

TECO Electric & Machinery Co., Ltd.
Procedures for Endorsement and Guarantee

(Summary Translation) This English version is a translation of the Chinese version.
If there is any inconsistency or discrepancy between the Chinese and English versions,
the Chinese version shall prevail for all intents and purposes.

Article 1

These Procedures are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”, in order to intensify the management of endorsement and guarantee, lower management risk, and uphold shareholders’ interest,

Article 2

Endorsement and Guarantee refer to the following items:

- A. Financing endorsements/guarantees, including:
 - 1. Bill discount financing.;
 - 2. Endorsement or guarantee made to meet the financing needs of another company;
 - 3. Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
- B. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.
- C. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs.

Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these procedures

Article 3

Recipients of Endorsement and Guarantee

- A. The company can provide endorsement or guarantee to the following companies:
 - 1. Business partners;
 - 2. Subsidiaries in which the Company directly owns holds more than 50% of its common shares;
 - 3. Companies in which the Company and its subsidiaries together own more than 50% its common share;

4. Parent company owning more than 50% of the company's common shares, either directly or indirectly via its subsidiaries.
- B. Provision of endorsement and guarantee is allowed between subsidiaries in which the Company owns directly and indirectly over 90% of its voting right, within the limit of 10% of the company's book value. The limit, however, is not applicable to companies 100% owned by the company, directly and indirectly.
- C. The company can provide endorsement and guarantee, free from the restriction of previous two items, to peers for undertaking engineering projects, to co-developers according to the obligation of mutual guarantee included in the contract, or to invested companies, along with all shareholders, according to the ratio of its shareholding.
- D. The aforementioned shareholding refers to shares owned by the Company directly or indirectly via its 100%-owned subsidiaries.

Article 4

Quota for endorsement and guarantee

- A. The total value of endorsement and guarantee provided by the company can not exceed 60% of the company's book value in the most recent financial statement and the value of endorsement and guarantee for a single enterprise can not exceed 20% of the company's book value in the most recent financial statement.
- B. Total amount of endorsement and guarantee extended by the company and its subsidiaries can not exceed 80% of the company's book value in the latest financial statement. The limit is set at 30% for a single enterprise.
- C. In case the total amount of endorsement and guarantee extended by the company and its subsidiaries exceeds 50% of the company's book value, explanation of its necessity and justification should be made in shareholders' meeting.

When the aforementioned limitations and actual guarantees are denominated in different currencies, the exchange rate shall be based on the sell rate at the Taipei Foreign Exchange Market on the date of approval by the Board of Directors.

Article 5

Deadline and Contents for Mandatory Information Publication

- A. In addition to posting the previous month's outstanding amount of endorsement and guarantee by the Company and its subsidiaries by the 10th day of each month, the Company shall also post information

on the outstanding amount of endorsement and guarantee within two days on the Market Observation Post System whenever it meets one of the following standards , [the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value.](#)

1. The total amount of endorsement and guarantee from the Company and its subsidiaries exceeds 50% of the Company's book value in its most recent financial statement;
 2. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds 20% of the Company's book value in its most recent financial statement;
 3. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds NT\$10 million, and the value of endorsement and guarantee, long-term investment and loans for the enterprise combined exceeds 30% of the Company's book value in its most recent financial statement.
 4. New application for endorsement and guarantee by the Company or its subsidiaries exceeds NT\$30 million in value and 5% of the company's book value in the most recent financial statement.
- B. The Company shall make mandatory posting of information under the aforementioned situations for its subsidiaries which are not domestic companies with public offering.
- C. In accordance with the financial accounting standard No. 9, the company shall make proper disclosure in its financial report information on the evaluation of or provision for the possible loss from endorsement and guarantee, in addition to providing the information to certified public accountants for necessary auditing.

Article 6

Guidelines for Endorsement and Guarantee

- A. The Company's internal auditors should check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing supervisors in written form, the discovery of major violations.
- B. The Board of Directors' approval is necessary for the Company to overcome the limitations set by the procedures in providing endorsement and guarantee for cases arising from business needs

and meeting the conditions set by the procedures, with half of the Board of Directors agreeing to provide personal guarantee for the possible loss from the exceptional treatment. The Board of Directors shall also revise the procedures before sending the revision to Shareholders' Meeting for affirmation. If the Shareholders' Meeting disapproves such cases, the Company shall formulate plans to eradicate the excessive portion by a specific deadline. If the company has instituted independent directors, the opinions of independent directors should be taken into account by the Board of Directors when discussing the cases, and their agreement / opposition and reasoning, shall be included in the record of the Board of Directors.

- C. If qualified endorsement recipients meeting the conditions set in Article 4 become disqualified later on or the value of endorsement and guarantee exceeds the limitations due to changes in the calculation basis, the endorsement and guarantee for the recipients or the excessive amount should be erased entirely upon the contract expiration or by a deadline set by an improvement plan, which shall be sent to supervisors, complete the improvement plan on schedule, and report to the Board of Directors and reported to the Board of Directors.

Article 7

Handling Procedures for Endorsement and Guarantee

- A. Recipients of endorsement and guarantee shall provide all financial data when applying with the Company's financial unit for utilizing the endorsement and guarantee within the set quota, upon which the financial unit should evaluate the application and carry out credit investigation. The evaluation shall cover the necessity and rationality of the application. For endorsement and guarantee deriving from business dealings, the evaluation shall cover the proportion between endorsement/guarantee value and the scale of business dealing, effect on the company's operating risk, financial status, and shareholders' interest, as well as obtaining of collateral and its value.
- B. The Company's registered seals with the Ministry of Economic Affairs and dedicated seals for issuing checks shall be used in providing endorsement and guarantee to outside parties, which shall be kept by the Head of the headquarters in charge of finance and can only be used with the approval of the Chairman.

- C. Endorsement and guarantee undertaken by the Company shall be put on record, including the objects of guarantee, the name of enterprise receiving endorsement or guarantee, the result of risk evaluation, the value of endorsement and guarantee, contents of collateral, and conditions and date for the removal of the liabilities for endorsement and guarantee.
- D. **The** Company shall make proper disclosure in its financial report information on the evaluation or provision for the possible loss from endorsement and guarantee, in addition to providing the information to certified public accountants for necessary auditing and producing adequate auditing report.
- E. If the Company or its subsidiaries' endorsement parties are the subsidiaries which net value are lower than one-half of paid-in capital, it should be ruled by guidelines of Article 6, **for shares of subsidiaries without par value or with par value other than NT\$10, paid-in capital should be calculated by adding up share capital and capital surplus - additional paid-in capital.**

Article 8

The Board of Directors authorizes the Chairman to make decision on endorsement and guarantee within the quota set in Article 4, for which the unit in charge shall submit guarantee application, along with risk evaluation, to the Chairman for inspection and stamping of seal or issuance of negotiable instruments, before sending it to the Board of Directors for affirmation. The provision of guarantee exceeding the set quota needs the approval of the Board of Directors or, in cases of urgency, the approval of the standing Board of Directors before sending it to the Board of Directors for affirmation later on. In both cases, the manner of handling and related affairs shall be reported on the Shareholders' Meeting.

Approval of the company's board of directors is necessary for the extension of endorsement and guarantee by subsidiaries, in which the company owns, directly and indirectly, more than 90% of shares with voting right, according to item 2, article 3. The requirement, however, is not applicable to the extension of endorsement and guarantee among subsidiaries in which the company owns 100% of shares with voting right, directly and indirectly.

Article 9

Control Procedure for the Provision of Endorsement and Guarantee by subsidiaries

- A. The company's subsidiaries shall also formulate Procedures for Endorsement and Guarantee, on the basis of the measures, but the calculation of quota is based on the book value of subsidiaries.
- B. Subsidiaries shall compile report on details of the previous month's provision of endorsement and guarantee by the 10th day of each month and submit to the Company for review.
- C. The subsidiaries' internal auditors shall check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit in written form the discovery of major violations. The Company shall also submit the information in written form to supervisors.
- D. When undertaking auditing works at subsidiaries according to yearly auditing plan, the Company's auditors shall understand their execution on the operating procedures for endorsement and guarantee and carry out reviews on the improvement on mistakes or irregularities, in addition to producing improvement reports and submit to the Chairman for review.

Article 10

The company will not accept request for the issuance of negotiable instruments in the provision of guarantee to others, except cases with special reasons which are approved by the Board of Directors. The recipients, though, have to deposit promissory notes bearing similar value with the company, for use of reciprocal guarantee.

The company shall produce formal vouchers for the aforementioned negotiable instruments and register them on books under the items of "withdrawal of guarantee-oriented negotiable instruments" and "deposit of guarantee-oriented negotiable instruments."

Article 11

When banks request endorsement of new promissory notes in exchange for the return of old promissory notes for the extension of endorsement, the control unit shall keep tracking record and retrieve the old promissory notes as soon as possible.

Article 12

Managers and employees responsible for handling the procedures will be penalized if procedures or related matters are violated, according to the employee working rules.

Article 13

After the Board of Directors approval, the procedures shall be sent to supervisors for reference and submitted to the Shareholders' Meeting for approval before being put into practice. Revision of the procedures shall follow the similar process. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.

Article 14

The Procedures were approved by the Shareholders' Meeting on June 6, 2003.

The first amendment was implemented on Jun. 19, 2009.

The second amendment was implemented on Jun. 18, 2010.

[The third amendment shall be implemented on June 21, 2013.](#)