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

1. Financial Status - Consolidated (Based on IFRSs)

Unit: NT$ Thousands

Year / Items	2020	2021	Difference	
			Amount	%
Current Assets	56,176,808	69,320,640	13,143,832	23.40
Property, Plant and Equipment	34,294,221	41,474,488	7,180,267	20.94
Intangible Assets	175,000	173,430	(1,570)	(0.90)
Other Assets	60,917,977	72,066,340	11,148,363	18.30
Total Assets	151,564,006	183,034,898	31,470,892	20.76
Current Liabilities	31,458,157	38,852,513	7,394,356	23.51
Non-current Liabilities	32,825,019	36,236,117	3,411,098	10.39
Total Liabilities	64,283,176	75,088,630	10,805,454	16.81
Capital Stock	32,260,002	34,313,329	2,053,327	6.36
Capital Surplus	15,690,406	18,440,875	2,750,469	17.53
Retained Earnings	36,330,187	47,787,207	11,457,020	31.54

Note: The reasons, effects and future plans about that changes in assets, liabilities and equity which over 20% or NT$10 million in last two years:

1. Reasons:
   A. Compared to 2020, current assets show an increase in 2021 due to the increase of accounts receivable and inventories in 2021.
   B. Compared to 2020, property, plant ,and equipment show an increase in 2021 because WLC built new factories and purchased machine equipment in 2021.
   C. Compared to 2020, other assets show an increase in 2021 due to the acquierments of corporate bonds, shares of Teco Electric & Machinery Co., Ltd. and the increase of the recognition amounts of investments accounted for using the equity method in 2021.
   D. Compared to 2020, current liabilities show an increase in 2021 due to the increase of the long-term borrowings due within one year in 2020.
   E. Compared to 2020, retained earnings show an increase in 2021 due to the increase of the net profit for the year ended December 31, 2021.
2. Effects: None.
3. Future plans: Keep working on managing working capital and asset and liability structure.

2. Financial Performance - Consolidated (Based on IFRSs)

Unit: NT$ Thousands

Items \ Year	2020	2021	Difference	
			Amount	%
Operating Revenue	112,546,603	156,664,766	44,118,163	39.20
Operating Costs	100,078,265	136,855,301	36,777,036	36.75
Gross Profit	12,468,338	19,809,465	7,341,127	58.88
Operating Expense	5,083,276	6,463,913	1,380,637	27.16
Profit from Operations	7,385,062	13,345,552	5,960,490	80.71
Non-operating Revenue and Expense	1,865,603	5,776,946	3,911,343	209.66
Profit before Taxes	9,250,665	19,122,498	9,871,833	106.71
Tax Expense	2,244,864	3,865,184	1,620,320	72.18
Net Income	7,005,801	15,257,314	8,251,513	117.78

I. The variance analysis in last two years:(Variable proportion over 20%)

1. In 2021, operating costs increased by 441 billion. Although the stainless steel and wire and cable business was faced with sharp fluctuations in the supply and demand of raw materials in the market, the sales figures of each business unit increased due to the effective controll of the procurement of material sources, timely adjustment of production capacity and accurate delivery in response to customers' needs. In 2021, the nickel ferrous factory and power plant also achieved full production and full sales, resulting in a substantial increase in the company's operating income by 39% over the previous year.
2. In 2021, gross profit increased by 73 billion. In response to the increase in sales volume, the stainless steel and wire and cable business units effectively improved the capacity utilization rate and controlled the cost. Gross profit was better than the previous year.
3. In 2021, operating expenses increased. In addition to the corresponding increase in operating income, also includes the substantial increase in transportation costs due to the epidemic.
4. In 2021, the increase in non-operating income and expense was mainly due to the increase in equity method income.

II. The reason for the changes in business content changes: None.

III. The expected sales volume in the next year and its main reason:

1. Expected sales volume in the next year:

2021(Unit：ton)

Bare copper wire	236,015
Power line	52,453
Strand	85,072
Stainless steel	483,996
Hot rods	350,000
Seamless steel pipe	18,000
Nickel Pig Iron	40,000

2. The basis of the expected sales volume and Possible future impact on the Company's financial operations and response plans: see the contents (5)-Business Overview

3. Cash Flow - Consolidated (Based on IFRSs)

(1) Cash flow analysis for the current year:

Unit: NT$ Thousands

Cash and Cash Equivalents at the beginning of the year	Net Cash flow from Operating Activities	Net Cash flow from Investing Activities	Net Cash flow from Financing Activities	Effects of Exchange Rate Changes	Cash and Cash Equivalents at the ending of the year	Note
11,944,408	1,316,155	(985,974)	(2,279,516)	392,508	10,387,581	

Analysis of change in cash flow in the current year:

1.The inflows of net cash generated by operating activities were due to the profit of the year.

2.The outflows of net cash used in investing activities were due to the purchase of property, plant, and equipment.

3.The outflows of net cash generated by financing activities were due to the acquisition of equity in subsidiaries.

4.The outflows of net cash in the year was NT$ 1,556,827 thousand and the ending balance of cash was NT$ 10,387,581 thousand.

(2) Remedy for cash Deficit and Liquidity Analysis: Not applicable.

(3) Cash flow Analysis for the coming year:

Unit: NT$ Thousands

Cash and Cash Equivalents at the beginning of the year	Net Cash flow from Operating Activities	Net Cash flow from Investing Activities	Net Cash flow from Financing Activities	Effects of Exchange Rate Changes	Cash and Cash Equivalents at the ending of the year	Note
10,387,581	17,844,066	(15,156,809)	(4,985,059)	0	8,089,778	

Analysis of change in cash flow for the coming year:

1.The inflows of net cash generated by operating activities due to the increase of profit before taxes.

2.The outflows of net cash used in investing activities due to the strategic project investment, the increase of capital expenditures, renewal of equipment, and the cost of No. 1 Building of Lot AB and Phase III under Nanjing Construction Co., Ltd.

3.The outflows of net cash used in financing activities due to repayment of borrowings and payment of dividends.

4. Effect of Major Capital Expenditure on Financial Business Operations:

(1) Utilization of Major Capital Expenditures and Sources of Funds:

Unit: NT$ Million

Project	Source of Funds	Actual or Estimated Completion Date	Investment	Actual or Expected Status of Spending				
				2018	2019	2021	2022	2022
HR Coil Project of Yantai Plant	Working Capital	October 2023	8,288	53	594	1,525	4,476	1,640
Cold Finished Bar Project of Yantai Plant	Working Capital	December 2023	3,156	-	-	83	2,792	281
The establishment of nickel pig iron plant	Working Capital	December 2021	9,667	-	6,851	2,576	240	-
The establishment of high-efficiency factories	Working Capital	August 2023	5,407	-	27	484	2,638	2,258

(2) Estimated Benefits:

1. The establishment of steel rolling and cold finished factories of Yantai Plant will help expand economies of scale and improve product quality to meet the needs of the customers.
2. Invest in the construction of a nickel pig iron plant and supporting power plants in Indonesia, with a planned monthly output of 3,000 tons of nickel metal, which will enable the company to securely control the supply of upstream raw materials and make profits for the company.
3. Build high-efficiency factories, deepen the integration of manufacturing service value and integrate manufacturing systems through smart manufacturing, advanced warehousing and logistics, and create competitiveness that is difficult to imitate.

5. Investment Policy of the Past Year, Profit/Loss Analysis, Improvement Plan and Investment Plan for the Coming Year:

(1) Investment Policy and Profit/Loss in the Past Year:

1. On a consolidated basis, the Company’s current key reinvestment areas are DRAM, TFT LCD and passive components.
2. On a consolidated basis, in 2021, the gains for affiliated enterprises recognized by equity method was NT$4.808 billion, as a result of the overall booming market conditions in the semiconductor industry and the improvement in the profitability of affiliated enterprises recognized under the equity method compared to 2020.

(2) Main Reasons for Profit:

Recognition of the gains from Winbond Electronics Corporation and Walsin Technology Corporation.

(3) Investment Plan for the Coming Year:

To continue to focus on upstream and downstream consolidation of core businesses and carefully assess investment plans.

6. Risk Management and Assessment of the Following Items for the Past Year and the Year to Date:

(1) Impact of Interest Rate and Exchange Rate Changes and Inflation on the Company's Profit and Countermeasures.

Affected item	Impact	Response measures:
Interest Rate Change	Net interest expense (interest expense less interest income) in 2021 was approximately NT$326 million, accounting for merely 0.21% of the Company's net operating revenues; therefore, the change in interest rates does not yet have a significant impact on the profit or loss of the Company and its subsidiaries.	The Company will plan and execute plans for funding sources and costs based on business development and needs.
Exchange Rate Change	Foreign exchange loss for 2021 were approximately NT$46 million (including profit/loss from trading foreign exchange derivative products).	Based on foreign currency positions, the Company will utilize market instruments (e.g. forward foreign exchange contracts) for hedging purposes.
Inflation	The Company's principal products are not for general public consumption therefore inflation has no direct impact on the Company.	None.

(2) Policies of Engaging in High-risk, High-leverage Investments, Lending to Others, Providing Endorsements and Guarantees and Derivatives Transactions, Profit/loss Analysis and Future Countermeasures.

Item	Policy	Major causes of profit or loss	Future response measures
High-risk, High-Leverage Investments	The Company does not engage in any high-risk, high-leverage investment activities.	None	None
Lending to Others	Conducted in accordance with the provisions of the Company's "Management Guidelines on Lending Company Funds to Others"	None	None
Endorsements/ Guarantees	Conducted in accordance with the provisions of the Company's "Management Guidelines on Endorsement/Guarantee"	None	None
Derivative Instrument Transactions	With respect to derivative instruments, the Company has mainly engaged in hedging transactions related to business operations and investment activities (foreign exchange and non-ferrous metals). For non-ferrous metals, the Company may carry out non-hedging transactions based on authorized positions and under risk management control for the purpose of curbing price volatilities in raw materials. The authorization is conducted in accordance with the Company's "Procedure for Derivatives Products Trades."	None	None

(3) Future R&D Plans and Projected R&D Investments: The research and development plans of each business group have been included in the business activities section of the Business Overview, and these plans have relatively low risks. Please refer to "V. Business Overview—A. Business Activities—(3) Overview of Technology and R&D".

(4) Major Changes in Domestic and Foreign Government Policies and Laws and Impact on the Company’s Finances and Business: None

(5) Impact of Recent Technological and Market Changes on the Company's Finances and Business, and Countermeasures:

To achieve the goal of Smart Manufacturing, Walsin has started to promote the new MES (Manufacturing Execution System) and ERP (Enterprise Resource Planning) and move towards CPS (Cyber-Physical System). Through cloud-based, component-based, and parametric design to retain the flexibility and speed, we will ensure the ability to integrate with the supply chains in the future.

Global pandemic prevention has made remote work the "new normal", thus providing a new channel for hacker attacks. In order to prevent theft and destruction of sensitive data of the Company, which may affect its industrial productivity and damage corporate image, Walsin has strengthened its identity authentication mechanism for remote work and enhanced the protection of external services in response to this new type of risk.

(6) Impact of Change in Corporate Image on Risk Management and Countermeasures: None

(7) Expected Benefits and Potential Risks of Merger and Acquisition: None

(8) Expected Benefits and Potential Risks of Capacity Expansion: All capacity expansion for plants under Walsin and its group members has to undergo careful assessments. All major capital expenditure has to be submitted to the Board of Directors for review. Hence, investment benefits and potential risks will have been taken into account.

(9) Risks Associated with Over-concentration in Purchases or Sales and Countermeasures: None

(10) Impact of Mass Transfer(s) of Equity by or Change of Directors or Shareholders Holding 10% or more Interest on the Company, the Associated Risks and Countermeasures: None

(11) Impact of Change of Control on the Company, Associated risks and Countermeasures: None

(12) Final and Non-appealable and Pending Material Litigious, Non-litigious or Administrative Legal Proceedings involving the Company, the Directors and the President during the Most Recent Year and up to the Annual Report Publication Date: None

(13) Other significant risks and response measures:

1. The Company's KPIs:

(1) Financial indicators: Optimizing financial structure and control of bank financing agreements

Ratio	Formula	Target KPI	2021	2020
Current ratio	Current assets / Current liabilities	>=100%	178.42%	178.57%
Debt ratio	Net liabilities (Total liabilities - Cash and cash equivalents) / Tangible assets	<=120%	60.03%	60.09%
Interest coverage ratio	(Net income before income tax, depreciation, amortization and interest expense / Current interest expense	>=150%	5,352.60%	2,265.19%
Tangible net value	Shareholders' equity - Intangible assets	>=NT$55 billion	NT$107.8 billion	NT$87.1 billion

(2) Performance indicators: Return on shareholder's equity and income before accrued interest, tax, depreciation and amortization

Ratio	Formula	2021	2020
Return on Shareholder's Equity	Net Income after tax / Average of total shareholders' equity	15.63%	8.44%
Earnings Before Interest, Taxes, Depreciation and Amortization	Income/loss before tax + depreciation + amortization + interest expenses	NT$22,371 million	NT$12,232 million

7. Other Major Issues: None