

# **7. Review of Financial Conditions, Financial Performance, and Risk Management**

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## 7.1 Analysis of Financial Status

### 7.1.1 2023 vs. 2022 financial analysis

Unit : NT\$ thousands

Item	Year	2023.12.31	2022.12.31	Difference	
				Amount	%
Current assets		361,461,400	342,985,667	18,475,733	5.39
Net property, plant and equipment		46,598,037	51,515,209	(4,917,172)	(9.55)
Intangible assets		2,459,680	2,149,731	309,949	14.42
Other assets		41,871,659	36,257,167	5,614,492	15.49
Total assets		452,390,776	432,907,774	19,483,002	4.50
Current liabilities		288,251,757	286,725,416	1,526,341	0.53
Non-current liabilities		35,375,847	27,529,802	7,846,045	28.50
Total liabilities		323,627,604	314,255,218	9,372,386	2.98
Common stock		28,997,661	29,016,021	(18,360)	(0.06)
Capital surplus		37,389,984	35,050,440	2,339,544	6.67
Retained earnings		40,680,803	36,357,506	4,323,297	11.89
Other equity		(1,934,548)	(2,550,702)	616,154	(24.16)
Treasury stock		(909,789)	(1,491,116)	581,327	(38.99)
Equity attributable to owners of the company		104,224,111	96,382,149	7,841,962	8.14
Non-controlling interests		24,539,061	22,270,407	2,268,654	10.19
Total equity		128,763,172	118,652,556	10,110,616	8.52

### 7.1.2 Analysis for asset, liability and stockholders' equity balance change more than 20%, and the changed amount are more than NT\$10,000K

- (1) The increase in non-current liabilities was mainly due to increase in long-term loans.
- (2) The increase in other equity was mainly due to the increase in unrealized gains from financial assets measured at fair value through other comprehensive income.
- (3) The increase in treasury shares was mainly due to the increase in treasury share transferred to employees.

## 7.2 Analysis of Financial Performance

### 7.2.1 2023 vs. 2022 operating result analysis

Unit : NT\$ thousands

Item	Year	2023	2022	Increasing (decreasing) amount	Change percentage (%)
Cost of sales	798,074,134	914,890,464	(116,816,330)	(12.77)	
Gross profit	68,982,873	69,728,692	(745,819)	(1.07)	
Operating expenses	41,592,616	42,256,548	(663,932)	(1.57)	
Operating income	27,390,257	27,472,144	(81,887)	(0.30)	
Non-operating income and expenses	(3,069,563)	(2,761,230)	(308,333)	11.17	
Profit before tax	24,320,694	24,710,914	(390,220)	(1.58)	
Income tax expenses	6,055,409	5,693,367	362,042	6.36	
Net profit	18,265,285	19,017,547	(752,262)	(3.96)	
Other comprehensive income, net of tax	736,460	7,756,858	(7,020,398)	(90.51)	
Total comprehensive income	19,001,745	26,774,405	(7,772,660)	(29.03)	
Net profit attributable to owners of the Company	11,471,616	11,162,451	309,165	2.77	
Total comprehensive income attributable to owners of the Company	12,138,989	18,022,661	(5,883,672)	(32.65)	

### 7.2.2 Analysis for change item amount change more than 20%

- (1) Decrease in other comprehensive income, net of tax: The decrease was mainly due to the decrease of exchange differences on translation of financial statements.
- (2) Decrease in total comprehensive income and total comprehensive income attributable to owners of the Company: The decrease was mainly due to the decrease of exchange differences on translation of financial statements.

### 7.3 Cash flow

#### Change in consolidated cash flow in 2023:

Unit:NT\$ thousands

Cash beginning balance	Cash flow from operating activities	Cash flow (used in) investing & financing activities	Cash ending balance	Plan for cash ending balance shortage	
				Investment plan	Financing plan
66,337,316	48,219,022	(38,515,427)	76,040,911	-	-

#### 7.3.1 Analysis of cash flow in 2022

- (1) Operating Activities: Cash flow-in mainly due to continuous cash flow generated from operating profitability in 2023.
- (2) Investing Activities: Cash flow-out mainly caused by the increase in fix asset acquisition and other assets-noncurrent.
- (3) Financing Activities: Cash flow-out mainly caused by the repayments of shortterm loans.

#### 7.3.2 Liquidity improvement plan

The Company showed no signs of liquidity deficit.

#### 7.3.3 Analysis of cash liquidity in the coming year

To accommodate the financial market fluctuation and the funding needs for operation and investments, Company manage prudently the cash and other financial tools with the principle of maintaining the liquidity and safety.

## 7.4 Major Capital Expenditures and Impact on Financial and Business

### 7.4.1 Major Capital Expenditure and Sources of Funding

Unit : NT\$ thousands

Plan	Actual or planned source of capital	Total amount as of Dec 31, 2023	Status of Actual Use of Capital	
			2022	2023
Acquisition of property, plant and equipment	Cash flow generated from operation	26,570,653	13,609,393	12,961,260

### 7.4.2 Expected Future Benefits

The investment in capital expenditure was for business growth as well as to expand capacity and to enhance productivity.

### 7.5 Investment Policies

The investments the company made were for long-term strategic plans. In 2023, the investment income recognized under equity method was NT\$764,149 thousands. The company will continue making long-term strategic investments through prudent assessment in order to reinforce its competitiveness.

### 7.6 Risk Management

#### 7.6.1 How does interest rate, exchange rate, or inflation influence Company's profit and loss, and how to manage such risks?

Items	2022 (in thousand NT dollars)	2023 (in thousand NT dollars)
Interest Income	1,989,775	2,519,837
Interest Expense	5,988,155	8,757,247
Exchange loss/gain	405,296	1,098,797

By the end of 2023, the cash and short-term investment balance of the Company totaled about NT\$79.6 billion with short term borrowings about NT\$95.9 billion. We reinvested the surplus cash after considerable evaluation of risks involved, while watching closely the change of bank lending rates on a regular basis.

Around 96% of the Company's revenue is from exports and most is in U.S. dollars, and most of the Company's material purchases use U.S. dollars as well. Therefore, the majority of Company's foreign currency operating exposure can be mutually offset. In addition, the Company has used regular hedge activities to manage its foreign exchange risk, under proper risk management guidelines. Due to the fluctuation of the foreign exchange rate and hedging activities, the Company delivered a foreign exchange gain of approximately NT\$ 1,099 million last year.

There was no major inflation around the world during the 2023 and the Company has not experienced much in this regard.

The action plan to cope with impacts from interest rates, exchange rates, and inflation is:

- (1) Mutually offset foreign assets and liabilities to mitigate the exposure.
- (2) Well plan and arrange the funding in advance based on the company's business projection and cash flow forecast.
- (3) Apply suitable financial instruments, such as derivatives, to hedge the risks under proper guidelines.

### **7.6.2 What is the Company's policy to make high risk or leveraged investment, make a loan, make a guarantee or buy derivatives? And what are the reasons of gain or loss and what are the future plans?**

The Company has not performed any high-risk or highly leveraged investments in the past year. And the Company has not loaned funds and endorsed or guaranteed for any parties other than the subsidiaries which were restricted by Company's internal policies, and no loss has incurred. The Company performed derivatives transactions under the related guidelines of the Company, and the transactions were within our business scope.

Looking ahead, the Company will adhere to its existing principles, and not make high-risk and highly leveraged investments. We will only loan to other parties, endorse and guarantee for other parties under the Company's applicable regulations. The derivatives transactions will be performed strictly in compliance with the Derivatives Transaction Procedures set forth by the Company.

### **7.6.3 Future R&D Development Plan and Investment**

All R&D plans scheduled for 2023 have been implemented during volume production activities or have been presented to customers for verification following internal testing, in preparation for potential future use. We remain dedicated to investing in R&D for 2024 to meet the demands of our expanding business. It is estimated that the R&D expense-to-revenue ratio for 2024 will be approximately 2.7%.

### **7.6.4 Effects of and Responsive actions to Changes in Policies and Regulations Relating to Finance and Operation**

The Company paid close attention on any change in policies and regulations domestically or overseas that may affect operation and finance. Till the end of 2023, there was no such significant changes in policies and regulations which would bring negative influence.

### **7.6.5 Effects of and Responsive actions to Changes in Technology and the Industry Relating to Finance and Operation**

There was no significant impact on finance and operation in the Company relating to recent technological and industrial changes. However, in response to the importance of information security and the increasing information security risk, the Company had taken out insurance for information security in order to cover the possible losses associated with information security incidents.

### **7.6.6 Effects of and Responsive actions to Changes in Corporate Image Change on Our Risk Management**

The most important factor of the Company's image is its integrity. Integrity is the fundamental principal in both our core values and regulations, and has obtained recognition from the general public. Adhering to the integrity principle is beneficial to our risk management.

### **7.6.7 Expected benefits, risks and responsive measures of planned mergers or acquisitions**

The Company selected appropriate target companies for merger and acquisition which highly aligned with future business development. By doing so the Company obtained effective risk control against business integration, investment results, financial performance and so on.

### **7.6.8 Expected Benefits and Risks Related to Plant Facility Expansions**

We have established global operations and strategically located our production services to fulfill the diverse needs of our customers. Alongside our operations in China, Wistron is dedicated to expanding our manufacturing capacities in Taiwan, Vietnam, Malaysia, Mexico, and the Czech Republic. This approach allows Wistron to leverage the unique strengths of each country, enabling us to offer customized products and services tailored to the specific requirements of our customers.

However, it's important to note that establishing new operations will incur increased manufacturing overhead, including costs associated with equipment procurement, staff recruitment, and employee training. This could potentially have a negative financial impact if future income fails to cover these additional expenses. To address this risk, Wistron is committed to enhancing our manufacturing processes, improving product quality, optimizing resource utilization, and enhancing customer services. Additionally, we are strengthening collaborations with customers to capitalize on business opportunities and enhance capacity utilization. These efforts aim to bolster revenue generation and ensure the sustainability of our expanded operations.

### **7.6.9 Supply and Distribution Concentration**

Comparing to the peers, there are no concentration risk on the suppliers and customers except 100% owned subsidiaries.

### **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 shareholdings of the Company's directors have been stable during the last few years, and there have been no major transfers or swaps of shares.

### **7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights**

The company has a very healthy shareholder's structure: 28.25% stock shares are held by foreign investors, 25.21% by domestic institutional investors, 0.90% by treasury shares. They possess around 54.36% in the aggregate. In addition, the healthy shareholding structure of the Company lowers the risk of key management changes. We will do our best effort to improve corporate management to reward our shareholders with better performance. This is the key to our company's sustained development.

**7.6.12 Does the Company or its directors, supervisors, general manager, key managers, shareholders with more than 10% shareholding or subsidiaries have any pending lawsuits or disputes which might significantly affect the shareholders' equity or share prices? If yes, what are the facts, claims, filing date, major parties and status upon publishing of this Report:**

Pending lawsuits or disputes of the Company's Director, Wistron NeWeb Corporation (WNC):

1. In March 2022, WNC filed a civil lawsuit with the United States District Court for the Southern District of New York against Genesis Networks Telecom Services, LLC (hereinafter referred to as "Genesis") and its affiliated company GNET, asking for repayment of accounts payable and interest as well as any legal expenses pertaining to the lawsuit. In July 2023, the aforementioned court passed a summary judgement that the defendant is responsible for paying the entirety of the accounts payable owed to WNC, thus WNC successfully won this lawsuit.
2. On November 25, 2021, WNC purchased equipment from YU-CHEN SYSTEM TECHNOLOGY CORP. (hereinafter referred to as "YCS"). Due to the fact that the purchased equipment was unable to pass acceptance checks, after several rounds of negotiations, WNC sent a legal attest letter to YCS on February 23, 2023 requesting contract rescission and restoration to status quo ante. WNC filed a lawsuit with the Taiwan Hsinchu District Court in May 2023, and at present the case is under review by the court. The value of the claim in the lawsuit is estimated to be between NTD 7 and 10 million. As the monetary value involved in the aforementioned lawsuit is within manageable range and not considered significant for WNC, the lawsuit will not have any major impact on WNC's finances or operations regardless of its outcome.

In conclusion, although Wistron Corporation, a corporate shareholder with greater than 10% shareholdings of WNC, was involved in the aforementioned lawsuits, WNC was not held liable in either of the lawsuits, thus the lawsuits will not have any major impact on WNC's finances and operations regardless of their outcome.

**7.6.13 Information Security**

**A. Information Security Policy**

In implementing ISO 27001 information security management, Wistron focuses on regulation compliance, standardize processes, employees training and deploy security technology.

It strengthens the security on data, information systems, and network. Moreover, it can protect critical business processes and systems from human-induced risks such as theft, improper use, leakage, alteration or destruction which caused by negligence, deliberate or natural disasters.

With this, we can ensure the commitment to shareholders/customers and company's business continuity.

**B. Effective Functioning and Continuous Improvement Information Security Management**

In order to prove security management effectiveness, we certified ISO 27001 ISMS (Information Security Management System) and apply continuous improvement plan. The management mechanism includes:

- (1) Develop related standards and SOP to enable the operations of the security management;
- (2) Apply security technologies to identify, protect, detect, respond and recover timely and effectively;
- (3) Establish a contingency and recovery operation process for the security incidents, so as to quickly isolate and eliminate threats and minimize the impact;
- (4) Rehearse critical application system disaster recovery plan to verify the effectiveness;
- (5) Enhance information security awareness and comprehensive of employee continuously by social engineering simulation and on-line training;
- (6) Perform internal and external audits periodically.

**C. The Information Security and Network Risk Assessment**

We refer to internal and external security issues, security incidents and audit results to perform risk assessment regularly, and come out improvement or countermeasure plan to eliminate or reduce risks.

**D. The Impact and Response for Major Information Security Incidents**

No major security incidents and no information or data breaches that involving customers' personally identifiable information, affecting customers, relating to fines/penalties paid in 2023.

Because of the ever-changing threats and attack techniques, we will pay attention on security information technology and apply proper, timely defense or solution, to ensure management with a consistently effective approach to dealing with information security weaknesses and events, ensure the resilience of information services, and eliminate the business impact.

**7.6.14 Emerging Risks**

**A. Policy Risk**

In 2024, it will be a year of global elections, with approximately 70 elections scheduled across 65 countries, including national elections in 8 countries, involving a total population of over 2.9 billion. Especially, the United States presidential election at the end of the year attracts the most attention worldwide, and the election result could potentially bring significant changes to the global economy. Through more aggressive tariffs and protectionist policies, global supply chains are likely to undergo further restructuring, leading to substantial increases in capital expenditures and production costs. Companies may pass on these additional costs to consumers, potentially triggering inflationary pressures once again, causing an insurmountable impact on the economic situation under the current high-interest-rate environment.

To cope with the potential policy changes, Wistron has actively adopted a globalization strategy to build up a global footprint with the goal of risk diversification. Currently, in addition to Taiwan and mainland China, our main manufacturing bases include Vietnam and Malaysia in Southeast Asia, the Czech Republic in Eastern Europe, and Mexico in North America. We have also assessed the possibility of establishing production facilities in the United States. We will continue to evaluate

the potential impact of internal and external factors, adjust the worldwide capacities as necessary based on customer demand, and expedite the development of automation.

## B. Risks of Generative AI

At the end of 2022, OpenAI released the chatbot "ChatGPT," whose powerful natural language processing capabilities make it an ideal tool for various tasks, including text generation, question answering, and summarization extraction, among others. Its responses are not only fluent but also very close to human conversation. However, the use of these generative AI models also brings new risks. Firstly, the data entered by users may be used to respond to others' inquiries, leading to the leakage of sensitive company information. Secondly, malicious individuals may exploit generative AI to spread misinformation, affecting financial markets and causing social unrest. In addition to the potential for external misinformation, internally trained AI models may also produce erroneous responses, misleading management to make wrong decisions.

To eliminate the risk of sensitive information leakage, the company has implemented strict browsing permissions on browsers, prohibiting employees from using public generative AI websites during work. Instead, they are provided with access to a proprietary model developed by the company as needed. In response to the potential spread of misinformation, Wistron has increased cross-company communication to ensure prompt responses to any unfavorable news concerning the company, mitigating potential impacts. Additionally, apart from regularly monitoring the accuracy of internally developed AI models, relevant review mechanisms have been established to ensure the correctness and effectiveness of the generated information.

## C. Economic recession risk

In 2022, the global economy experienced unstable due to the COVID pandemic and the conflict between Ukraine and Russia, leading to a continuous increase in inflationary pressures. This situation poses risks to the global economy, prompting central banks worldwide to accelerate the pace and scale of tightening monetary supply to curb inflation. Although inflation showed signs of stabilization in 2023, the reduction in magnitude has been slow and rigid, resulting in continuous delays in the planned rate-cutting initiatives. Moreover, the emergence of new geopolitical conflicts and global protectionism could reignite concerns about inflation. Consequently, major central banks may once again find themselves compelled to postpone or even abandon their scheduled rate-cutting cycles. Under the high tide interest rate circumstance, the cost of living for households has risen, leading to reduced non-essential spending and a decrease in market purchasing power. Additionally, the increased cost of living has exposed businesses to the risk of rising raw material and labor costs, which raises production costs and impacts corporate profits. These swing factors could potentially further slow down the economy and even cause it to decline again.

Wistron has taken proactive measures to address the risks posed by the unstable global economy. On one hand, Wistron is actively expanding into the non-consumer electronics sector to offset the impact of declining market purchasing power. On the other hand, Wistron intends to protect its profitability through rigorous cost control measures, funding plans, and hedging strategies within a comprehensive risk management framework.

## D. New technology risk

Facing the rapid technological advancements and ever-changing industry environment, the world is witnessing the profound impact of AI technology's swift evolution. This wave of transformation encompasses various sectors such as semiconductor, chip design, servers, software development, PCs, smartphones, and all areas involving AI applications. Thanks to years of prior preparation, Wistron has been able to steadily progress amidst this industry changes. However, the ongoing rapid evolution of technology implies that failing to anticipate the development of next-generation products could result in order shifts and customer loss, thereby impacting the company's business operations.

To stay ahead in the development of next-generation technology, the company has established an Advanced Technology Lab department. This department actively seeks investments and development in cutting-edge technologies, particularly focusing on next-generation innovative technologies. Wistron's vision of "innovation through sustainability" is supported by four core development pillars: developing advanced technologies, deepening industry-academia collaboration and linking with domain authorities, cultivating sustainable talents, and promoting sustainable innovation. Currently, Wistron is prioritizing technology related to innovative energy, communications, quantum, and space fields. We have established partnerships with top-tier technology firms, research institutions, and academic entities to collectively drive innovation and conduct research and development in emerging technologies. These collaborations entail comprehensive technical evaluations, surveys, R&D efforts, and the integration of patent applications, enabling us to adeptly respond to industry shifts and evolving market trends.

**7.6.15 Other Risks:** None.

**7.7 Other important matters:** None.