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

## 1. Financial Status - Consolidated (Based on IFRSs)

Unit: NT$ Thousands

| Items \ Year | 2022 | 2023 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current Assets | 92,707,385 | 78,751,988 | (13,955,397) | (15.05) |
| Property, Plant and Equipment | 65,656,466 | 78,154,936 | 12,498,470 | 19.04 |
| Intangible Assets | 9,339,422 | 12,155,696 | 2,816,274 | 30.15 |
| Other Assets | 89,194,468 | 97,307,411 | 8,112,943 | 9.10 |
| Total Assets | 256,897,741 | 266,370,031 | 9,472,290 | 3.69 |
| Current Liabilities | 60,869,368 | 50,759,328 | (10,110,040) | (16.61) |
| Non-current Liabilities | 61,819,250 | 61,161,390 | (657,860) | (1.06) |
| Total Liabilities | 122,688,618 | 111,920,718 | (10,767,900) | (8.78) |
| Capital Stock | 37,313,329 | 40,313,329 | 3,000,000 | 8.04 |
| Capital Surplus | 24,672,454 | 33,624,917 | 8,952,463 | 36.29 |
| Retained Earnings | 62,038,398 | 60,590,617 | (1,447,781) | (2.33) |

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:
   (1) The increase in intangible assets in 2023 compared to 2022 is primarily due to obtaining controlling interest in Special Melted Products Ltd. in September 2023 and recognizing goodwill related to the company.
   (2) The increase in capital surplus in 2023 compared to 2022 is primarily due to premium on issuance of shares from cash increase.
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 | 2022 | 2023 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Operating Revenue | 180,400,719 | 189,839,626 | 9,438,907 | 5.23 |
| Operating Costs | 163,054,414 | 175,396,014 | 12,341,600 | 7.57 |
| Gross Profit | 17,346,305 | 14,443,612 | (2,902,693) | (16.73) |
| Operating Expense | 7,847,591 | 8,202,846 | 355,255 | 4.53 |
| Profit from Operations | 9,498,714 | 6,240,766 | (3,257,948) | (34.30) |
| Non-operating Revenue and Expense | 13,903,299 | 1,197,632 | (12,705,667) | (91.39) |
| Profit before Taxes | 23,402,013 | 7,438,398 | (15,963,615) | (68.21) |
| Tax Expense | 4,261,937 | 1,497,148 | (2,764,789) | (64.87) |
| Net Income | 19,140,076 | 5,941,250 | (13,198,826) | (68.96) |

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

1.Non-operating income decrease in 2023 due to profit from US subsidiary solar development department disposal in 2022 and the decrease in share of profit of associates accounted for using the equity method in 2023.

2. The decrease in income tax expenses for 2023 is attributed to lower profits this year influenced by overall market conditions compared to last year.

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:

2023(Unit：ton)

| | |
|---|---|
| Bare copper wire | 72,663 |
| Power line | 57,666 |
| Strand | 731,786 |
| Stainless steel | 300,000 |
| Seamless steel pipe | 18,000 |
| Nickel Pig Iron | 90,000 |

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 Rates Changes | Cash and Cash Equivalents at the ending of the year | Note |
|---|---|---|---|---|---|---|
| 19,438,759 | 22,747,930 | (21,500,770) | (3,959,928) | (378,979) | 16,347,012 | |

Analysis of change in cash flow in the current year:
1..The inflows of net cash generated by operating activities were due to the decrease of trade receivables.
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 repayment of borrowings.
4.The outflows of net cash in the year was NT$ 3,091,747 thousand and the ending balance of cash was NT$ 16,347,012 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 Rates Changes | Cash and Cash Equivalents at the ending of the year | Note |
|---|---|---|---|---|---|---|
| 16,347,012 | 10,303,844 | (12,032,507) | 512,684 | 0 | 15,131,033 | |

Analysis of change in cash flow for the coming year:
1.The inflows of net cash generated by operating activities due to the anticipated profit generated from core operations.
2.The outflows of net cash used in investing activities due to the strategic project investment, the increase of capital expenditures, renewal of equipment.
3..The inflows of net cash used in financing activities due to an increase in borrowings.

## 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| 1. HR Coil Project of Yantai Plant | Working Capital | September 2024 | 9,128 | 53 | 594 | 1,525 | 3,848 | 1,048 | 1,112 | 881 | 66 |
| 2. Cold Finished Bar Project of Yantai Plant | Working Capital | December 2024 | 3,264 | - | - | 83 | 690 | 1,388 | 308 | 795 | - |
| 3. The establishment of nickel pig iron plant | Working Capital | December 2021 | 9,667 | - | 6,851 | 2,576 | 240 | - | - | - | - |
| 4. The establishment of high-efficiency factories | Working Capital | September 2024 | 5,407 | - | 17 | 565 | 1,410 | 2,339 | 1,076 | - | - |
| 5. Cable wire project of Walsin Energy | Working Capital | December 2025 | 13,800 | - | - | - | - | 1,248 | 6,264 | 6,288 | - |
| 6. Nickel matte factory in Indonesia | Working Capital | June 2024 | 2,883 | - | - | - | - | 2,228 | 655 | | - |

(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.
4. Walsin Energy Cable System, with its plan to benchmark international submarine cable plants, advanced submarine cable design, manufacturing, testing, and connection technologies, will become a key supplier for offshore wind power plants in Taiwan and the Asia-Pacific region.

## 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 2023, the gains for affiliated enterprises recognized by equity method was NT$529 million, as a result of the weakened downstream demand in the semiconductor industry, indicating a lower profitability of affiliated enterprises recognized under the equity method compared to 2022.

(2) Main Reasons for Profit:

Recognition of the gains from 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 2023 was approximately NT$1.594 billion, accounting for merely 0.84% 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 losses for 2023 were approximately NT$240 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 products are not for general public consumption therefore inflation has no direct impact on the Company. However, it might raise the Company's demand for working capital. | The Company will strictly control the operating cycle and keep track of the source and use of funds. |

(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.

We will establish the defensive capability of the defender by using the protection measures corresponding to the "Cyber Kill Chain" model against the attacking mobile phones and steps of hackers, and set up information security technology products for purposes of inventory, prevention, detection, response and recovery, in order to respond to various information security risks.

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

(7) Expected Benefits and Potential Risks of Merger and Acquisition:

1. On May 5, 2023, during the 25th meeting of the Board of Directors of the 19th term, the Company resolved that it shall, through its Italian subsidiary, Cogne Acciai Speciali S.p.A., acquire 100% of the shares of Special Melted Products Limited (based in the United Kingdom). The Company ultimately holds a 70% comprehensive shareholding in Special Melted Products Limited, with the transaction completed in September of the same year; the acquisition can help the Company expand into stainless steel and nickel-based alloy products and enter the high-end product markets such as aerospace.
2. On August 11, 2023, during the 3rd meeting of the Board of Directors of the 20th term, the Company resolved that it shall, through its Singapore subsidiary, Walsin Singapore Pte. Ltd., acquire 75% of the shares of Berg Holding Limited (based in Hong Kong), indirectly increasing the Company's comprehensive shareholding in its Indonesian subsidiary, PT. Sunny Metal Industry, to 79.61%, with the transaction completed in January 2024; the acquisition can strengthen our corporate governance, centralizes our management resources, and enhances our investment efficiency.
3. On January 26, 2024, during the 6th meeting of the Board of Directors of the 20th term, the Company resolved that it shall, through its Italian subsidiary, Cogne Acciai Speciali S.p.A., acquire 65% of the shares of Com.Steel Inox S.p.A. (based in Italy). The Company ultimately holds a 45.5% comprehensive shareholding in Com.Steel Inox S.p.A., approved by the Taiwan Fair Trade Commission in March of the same year, currently under review by the Italian Investment Review Board; the acquisition is expected to secure key raw materials for our stainless steel processes and establish a knowledge center for our waste stainless steel management.

4. On February 20, 2024, during the 7th meeting of the Board of Directors of the 20th term, the Company resolved that it shall, through its Italian subsidiary, Cogne Acciai Speciali S.p.A., acquire 100% of the shares of Mannesmann Stainless Tubes GmbH (based in Germany). The Company ultimately holds a 70% comprehensive shareholding in Mannesmann Stainless Tubes GmbH, currently in the reporting stage to various countries' antitrust regulatory authorities and Investment Review Board; the acquisition is expected to integrate the downstream industry chain, enhance utilization of our steel production capacity, and extend our sales network in and tap into high-end markets such as aerospace, oil and gas, and new energy.

(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:

| Name of Subsidiary | Main Parties Involved in Litigation | Commencement Date of Litigation | Facts at Issue in Litigation | Current Handling |
|---|---|---|---|---|
| Borrego Energy, LLC | Blue Harvest Solar Park LLC & Timber Road Solar LLC (collectively, “EDPR”) | July 28, 2023 | Borrego initiated arbitration, requesting the other party to pay the costs incurred due to delays in the project and site conditions in winter caused by the change of the order.<br>Amount: Over US$25 million. | Arbitration is pending |
| Borrego Energy, LLC | Blacksmith Road Solar 1, LLC | December 19, 2023 | Blacksmith Road Solar 1, LLC sought damages for delay from Borrego.<br>Amount: Approximately US$3.6 million. | Arbitration is pending |

(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 | 2023 | 2022 |
|---|---|---|---|---|
| Current ratio | Current assets / Current liabilities | >=100% | 155.15% | 152.30% |
| Debt ratio | Net liabilities (Total liabilities - Cash and cash equivalents) / Tangible assets | <=120% | 67.17% | 82.74% |
| Interest coverage ratio | (Net income before income tax, depreciation, amortization and interest expense / Current interest expense | >=300% | 832.61% | 3,465.09% |
| Tangible net value | Shareholders' equity - Intangible assets | >=NT$80 billion | NT$142.3 billion | NT$124.9 billion |

(2) Performance indicators: Return on shareholder's equity and earnings before interest, taxes, depreciation and amortization (EBITDA)

| Ratio | Formula | 2023 | 2022 |
|---|---|---|---|
| Return on Shareholder's Equity | Net Income after tax / Average of total shareholders' equity | 3.56% | 16.28% |
| Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) | Earnings before interest & taxes + depreciation & amortization + interest expenses | NT$17,241 million | NT$28,681 million |

## 7. Other Major Issues: None