively carry out carbon abatement plan and imprint net zero emission concept in their minds deeply. In social engagement, to have the concept of energy conservation and emission reduction to take root in our society, the company holds "Green Innovation Competition" for high and elementary school students, in the hope of implanting earth sustainability idea among them. The company has also organized International Competition for Net Zero Emission Technology" for college students, encouraging engagement in R&D on emission reduction technology and passing on the mission of net zero emission sustainability. Moreover, the company holds "TECO Award" for outstanding Taiwan figures in science/technology and humanity, for their contribution to build a progressive society with equal emphasis on both fields.

In conclusion, the company will continue to uphold the concept of sustainable operations and implement corporate governance standards to create a sustainable working environment for employees, provide services in line with ESG value to customers, and bring the best interests to shareholders

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