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

7.1 Analysis of Financial Status

7.1.1 2022 vs. 2021 financial analysis

Unit : NT$ thousands

Year / Item	2022	2021	Difference	
			Amount	%
Current assets	342,985,667	421,786,551	(78,800,884)	(18.68)
Net property, plant and equipment	51,515,209	42,209,556	9,305,653	22.05
Intangible assets	2,149,731	1,730,173	419,558	24.25
Other assets	36,257,167	31,571,526	4,685,641	14.84
Total assets	432,907,774	497,297,806	(64,390,032)	(12.95)
Current liabilities	286,725,416	365,583,359	(78,857,943)	(21.57)
Non-current liabilities	27,529,802	39,229,668	(11,699,866)	(29.82)
Total liabilities	314,255,218	404,813,027	(90,557,809)	(22.37)
Common stock	29,016,021	29,032,521	(16,500)	(0.06)
Capital surplus	35,050,440	28,834,524	6,215,916	21.56
Retained earnings	36,357,506	31,098,687	5,258,819	16.91
Other equity	(2,550,702)	(9,441,535)	6,890,833	72.98
Treasury stock	(1,491,116)	(1,607,259)	116,143	7.23
Equity attributable to owners of the company	96,382,149	77,916,938	18,465,211	23.70
Non-controlling interests	22,270,407	14,567,841	7,702,566	52.87
Total equity	118,652,556	92,484,779	26,167,777	28.29

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 property, plant and equipment was mainly due to increase in machinery equipment and construction in process.

(2) The increase in intangible assets was mainly due to increase in operating concession.

(3) The decrease in current liabilities, non-current liabilities and total liabilities was mainly due to decrease in trade payables and long-term loans.

(4) The increase in capital surplus was mainly due to the increase in surplus arising from equity-accounted investees.

(5) The increase in other equity was mainly due to the increase of exchange differences on translation of financial statements.

(6) The increase in equity attributable to owners of the Company was mainly due to the increase in net profit, capital surplus and other equity.

(7) The increase in non-controlling interests was mainly due to the increase of net profit from subsidiaries.

(8) The increase in total equity was mainly due to the increase in equity attributable to owners of the Company and non-controlling interests.

7.2 Analysis of Financial Performance

7.2.1 2022 vs. 2021 operating result analysis

Unit : NT$ thousands

Year / Item	2022	2021	Increasing (decreasing) amount	Change percentage (%)
Net revenues	984,619,156	862,082,848	122,536,308	14.21
Cost of sales	914,890,464	810,948,132	103,942,332	12.82
Gross profit	69,728,692	51,134,716	18,593,976	36.36
Operating expenses	42,256,548	34,760,078	7,496,470	21.57
Operating income	27,472,144	16,374,638	11,097,506	67.77
Non-operating income and expenses	(2,761,230)	2,859,639	(5,620,869)	(196.56)
Profit before tax	24,710,914	19,234,277	5,476,637	28.47
Income tax expenses	5,693,367	4,506,466	1,186,901	26.34
Net profit	19,017,547	14,727,811	4,289,736	29.13
Other comprehensive income, net of tax	7,756,858	(2,018,306)	9,775,164	484.33
Total comprehensive income	26,774,405	12,709,505	14,064,900	110.66
Net profit attributable to owners of the Company	11,162,451	10,468,030	694,421	6.63
Total comprehensive income attributable to owners of the Company	18,022,661	8,548,311	9,474,350	110.83

7.2.2 Analysis for change item amount change more than 20%

(1) Increase in gross profit and operating income : The increase was mainly due to the increase of net revenues.

(2) Increase in operating expenses : The increase was mainly due to the increase of research and development expenses.

(3) Decrease in non-operating income and expenses : The decrease was mainly due to the increase of interest expenses.

(4) Increase in profit before tax and net profit: The increase was mainly due to the increase of operating income.

(5) Increase in income tax expenses: The increase was mainly due to the increase of profit before tax.

(6) Increase in other comprehensive income, net of tax: The increase was mainly due to the increase of exchange differences on translation of financial statements.

(7) Increase in total comprehensive income and total comprehensive income attributable to owners of the Company: The increase was mainly due to the increase of operating income and exchange differences on translation of financial statements.

7.3 Cash flow

Change in consolidated cash flow in 2022:

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
70,154,241	53,440,016	(57,256,941)	66,337,316	-	-

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 2022.

(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 and long-term 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, 2022	Status of Actual Use of Capital	
			2021	2022
Acquisition of property, plant and equipment	Cash flow generated from operation	24,105,717	10,496,324	13,609,393

7 Review of Financial Conditions, Financial Performance, and Risk Management

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 2022, the investment income recognized under equity method was NT$776,334 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	2021 (in thousand NT dollars)	2022 (in thousand NT dollars)
Interest Income	1,306,757	1,989,775
Interest Expense	1,880,091	5,988,155
Exchange loss/gain	1,254,828	405,296

By the end of 2022, the cash and short-term investment balance of the Company totaled about NT$66.3 billion with short term borrowings about NT$114 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 98% 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$ 405 million last year.

There was no major inflation around the world during the 2022 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 2022 have been executed during volume production activities or have been presented to customers for verification following internal testing, in anticipation of potential future use. We are committed to investing in R&D for 2023 in order to meet the demands of our growing business. It is estimated that the R&D expense to revenue ratio will be approximately 2.4% for 2023.

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 2022, 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 Review of Financial Conditions, Financial Performance, and 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 meet the diverse needs of our customers. In addition to our operations in China, Wistron is committed to expanding our manufacturing capacities in Taiwan, Mexico, India, Malaysia, Vietnam, and the Czech Republic. This approach enables Wistron to leverage the unique strengths of each country, allowing us to provide customized products and services to meet the specific requirements of our customers.

However, it is important to note that establishing new operations will result in increased manufacturing overhead, including the costs associated with purchasing equipment, recruiting staff, and training employees. This may have a negative financial impact if future income is not sufficient to cover the additional expenses. To mitigate this risk, Wistron is committed to upgrading our manufacturing processes, improving product quality, saving resources, and providing better services to our customers. Additionally, we are strengthening our cooperation with customers to increase business opportunities and improve capacity utilization, thereby enhancing our ability to generate revenue and cover the costs 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: 38.36% stock shares are held by foreign investors, 23.24% by domestic institutional investors, 1.82% by treasury shares. They possess around 63.42% 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 perform ance. 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

A. Wistron Corporation

In June of 2016, Alacritech filed an action against the Company in the United States District Court for the Eastern District of Texas. The accused products are servers and network interface devices. The Court ordered a stay of the case in 2017, but has reopened it in October 2022. The Company still cannot assess the possible impact on its financial losses.

B. Wistron NeWeb Corp. - Wistron's director

a. 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. At present, legal proceedings between both parties are ongoing, and WNC is currently evaluating the possibility of a settlement.

b. Alacritech filed a lawsuit against Wistron Corporation with the United States District Court for the Eastern District of Texas in June 2016. The alleged infringing products were servers, network cards, and other related products. Trial proceedings were suspended in 2017 and were restarted in October 2022. Therefore, as of now, Wistron Corporation is still unable to estimate the amount of damages or the impact on its finances.

C. Wiwynn Corporation – Wistron's subsidiary

a. Alacritech Inc. filed a patent infringement complaint against the Company in the United States District Court-East District of Texas in June 2016. The Company had appointed an attorney to deal with the matter. The US Patent trial and Appeal Board had finish reviewed, the court ruled to reopen the litigation, both parties will discuss the schedule after reopening the litigation.

b. Acqis LLC. filed a patent infringement complaint against the Company in the United States District Court-West District of Texas in October 2020. The Company had appointed an attorney to deal with the matter, with the case is still pending in the court.

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 2022.

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. Transition Risks - Difficulty in acquiring renewable energy in regional markets

Renewable energy has a strong and steadily growing demand, as various industries actively adopt renewable energy to replace traditional fossil fuels in order to realize the vision of a low-carbon economy, in response to the accelerating global energy transition trend and the increasing importance of sustainability issues. However, on the supply side, the development of renewable energy is constrained by various economic, geopolitical, and technological limitations, making it increasingly challenging to obtain renewable energy for a company on the global market to meet sustainable transformation needs and cost considerations in the present and foreseeable future.

Based on a comprehensive assessment of the risk nature of "renewable energy shortage", it possesses characteristics of long-term, emerging, significant and specific impacts, as well as externalities, as further explained below.

From a timeline perspective, the scarcity of renewable energy has gradually affected various industries in recent years under the stimulation of multiple factors such as policies and markets, and can be expected to profoundly impact the global technology product manufacturing industry, including Wistron, which has a global presence and export orientation, with the trend of global low-carbon transformation and net-zero carbon emissions over the next decade or more.

Wistron has numerous manufacturing and service sites worldwide, but due to factors such as geopolitical and economic influences, the maturity of renewable energy markets varies among countries globally, and may face challenges such as a lack of regulations, high costs, and insufficient quality and quantity of supply in regional markets. It can be expected that future demand will grow rapidly, making it more difficult to achieve appropriate supply and demand matching under reasonable cost. Under the premise of limited supply, for companies that are actively purchasing renewable energy to achieve low-carbon transformation goals, market/ customer requirements, and regulatory compliance, the risk of not being able to meet customer/market demands due to inadequate procurement may lead to reduced orders, missed business opportunities, etc. Alternatively, there may be risks such as reduced profits and increased operating costs due to rising energy procurement expenses.

Due to market factors, many of Wistron's brand customers in the ICT industry have gradually demanded that the energy used in the manufacturing process come from renewable sources. Therefore, the ability to obtain a sufficient and reasonably priced supply of renewable energy will directly impact market competitiveness. Thus, obtaining renewable energy is equivalent to obtaining operational strategic resources, and Wistron views it as a key aspect of its global operational strategy.

In terms of regulatory and policy factors, various international organizations and governments have been promoting carbon taxes/fees and related regulations. For example, the European Union's Carbon Border Adjustment Mechanism (CBAM) and the United States' Clean Competition Act. Taiwan is also expected to start levying carbon fees in 2024 in response to climate change legislation. As a global ICT product manufacturer and service provider, it is crucial for Wistron that its products can be exported to various countries in compliance with regulations. The future promotion of carbon tariff-related mechanisms by various countries will have a profound impact on Wistron's business model and operational strategy, and this risk is specific in nature. For Wistron, carbon emissions will officially become a part of its costs in the next few years. If it cannot purchase a sufficient supply of green energy, it will be unable to effectively reduce its carbon emissions, and it will also face the risk of being charged high carbon fees/taxes, which will reduce profits and impact the overall market competitiveness of the company.

The actual financial impact of the risk will fluctuate at any time due to regional market prices, regulatory changes, and customer demand. However, it can be expected that if the risk cannot be effectively mitigated, a shortage of renewable energy may result in the loss of market opportunities, leading to a decline in overall revenue. The impact of carbon taxes/fees resulting from regulations

may also cause operating costs to rise and impact the company's profit performance. Therefore, for Wistron, considering the above factors, this risk has a significant impact.

In terms of risk management, Wistron has implemented various actions to deepen its management of renewable energy and related carbon risks, in conjunction with its enterprise risk management (ERM) program. This includes organizational and routine monitoring as well as specific response measures. Wistron has responded to the Science-based Targets initiative (SBTi) by committing to an annual reduction of 4.2% of carbon emissions (Scope 1+2) and publicly disclosing its progress and achievement status every year. As a formal supporter of the Task Force on Climate-related Financial Disclosures (TCFD), Wistron identifies climate risks and opportunities according to the TCFD framework, and uses this information to establish comprehensive response strategies and performance targets. Relevant information is also publicly disclosed to deepen communication on climate issues with stakeholders. Wistron assesses various potential transition risks and conducts scenario analyses for renewable energy and carbon pricing issues to understand the exposure level of the company in the future market development, and to formulate corresponding strategies. Wistron has also quantified the financial impact of future carbon pricing/taxation under three scenarios. In order to increase the use of renewable energy, Wistron has set short, medium, and long-term performance targets for routine management and public disclosure. In addition to improving energy efficiency at all global sites and installing rooftop solar power systems in accordance with the maximization principle, Wistron proactively purchases renewable energy certificates (RECs) and signs power purchase agreements(PPAs) in the global market. It also evaluates the feasibility of various green energy investments and introduces the tool of marginal abatement cost curve (MACC), analyzing the investment cost-effectiveness and potential of various carbon reduction plans. Wistron hopes to achieve its long-term vision of low-carbon manufacturing and sustainable business by using a variety of renewable energy sources to diversify risk, reduce costs, and gradually increase the proportion of renewable energy use to 100% in the future.

B. Cost of living

In 2022, the global economy experienced instability due to the COVID-19 pandemic and the Ukraine-Russia conflict, 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. As a result, 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.

Wistron has taken proactive measures to address the risks posed by the unstable global economy. Firstly, the company is diversifying into the non-consumer electronics product sector to mitigate the impact of reduced market purchasing power. Additionally, Wistron is implementing stricter cost control measures and optimizing capital utilization plans. Through effective risk control and hedging strategies, Wistron aims to minimize risk exposure and protect profitability within a reasonable risk management framework.

C. Geopolitical

In recent years, mainland China has been taking various measures to destabilize the peace of the Taiwan Strait, including aircraft interference, frequent military exercises, economic sanctions, and diplomatic actions. All of these actions have increased operational costs for businesses. In the short term, local aircraft and ships may need to take longer routes to avoid exercise areas, which can result in both increased time and costs in the supply chain. In the longer term, if cross-strait tensions continue to escalate and lead to an economic blockade or war, the result could be a severe impact on the global economy, particularly on the global technology supply chain.

In response to the rapidly changing geopolitical landscape, Wistron has adopted a proactive globalization strategy to mitigate risks by establishing a comprehensive global footprint. In addition to Taiwan and mainland China, Wistron has major overseas production sites in Vietnam and Malaysia in Southeast Asia, India in South Asia, the Czech Republic in Eastern Europe, and Mexico in North America. Wistron will continue to monitor the impact of internal and external factors and make necessary capacity adjustments based on customer demand, while also enhancing its automation capabilities.

Moreover, we have formulated a contingency plan for our headquarters' operations, covering order management, material preparation, production, IT systems, cash flow, logistics, and personnel transfer, among others. We have also reached a consensus on the plan with our major customers and suppliers to ensure that our company can maintain a certain level of operations during emergency situations. Going forward, we will closely monitor the development of cross-strait relations and adjust our strategies accordingly, to ensure the continuity and stability of our company's operations.

7.6.15 Other Risks: None.

7.7 Other important matters: None.