UNITED MICROELECTRONICS CORP
Form 20-F
April 21, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**
or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2014

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report _____

Commission file number 001-15128

United Microelectronics Corporation

(Exact Name of Registrant as Specified in its Charter)

Taiwan, Republic of China

(Jurisdiction of Incorporation or Organization)

No. 3 Li-Hsin Road II, Hsinchu Science Park,

Hsinchu City, Taiwan, Republic of China

(Address of Principal Executive Offices)

Chitung Liu, +886-2-2658-9168, chitung_liu@umc.com,

8F, No. 68, Section 1, Neihu Road., Taipei 11493, Taiwan R.O.C.

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 5 Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

12,725,207,790 Common Shares of Registrant issued as of December 31, 2014 (including 194,510,000 treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

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UNITED MICROELECTRONICS CORPORATION

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2014

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SUPPLEMENTAL INFORMATION

The references to United Microelectronics , we , us , our , our company and the Company in this annual report r United Microelectronics Corporation and its consolidated subsidiaries, unless the context suggests otherwise. The references to Taiwan and R.O.C. refer to Taiwan, Republic of China. The references to PRC refer to People s Republ of China. The references to shares and common shares refer to our common shares, par value NT$10 per share, and ADSs refers to our American depositary shares, each representing five common shares. The ADSs are issued under the Deposit Agreement, dated as of October 21, 2009, as amended, supplemented or modified from time to time, among United Microelectronics, JPMorgan Chase Bank, N.A. and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder. The references to TIFRSs refers to the Taiwan International Reporting Standards as issued by the Financial Supervisory Commission in the Republic of China, IFRSs refers to International Financial Reporting Standards as issued by the International Accounting Standards Board, or IASB, R.O.C. GAAP refers to the generally accepted accounting principles in the Republic of China, and U.S. GAAP refers to the generally accepted accounting principles in the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars, ¥ means Yen, and means EURO.

FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

Our disclosure and analysis in this annual report contain or incorporate by reference some forward-looking statements. Our forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations and projections about future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

- our dependence on frequent introduction of new product services and technologies based on the latest developments;
- the intensely competitive semiconductor, communications, consumer electronics and computer industries and markets;
- risks associated with our international business activities;
- our dependence on key personnel;

general economic and political conditions, including those related to the semiconductor, communications, consumer electronics and computer industries;

natural disasters, such as earthquakes and droughts, which are beyond our control;

possible disruptions in commercial activities caused by natural and human-induced disasters, and outbreaks of contagious diseases;

fluctuations in foreign currency exchange rates;

additional disclosures we make in our previous and future Form 20-F annual reports and Form 6-K periodic reports to the U.S. Securities and Exchange Commission, or the U.S. SEC; and

those other risks identified in the Item 3. Key Information-D. Risk Factors section of this annual report.

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The words may , will , is/are likely to , anticipate , believe , estimate , expect , intend , plan and similar ex intended to identify a number of these forward-looking statements. We do not and will not undertake the obligation to update or revise any forward-looking statements contained in this annual report whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

GLOSSARY

ASIC	Application Specific Integrated Circuit. A custom-designed integrated circuit that performs specific functions which would otherwise require a number of off-the-shelf integrated circuits to perform.
Cell	Semiconductor structure in an electrical state which can store a bit of information, mainly used as the building block of memory array.
Die	A piece of a semiconductor wafer containing the circuitry of an unpackaged single chip.
DRAM	Dynamic Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. It is the most common type of RAM and must be refreshed with electricity hundreds of times per second or else it will fade away.
EUV Lithography	Extreme Ultraviolet Lithography
FinFET	Fin Field-Effect Transistor
FPGA	Field Programmable Gate Array. A programmable integrated circuit.
Integrated Circuit	Entire electronic circuit built on a single piece of solid substrate and enclosed in a small package. The package is equipped with leads needed to electrically integrate the integrated circuit with a larger electronic system. Monolithic and hybrid integrated circuits are distinguished by the type of substrate used.
Interconnect	The conductive path made from copper or aluminum that is required to achieve connection from one circuit element to the other circuit elements within a circuit.
Mask or Photomask	A piece of glass on which an integrated circuit circuitry design is laid out.
Memory	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
Micron	A unit of spatial measurement that is one-millionth of a meter.
Nanometer	A unit of spatial measurement that is one-billionth of a meter.
PC	Personal computer.
RAM	Random Access Memory. A type of volatile memory forming the main memory of a computer where applications and files are run.
ROM	Read-Only Memory. Memory that is programmed by the manufacturer and cannot be changed. Typically, ROM is used to provide start-up data when a computer is first turned on.

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Scanner	A photolithography tool used in the production of semiconductor devices. This camera-like step-and-scan tool projects the image of a circuit from a master image onto a photosensitized silicon wafer.
Semiconductor	A material with electrical conducting properties in between those of metals and insulators. Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor s ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
SoC	System-on-Chip. A chip that incorporates functions currently performed by several chips on a cost effective basis.
SOI	Silicon-On-Insulator. Silicon wafer consisting of a thin layer of oxide, on top of which semiconductor devices are built.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Transistor	Tri-terminal semiconductor device in which input signal (voltage or current depending on the type of transistor) controls output current. An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products which lose their data content when the power supply is switched off.
Wafer	Thin, round, flat piece of silicon that is the base of most integrated circuits.
8-inch wafer equivalents	Standard unit describing the equivalent amount of 8-inch wafers produced after conversion, used to quantify levels of wafer production for purposes of comparison. Figures of 8-inch wafer equivalents are derived by converting the number of wafers of all dimensions (e.g., 6-inch, 8-inch and 12-inch) into their equivalent figures for 8-inch wafers. 100 6-inch wafers are equivalent to 56.25 8-inch wafers. 100 12-inch wafers are equivalent to 225 8-inch wafers.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated balance sheets data as of January 1, 2012, December 31, 2012, 2013 and 2014 and the selected consolidated statements of comprehensive income data for the years ended December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements included elsewhere in this annual report. In accordance with the requirements of the Taiwan Financial Supervisory Commission, or FSC, beginning on January 1, 2013, we have adopted Taiwan-IFRSs, which is translated and published by Accounting Research and Development Foundation, or ARDF, referred to as TIFRSs for reporting our annual and interim consolidated financial statements in the R.O.C. At the same time, we have adopted IFRSs as issued by the IASB for our annual reports on Form 20-F with the U.S. SEC beginning with the year ended December 31, 2013. However, since January 1, 2013, we only prepare our interim unaudited quarterly financial statements under TIFRSs, which are furnished to the SEC on Form 6-K.

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In accordance with rule amendments adopted by the U.S. SEC for foreign private issuers reporting under IFRSs, we are not required to provide reconciliations to U.S. GAAP in this annual report following our adoption of IFRSs.

The summary financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and the notes to those statements included in this annual report.

	Years Ended December 31,			
	2012	2013	2014	
	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)			
Consolidated Statements of Comprehensive Income Data				
Net operating revenues	115,675	123,812	140,012	4,431
Operating costs	(96,365)	(100,249)	(108,159)	(3,423)
Gross profit	19,310	23,563	31,853	1,008
Operating expenses	(15,697)	(19,406)	(21,238)	(672)
Net other operating income and expenses	(2,791)	(125)	(539)	(17)
Operating income	822	4,032	10,076	319
Non-operating income and expenses	5,473	10,309	3,496	111
Income from continuing operations before income tax	6,295	14,341	13,572	430
Income tax expense	(2,146)	(2,257)	(3,125)	(99)
Net income	4,149	12,084	10,447	331
Other comprehensive income (loss)	(6,381)	198	6,069	192
Total comprehensive income (loss)	(2,232)	12,282	16,516	523
Net income attributable to:				
Stockholders of the parent	6,094	12,609	11,109	352
Non-controlling interests	(1,945)	(525)	(662)	(21)
Total comprehensive income (loss) attributable to:				
Stockholders of the parent	(281)	12,796	17,035	539
Non-controlling interests	(1,951)	(514)	(519)	(16)
Earnings per share: [1]				
Basic	0.49	1.02	0.90	0.03
Diluted [2]	0.46	0.96	0.89	0.03
Common shares used in earnings per share calculation:				
Basic	12,464	12,346	12,334	12,334
Diluted [2]	13,289	13,150	12,719	12,719

Earnings per ADS equivalent:				
Basic	2.44	5.11	4.50	0.14
Diluted [2]	2.32	4.82	4.44	0.14

	As of				
	January 1, 2012	December 31, 2012	December 31, 2013	December 31, 2014	
	NT$	NT$	NT$	NT$	US$
	(in millions, except per share data)				
Consolidated Balance Sheets Data					
Total assets	279,336	281,214	293,914	310,648	9,831
Total liabilities	69,780	79,526	84,270	90,309	2,858
Stockholders equity	209,556	201,688	209,644	220,339	6,973
Capital stock [3]	130,845	129,521	126,946	127,303	4,029
Dividends declared per share [4]	1.11	0.50	0.40	0.50	0.02

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	For the years ended December 31,			
	2012	2013	2014	
	NT$	NT$	NT$	US$
	(in millions)			
Segment Data				
Net operating revenues				
Wafer fabrication	108,624	116,782	129,449	4,097
New business	7,051	7,030	10,563	334
Net income (loss) [5]				
Wafer fabrication	6,094	12,710	11,260	356
New business	(5,583)	(2,553)	(2,489)	79

(1) Earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year.
(2) Diluted securities include convertible bonds, employee stock options and employee bonus, if any.
(3) Changes to the number of the capital common shares are primarily caused by the share-based payment transactions and the cancellation of treasury stocks, if any.
(4) Dividends declared per share are in connection with earnings and accumulated additional paid-in capital.
(5) There are adjustments primarily consisted of intragroup elimination entries.

Currency Translations and Exchange Rates

In portions of this annual report, we have translated New Taiwan dollar amounts into U.S. dollars for the convenience of readers. The rate we used for the translations was NT$31.60 = US$1.00, which was the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2014. The translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that rate. The following table shows the noon buying rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00. On April 17, 2015, the noon buying rate was NT$31.05 to US$1.00.

	Average (1)	High	Low	At Period-End
2010	31.50	32.43	29.14	29.14
2011	29.38	30.67	28.50	30.27
2012	29.56	30.28	28.96	29.05
2013	29.73	30.20	29.93	29.83
2014	30.38	31.80	29.85	31.60
October	30.40	30.49	30.31	30.45
November	30.73	30.99	30.48	30.99
December	31.35	31.80	31.03	31.60
2015 (through April 17)	31.37	32.00	30.87	31.05
January	31.64	32.00	31.06	31.75
February	31.55	31.76	31.31	31.44
March	31.44	31.71	31.19	31.24
April (through April 17)	31.12	31.33	30.87	31.05

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Determined by averaging the rates on the last business day of each month during the relevant period for annual periods, and by averaging the rates on each business day for monthly periods.

B. Capitalization and Indebtedness

Not applicable.

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C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Related to Our Business and Financial Condition

Any global systemic political, economic and financial crisis or catastrophic natural disasters (as well as the indirect effects flowing therefrom) could negatively affect our business, results of operations, and financial condition.

In recent times, several major systemic economic and financial crises and natural disasters negatively affected global business, banking and financial sectors, including the semiconductor industry and markets. These types of crises cause turmoil in global markets that often result in declines in electronic products sales from which we generate our income through our goods and services. In addition, these crises may cause a number of indirect effects such as undermining the ability of our customers to remain competitive when faced with the financial and economic challenges created by insolvent countries and companies still struggling to survive in the wake of these crises. For example, there could be in the future knock-on effects from these types of crises on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products; customer insolvencies; and counterparty failures negatively impacting our treasury operations. Any future systemic political, economic or financial crises or catastrophic natural disasters (as well as the indirect effects flowing from these crises or disasters) could cause revenues for the semiconductor industry as a whole to decline dramatically, and if the economic conditions or financial condition of our customers were to deteriorate, additional accounting related allowances may be required in the future and such additional allowances could increase our operating expenses and therefore reduce our operating income and net income. Thus, any future global economic crisis or catastrophic natural disaster (and their indirect effects) could materially and adversely affect our results of operations.

In 2009, we established a 100% owned subsidiary, UMC New Business Investment Corporation, or NBI, to focus on investments in the solar energy, and light emitting diodes, or LED, light source module design, epi wafer manufacturing, and packaging. In recent years, the growth of solar energy and LED industries is adversely affected by the on-going anti-subsidy and anti-dumping investigations from various regions, the combination of an increase in supply coupled with a decrease in the availability of government subsidies and the decrease in the price of international crude oil resulted in an excess of supply in the solar energy and LED industries and negative pressure on the pricing. As a result, we recognized impairment for our investments in these industries made through NBI. If the solar energy and LED industries continue to encounter significant downturns or significant reductions of government subsidies, our investments made through NBI will be adversely affected which could adversely affect our results of operations.

The seasonality and cyclical nature of the semiconductor industry and periodic overcapacity make us particularly vulnerable to significant and sometimes prolonged economic downturns.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns. Since most of our customers operate in semiconductor-related industries, variations in order levels from our customers can result in volatility in our revenues and earnings. Because our business is, and will continue to be,

largely dependent on the requirements of semiconductor companies for our services, downturns in the semiconductor industry will lead to reduced demand for our services.

Our net operating revenues are also typically affected by seasonal variations in market conditions that contribute to the fluctuations of the average selling price of semiconductor services and products. The seasonal sales trends for semiconductor services and products closely mirror those for consumer electronics, communication and computer sales. We generally experience seasonal lows in the demand for semiconductor services and products during the first half of the year, primarily as a result of inventory correction by our customers. Any change in the general seasonal variations, which we cannot anticipate, may result in materially adverse effects on our revenues, operations and businesses.

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Our operating results fluctuate from quarter to quarter, which makes it difficult to predict our future performance.

Our revenues, expenses and results of operations have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. Our business and operations have at times in the past been negatively affected by, and are expected to continue to be subject to the risk of the following factors:

- the seasonality and cyclical nature of both the semiconductor industry and the markets served by our customers;
- our customers adjustments in their inventory;
- the loss of a key customer or the postponement of orders from a key customer;
- the rescheduling and cancellation of large orders;
- our ability to obtain equipment, raw materials, electricity, water and other required utilities on a timely and economic basis;
- outbreaks of contagious diseases, including severe acute respiratory syndrome, avian flu and swine flu;
- environmental events, such as fires and earthquakes, or industrial accidents; and
- technological changes.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our business, financial condition and results of operations. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods. In this event, the price of the common shares or ADSs may underperform or fall.

A decrease in demand for or selling prices of communication devices, consumer electronics and computer goods may decrease the demand for our services and reduce our margins.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other computers. The semiconductor industry experienced several downturns due to recent major financial crises and natural disasters. These downturns resulted in a reduced demand for our services and hence decreased our revenues and earnings. Any significant decrease in the demand for communication devices, consumer electronics, PCs or other computers may further

decrease the demand for our services. In addition, if the average selling price of communication devices, consumer electronics, PCs or other computers decline significantly, we will be pressured to further reduce our selling prices, which may reduce our revenues and, therefore, reduce our margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers will experience inventory buildup and/or difficulties in selling their products and, in turn, will reduce or cancel orders for wafers from us. The timing, severity and recovery of these downturns cannot be predicted accurately or at all. When they occur, our business, profitability and price of the common shares and ADSs are likely to suffer.

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Overcapacity in the semiconductor industry may reduce our revenues, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. For example, in light of the current market conditions, some companies, including our largest competitors, have announced plans to increase capacity expenditures significantly. We believe such plans, if carried out as planned, will increase the industry-wide capacity and are likely to result in overcapacity in the future. In periods of overcapacity, if we are unable to offset the adverse effects of overcapacity through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. We cannot give any assurance that an increase in the demand for foundry services in the future will not lead to overcapacity in the near future, which could materially adversely affect our revenues, earnings and margins.

Any problem in the semiconductor outsourcing infrastructure can adversely affect our net operating revenues and profitability.

Many of our customers depend on third parties to provide mask tooling, assembly and test services. If these customers cannot timely obtain these services on reasonable terms, they may not order any foundry services from us. This may significantly reduce our net operating revenues and negatively affect our profitability.

We may be unable to implement new technologies as they become available, which may result in the decrease of our profitability and the loss of customers and market share.

The semiconductor industry is developing rapidly and the related technology is constantly evolving. If we do not anticipate the technology evolution and rapidly adopt new and innovative technology, we may not be able to produce sufficiently advanced services at competitive prices. There is a risk that our competitors may adopt new technology before we do, resulting in our loss of market share. If we are unable to begin offering advanced services and processes on a competitive and timely basis, we may lose customers to our competitors providing similar technologies, which may cause our net operating revenues to decline unless we can replace lost customers with new customers. In addition, the market prices for advanced technology and services tend to fall over time. As a result, if we are unable to offer new advanced services and processes on a competitive and timely basis, we need to decrease the prices that we set for our existing services and processes, which would have a negative effect on our profitability. We also depend upon the introduction of new technologies on a timely basis in order to benefit from the relatively higher prices such new technologies offer in the earlier stages of their life cycles. If we are unable to introduce new technologies on a timely and competitive basis, we may not be able to benefit from the relatively higher prices for new technologies, and our average selling price and profits would decrease accordingly.

We may be unable to provide leading technology to our customers if we lose the support of our technology partners.

Enhancing our manufacturing process technologies is critical to our ability to provide services for our customers. We intend to continue to advance our process technologies through internal research and development and alliances with other companies. Although we have an internal research and development team focused on developing new and improved semiconductor manufacturing process technologies, we are also dependent on some of our technology partners to advance certain process technology portfolios. In addition, we currently have patent cross-licensing agreements with several companies, including International Business Machines Corporation, or IBM. Some mask and equipment vendors also supply our technology development teams with masks and equipment needed to develop more

advanced processing technologies. If we are unable to continue any of our joint development arrangements, patent cross-licensing agreements and other agreements, on mutually beneficial economic terms, if we re-evaluate the technological and economic benefits of such relationships, if we are unable to enter into new technology alliances and arrangements with other leading and specialty semiconductor companies, or if we fail to secure masks and equipment from our vendors in a timely manner sufficient to support our ongoing technology development, we may be unable to continue providing our customers with leading edge mass-producible process technologies and may, as a result, lose important customers, which would have a materially adverse effect on our businesses, results of operations and financial condition.

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In addition, some of our customers rely upon third-party vendors, or intellectual property vendors, for the intellectual property they embed into their designs. Although we work and collaborate with intellectual property vendors with respect to such matters, there can be no guarantee that we will be successful or that the vendors will deliver according to our requirements or the needs of our customers. Failures to meet the targets or to deliver on a timely basis could cause customers to cancel orders and/or shift capacity to other suppliers.

Our business may suffer if we cannot compete successfully in our industry.

The worldwide semiconductor foundry industry is highly competitive. We compete with dedicated foundry service providers such as Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as well as the foundry operation services of some integrated device manufacturers, such as IBM, Intel, Samsung Electronics, or Samsung, and Toshiba Corporation, or Toshiba. Integrated device manufacturers principally manufacture and sell their own proprietary semiconductor products, but may also offer foundry services. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to expand and develop substantial additional foundry capacity. New entrants and consolidations in the foundry business, such as the acquisition of Chartered Semiconductor by Globalfoundries in 2009, are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. Some of our competitors have greater access to capital and substantially greater production, research and development, marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

The principal elements of competition in the wafer foundry market include:

- technical competence;
- time-to-volume production and cycle time;
- time-to-market;
- research and development quality;
- available capacity;
- manufacturing yields;
- customer service and design support;
- price;

management expertise; and

strategic alliances.

Our ability to compete successfully also depends on factors partially outside of our control, including product availability, intellectual property, including cell libraries that our customers embed in their product designs, and industry and general economic trends. If we cannot compete successfully in our industry, our business may suffer.

We may not succeed in our efforts to acquire operations in China.

R.O.C. law prohibits Taiwan entities from investment in mainland China-based semiconductor manufacturers without government approval. Since 2005, we have entered into several transactions to increase our ownership of Hejian Technology (Suzhou) Co., Ltd., or Hejian, a semiconductor manufacturer owning an 8-inch fab in Suzhou, China. Hejian is a fully owned subsidiary of Infoshine Technology Limited, or Infoshine, and Infoshine is a fully owned subsidiary of Best Elite International Limited, or Best Elite. For more information about the transactions with Hejian and its holding companies, Infoshine and Best Elite, please see Item 4. Information on the Company A. History and Development of the Company .

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As part of these transactions, we need to obtain approvals from the Investment Commission of the R.O.C. Ministry of Economic Affairs, or the R.O.C. MOEA. Investments made by R.O.C. companies in PRC companies that engage in the semiconductor foundry business are strictly regulated by the R.O.C. government. For example, the investee may only manufacture semiconductor wafers of 8 inches or smaller, and the number of total investment projects in the semiconductor foundry business undertaken by the R.O.C. companies, taken as a whole, is limited by a quota. As of March 31, 2015, our cumulative ownership in Best Elite was 86.88%. While we have received approvals of the Investment Commission, Ministry of Economic Affairs, Executive Yuan for our acquisition of Best Elite s ordinary and preferred shares as well as the technology transfer between Hejian and us, we cannot assure you that we will be able to continue to receive approvals from the R.O.C. government authorities for further acquisitions or transactions in the future.

In addition, in October 2014, our board of directors resolved to enter into a three-way agreement to establish a new company named United Semiconductor (Xiamen) Co., Ltd., or UMC (Xiamen), to be based in Xiamen, China with the Xiamen Municipal People s Government and Fujian Electronics & Information Group. While we believe that this investment will comply with R.O.C. rules and regulations, we still need to obtain the requisite approvals from the PRC and R.O.C. government authorities. Although we have obtained the relevant approvals for the initial investment of US$710 million from the R.O.C. government on December 31, 2014, we cannot assure you that we will be able to obtain the other necessary approvals in the PRC and R.O.C. in the future. We also cannot assure you that this investment will fulfill our expectations of expanding our manufacturing scale, increasing our global foundry market share and stimulating revenue growth. If we are unable to obtain and maintain the required government approvals or achieve our business objectives with this company, our business prospects and results of operations could be materially and adversely affected. For more information about the investment, please see Item 4. Information on the Company A. History and Development of the Company .

We compete for business on a global basis, and we believe it is necessary to establish and develop operations in multiple strategic geographic regions. We cannot assure you that the mergers and acquisitions we have undertaken will be closed successfully or that they will be fully closed on the terms we proposed. The failure to close these transactions or the failure to close them on terms as favorable as we have entered into and announced may impair our ability to realize the benefits we intend to achieve and have a material and adverse effect on our operations and business.

We may not be able to implement our planned growth if we are unable to obtain the financing necessary to fund the substantial capital expenditures we expect to incur.

Our business and the nature of our industry require us to make substantial capital expenditures leading to a high level of fixed costs. The costs of facilities, tools and equipment to make semiconductors with advanced technology continue to rise, with each generation typically significantly more expensive than the larger-in-size more mature technologies which preceded. We expect to incur significant capital expenditures in connection with our growth plans. These capital expenditures will be made in advance of any additional sales to be generated by new or upgraded fabs as a result of these expenditures. Given the fixed-cost nature of our business, we have in the past incurred, and may in the future incur, operating losses if our revenues do not adequately offset our capital expenditures. Additionally, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in:

- our growth plan;

our process technology;

our research and development efforts and patent license arrangements;

market conditions;

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interest rates;

exchange rate fluctuations; and

prices of equipment.

We cannot assure you that additional financing will be available on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, we may be forced to curtail our expansion plans or delay the deployment of our services, which could result in a loss of customers and limit the growth of our business.

We depend on a small number of customers for a significant portion of our net operating revenues and any loss of these customers would result in significant declines in our net operating revenues.

We have been largely dependent on a small number of customers for a substantial portion of our business. In 2014, our top ten customers accounted for 54.6% of our net operating revenues. We expect that we will continue to depend upon a relatively limited number of customers for a significant portion of our net operating revenues. We cannot assure you that our net operating revenues generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Loss or cancellation of business from significant changes in scheduled deliveries to, or decreases in the prices of services sold to any of these customers could significantly reduce our net operating revenues.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenues, adjust production costs and allocate capacity efficiently on a timely basis. In addition, due to the cyclical nature of the semiconductor industry, our customers purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog, except in periods of extreme capacity shortage such as that experienced in late 2009 and early 2010. The lack of significant backlog and the unpredictable length and timing of semiconductor cycles make it difficult for us to forecast our revenues in future periods. Moreover, our expense levels are based in part on our expectations of future revenues, and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our net operating revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter.

Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technology and to secure critical processing technology that we do not own at commercially reasonable terms. We cannot assure you that in the future we will be able to independently develop, or secure from any third party, the technology required for upgrading our production facilities or for meeting our customer needs. Our failure to successfully obtain such technology may seriously harm our competitive position.

Our ability to compete successfully also depends on our ability to operate without infringing on the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States or in certain other countries until months after they are filed. The semiconductor industry, because of the complexity of the technology used and the multitude of patents, copyrights and other overlapping intellectual property rights, is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. It is common for patent owners to assert their patents against semiconductor manufacturers. We have received from time to time communications from third parties asserting patents that cover certain of our technologies and alleging infringement of intellectual property rights of others, and we expect to continue to receive such communications in the future. See

Item 4. Information on the Company B. Business Overview Litigation for more details of our ongoing litigation. In the event any third party was to make a valid claim against us or against our customers, we could be required to:

seek to acquire licenses to the infringed technology which may not be available on commercially reasonable terms, if at all;

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discontinue using certain process technologies, which could cause us to stop manufacturing certain semiconductors;

pay substantial monetary damages; and/or

seek to develop non-infringing technologies, which may not be feasible.

Any one of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial expenses for us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it could hurt our reputation as a technology leader in our industry and prevent us from manufacturing particular products or applying particular technologies, which could reduce opportunities to generate revenues.

Our operations and business will suffer if we lose one or more of our key personnel without adequate replacements.

Our future success to a large extent depends on the continued services of our Chairman and key executive officers. We do not carry key person insurance on any of our personnel. If we lose the services of any of our Chairman or key executive officers, it could be difficult to find and integrate replacement personnel in a short period of time, which could harm our operations and the growth of our business.

We may have difficulty attracting and retaining skilled employees, who are critical to our future success.

The success of our business depends upon attracting and retaining experienced executives, engineers and other employees to implement our strategy. The competition for skilled employees is intense. We expect demand for personnel in Taiwan to increase in the future as new wafer fabrication facilities and other businesses are established in Taiwan. We also expect demand for experienced personnel in other locations to increase significantly as our competitors establish and expand their operations. Some of our competitors are willing to offer better compensation than that we do to our executives, engineers and other employees. We do not have long-term employment contracts with any of our employees. If we were unable to retain our existing personnel or attract, assimilate and recruit new experienced personnel in the future, it could seriously disrupt our operations and delay or restrict the growth of our business.

Our transactions with affiliates and stockholders may hurt our profitability and competitive position.

We have provided foundry services to several of our affiliates and stockholders. These transactions were conducted on an arm s length basis. We currently do not provide any preferential treatment to any of these affiliates and stockholders. However, we may in the future reserve or allocate our production capacity to these companies if there is a shortage of foundry services in the market to enable these companies to maintain their operations and/or to protect our investments in them. This reservation or allocation may reduce our capacity available for our other customers, which may damage our relationships with other customers and discourage them from using our services. This may hurt our profitability and competitive position.

The trend of adopting protectionist measures in certain countries, including the United States, could have a material adverse impact on our results of operations and financial condition.

Governments in the United States, China and certain other countries have implemented fiscal and monetary programs to stimulate economic growth as a result of the recent economic downturn, and many of these programs include protectionist measures that encourage the use of domestic products and labor. Recent policy developments by the governments in China and elsewhere also suggest an increased unwillingness to allow international companies to invest in or acquire local businesses. Since many of our direct customers and other downstream customers in the supply chain are located in or have operations in the countries where protectionist measures were adopted, such protectionist measures may have a material adverse effect on demand for our manufacturing services.

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Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as avian or swine influenza or severe acute respiratory syndrome, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. Therefore, we may have to temporarily suspend part of or all of our operations. Furthermore, any future outbreak may restrict the level of economic activities in affected regions, including Taiwan, and affect the willingness and ability of our employees and customers to travel, which may also adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Currency fluctuations could increase our costs relative to our revenues, which could adversely affect our profitability.

More than half of our net operating revenues are denominated in currencies other than New Taiwan dollars, primarily in U.S. dollars. On the other hand, more than half of our costs of direct labor, raw materials and overhead are incurred in New Taiwan dollars. Although we hedge a portion of the resulting net foreign exchange position through the use of foreign exchange spot transactions, or currency forward contracts, we are still affected by fluctuations in foreign exchange rates among the U.S. dollar, the New Taiwan dollar and other currencies. Any significant fluctuation in exchange rates may impact on our financial condition and the U.S. dollar value of the ADSs and the U.S. dollar value of any cash dividends we distributed, which could have a corresponding effect on the market price of the ADSs.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified to improve manufacturing yields and product performance. Impurities or other difficulties in the manufacturing process or defects with respect to equipment or supporting facilities can lower manufacturing yields, interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although we have been enhancing our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. In the past we have encountered the following problems:

- capacity constraints due to changes in product mix or the delayed delivery of equipment critical to our production, including scanners, steppers and chemical stations;
- construction delays during expansions of our clean rooms and other facilities;
- difficulties in upgrading or expanding existing facilities;

manufacturing execution system or automatic transportation system failure;

unexpected breakdowns in our manufacturing equipment and/or related facilities;

changing or upgrading our process technologies;

raw materials shortages and impurities; and

delays in delivery and shortages of spare parts and in maintenance for our equipment and tools.

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Should these problems repeat, we may suffer delays in delivery and/or loss of business and revenues. In addition, we cannot guarantee that we will be able to increase our manufacturing capacity and efficiency in the future to the same extent as in the past.

Our profit margin may substantially decline if we are unable to continuously improve our manufacturing yields, maintain high capacity utilization and optimize the technology mix of our silicon wafer production.

Our ability to maintain our profitability depends, in part, on our ability to:

- maintain high capacity utilization, which is defined as the ratio of the wafer-out quantity of 8-inch wafer equivalents divided by our estimated total 8-inch equivalent capacity in a specified period. The estimated capacity figures may vary depending upon equipment delivery schedules, pace of migration to more advanced processing technologies and other factors affecting production ramp-ups;

- maintain or improve our manufacturing yields, which is defined as the percentage of usable devices manufactured on a wafer; and

- optimize the technology mix of our production by increasing the number of wafers manufactured by utilizing different processing technologies.

Our manufacturing yields directly affect our ability to attract and retain customers, as well as the price of our services. Our capacity utilization affects our operating results because a large percentage of our operating costs are fixed. Our technology mix affects utilization of our equipment and process technologies, as well as the prices we can charge, either of which can affect our margins. If we are unable to continuously improve our manufacturing yields, maintain high capacity utilization or optimize the technology mix of our wafer production, our profit margin may substantially decline.

We may have difficulty in ramping up production in accordance with our schedule, which could cause delays in product deliveries and decreases in manufacturing yields.

As is common in the semiconductor industry, we have from time to time experienced difficulties in ramping up production at new or existing facilities or effecting transitions to new manufacturing processes. As a result, we have suffered delays in product deliveries or reduced manufacturing yields. We may encounter similar difficulties in connection with:

- the migration to more advanced process technologies, such as 45/40 and 28-nanometer and more advanced process technology;

- the joint development with vendors for more powerful tools (both in production and inspection) needed in the future to meet advanced process technology requirements; and

the adoption of new materials in our manufacturing processes.

We may face construction delays, interruptions, infrastructure failure and delays in upgrading or expanding existing facilities, or changing our process technologies, any of which might adversely affect our production schedule. Our failure to achieve our production schedule could delay the time required to recover our investments and seriously affect our profitability.

Our production schedules could be delayed and we may lose customers if we are unable to obtain raw materials and equipment in a timely manner.

We depend on our suppliers for raw materials. To maintain competitive manufacturing operations, we must obtain from our suppliers, in a timely manner, sufficient quantities of quality materials at acceptable prices. Although we source our raw materials from several suppliers, a small number of these suppliers account for a substantial amount of our supply of raw materials because of the consistent quality of their products. For example, in 2013 and 2014, we purchased a majority of our silicon wafers from four makers, Shin-Etsu Handotai Corporation, or Shin-Etsu, Siltronic AG, SunEdison Corporation and Sumco Group (including Sumco Corporation and Formosa Sumco Technology Corporation). We may have long-term contracts with most of our suppliers if necessary. From time to time, our suppliers have extended lead time or limited the supply of required materials to us because of capacity constraints. Consequently, from time to time, we have experienced difficulty in obtaining the quantities of raw materials we need on a timely basis.

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In addition, from time to time we may reject materials that do not meet our specifications, resulting in declines in output or manufacturing yields. We cannot assure you that we will be able to obtain sufficient quantities of raw materials and other supplies in a timely manner. If the supply of materials is substantially diminished or if there are significant increases in the costs of raw materials, we may be forced to incur additional costs to acquire sufficient quantities of raw materials to sustain our operations, which may increase our marginal costs and reduce profitability.

We also depend on a limited number of manufacturers and vendors that make and maintain the complex equipment we use in our manufacturing processes. We also rely on these manufacturers and vendors to improve our technology to meet our customers demands as technology improves. In periods of unpredictable and highly diversified market demand, the lead time from order to delivery of this equipment can be as long as six to twelve months. If there are delays in the delivery of equipment or in the availability or performance of necessary maintenance, or if there are increases in the cost of equipment, it could cause us to delay our introduction of new manufacturing capacity or technologies and delay product deliveries, which may result in the loss of customers and revenues.

We may be subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. While we believe that our insurance coverage for damage to our property and business interruption due to fire is consistent with semiconductor industry practice, our insurance coverage is subject to deductibles and self-insured retention and may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of a fire, it would temporarily reduce manufacturing capacity and reduce revenues.

We and many of our customers and suppliers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our assets and many of our customers and suppliers are located in certain parts of Taiwan. Our operations and the operations of our customers and suppliers are vulnerable to earthquakes, floods, droughts, power losses and similar events that affect the locations of our operations. The occurrence of any of these events could interrupt our services and cause severe damages to wafers in process, or cause significant business interruptions. Although we maintain property damage and business interruption insurance for such risks, there is no guarantee that future damages or business loss from earthquakes will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient. In addition, our manufacturing facilities have occasionally experienced insufficient power supplies, and our operations have been disrupted.

Our operations may be delayed or interrupted and our business could suffer if we violate environmental, safety and health, or ESH, regulations.

The semiconductor manufacturing process requires the use of various gases, chemicals, hazardous materials and other substances such as solvents and sulfuric acid which may have an impact on the environment. We are always subject to ESH regulations, and a failure to manage the use, storage, transportation, emission, discharge, recycling or disposal of raw materials or to comply with these ESH regulations could result in (i) regulatory penalties, fines and other legal liabilities, (ii) suspension of production or delays in operation and capacity expansion, (iii) a decrease in our sales, (iv) an increase in pollution cleaning fees and other operation costs, or (v) damage to our public image, any of which could harm our business. In addition, as ESH regulations are becoming more comprehensive and stringent, we may

incur a greater amount of capital expenditures in technology innovation and materials substitution in order to comply with such regulations, which may adversely affect our results of operations.

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Climate change may negatively affect our business.

There is increasing concern that climate change is occurring and may have dramatic effects on human activity without aggressive remediation steps. A modest change in temperature would result in increased coastal flooding, changing precipitation patterns and increasing risk of extinction for the world s species. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs.

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. Various regulatory developments have been introduced that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase at higher costs emission credits, new equipment or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted could affect our operations negatively. Changes in environmental regulations, such those on the use of perfluorinated compounds, could increase our production costs, which could adversely affect our results of operation and financial condition.

In addition, more frequent droughts and floods, extreme weather conditions and rising sea levels could occur due to climate change. The impact of such changes could be significant as most of our factories are located in islands including Taiwan and Singapore. For example, transportation suspension caused by extreme weather conditions could harm the distribution of our products. Similarly, our operations depend upon adequate supplies of water, and extended or serious droughts may affect our ability to obtain adequate supplies of water and threaten our production. We cannot predict the economic impact, if any, of disasters or climate change.

Disruptions in the international trading environment may seriously decrease our international sales.

A substantial portion of our net operating revenues is derived from sales to customers located in countries other than the countries where our fabs are located. In 2012, we operated fabs in Taiwan, Singapore and Japan. In 2013, we operated fabs in Taiwan, Singapore, Japan and China. In 2014, we operated fabs in Taiwan, Singapore and China. For the years ended December 31, 2012, 2013 and 2014, we generated approximately 33.4%, 30.1% and 42.6% of our net operating revenues, respectively, from other than the countries where our fabs are located. We expect sales to customers from countries outside of Taiwan, Singapore and China will continue to represent a significant portion of our net operating revenues. The success and profitability of our international activities depend on certain factors beyond our control, such as general economic conditions, labor conditions, political stability, tax laws, import duties and foreign exchange controls of the countries in which we sell our products, and the political and economic relationships between these countries. As a result, our manufacturing services will continue to be vulnerable to disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns.

These disruptions in the international trading environment affect the demand for our manufacturing services and change the terms upon which we provide our manufacturing services overseas, which could seriously decrease our international sales.

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Political, Economic and Regulatory Risks

We face substantial political risks associated with doing business in Taiwan, particularly due to the tense relationship between the R.O.C. and the People s Republic of China, or the PRC, that could negatively affect the value of your investment.

Our principal executive offices and most of our assets and operations are located in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our common shares and the ADSs may be affected by changes in R.O.C. governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established between the R.O.C. and the PRC in the past few years, such as the adoption of the Economic Cooperation Framework Agreement and memorandum regarding cross-strait financial supervision, we cannot assure you that relations between the R.O.C. and PRC will not become strained again. For example, the PRC government has refused to renounce the use of military force to gain control over Taiwan and, in March 2005, passed an Anti-Secession Law that authorized non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the R.O.C. and the PRC have on occasions depressed the market prices of the securities of companies in the R.O.C. Such initiatives and actions are commonly viewed as having a detrimental effect to reunification efforts between the R.O.C. and the PRC. Relations between the R.O.C. and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Our business depends on the support of the R.O.C. government, and a decrease in this support may increase our labor costs and decrease our income after tax.

The R.O.C. government has been very supportive of technology companies. For instance, the R.O.C. s labor laws and regulations permit employees of semiconductor companies to work shifts of 10 hours each day on a two-days-on, two-days-off basis and do not require these employees to be unionized. We cannot assure you, however, that these labor laws and regulations will not be changed in the future. In the event that the R.O.C. government requires our employees to be unionized or decreases the number of hours our employees may work in a given day, our labor costs may increase significantly which could result in lower margins.

We, like many R.O.C. technology companies, have benefited from substantial tax incentives provided by the R.O.C. government. Among the incentives broadly enjoyed by R.O.C. technology companies, various tax benefits granted under Chapter 2 and Article 70-1 of the Statute for Upgrading Industries expired on December 31, 2009. Despite the fact that we can still enjoy the tax holidays for the relevant investment plans approved by R.O.C. tax authority before the expiration of the Statute for Upgrading Industries which is currently expected to expire in 2020, if more incentives are curtailed or eliminated, our net income may decrease significantly.

Our future tax obligations may adversely affect our profitability.

The R.O.C. government enacted the R.O.C. Income Basic Tax Act, also known as the Alternative Minimum Tax Act , or the AMT Act, which became effective on January 1, 2006 to impose an alternative minimum tax and to remedy the currently excessive tax incentives for individuals and businesses. AMT is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the AMT Act. For the purpose of calculating the AMT, the taxable income defined under the AMT Act includes most income

that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits.

For businesses, the income that previously enjoyed tax-exemption privileges under relevant tax regulations, such as Act for the Establishment and Administration of the Science Parks and Statute for Upgrading Industries, will be subject to the AMT system for the calculation of business taxpayers aggregate incomes. The AMT rate for business entities was 10% prior to 2013 and has increased to 12% since 2013. Under the AMT Act, a company will be subject to a 12% AMT if its annual taxable income under the Statute exceeds NT$0.5 million. However, the AMT Act grandfathered certain tax exemptions granted prior to the enactment of the AMT. For example, businesses who already qualified for five-year tax holidays and obtained the applicable permission issued by the competent authority before December 31, 2005 may continue to enjoy such tax incentives, and the income exempted thereunder will not to be added to the taxable income for calculating the AMT, so long as the construction of their investment projects breaks ground within one year from January 1, 2006 and was completed within three years from the day immediately following their receipts of the applicable permission issued by the competent authority. As the tax exemption periods expire or in the event of an increase in other taxable income subject to the AMT Act, it may adversely impact our net income after tax.

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Compliance with laws such as the US Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.

Many industries rely on materials which are subject to regulations concerning certain minerals sourced from the Democratic Republic of Congo, or the DRC, or adjoining countries, including: Sudan; Uganda; Rwanda; Burundi; United Republic of Tanzania; Zambia; Angola; Congo; and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au], Wolframite (derivative of tungsten [W]), and Cobalt [Co]. Under present U.S. regulations, we and our customers are required to survey and disclose whether our processes or products use or rely on conflict materials. On August 22, 2012, the U.S. SEC adopted the final rule for disclosing the use of conflict minerals that require companies similar to us to make a report in a type and format similar to Form D to disclose the use of conflict materials on an annual basis on or prior to May 31 each year. In order to comply with the aforementioned rules and regulations promulgated by the U.S. SEC, we will continue to verify the relevant information with our vendors and file the required report. Although we expect that we and our vendors will be able to comply with the requirements of the US Conflict Minerals law and any new related regulations promulgated by the U.S. SEC, we cannot assure you that we will be able to gather all the information required to comply with such regulations. While we believe our suppliers do not rely on such conflict materials, we cannot assure you that we will continue to be able to obtain adequate supplies of materials needed in our production from supply chains outside the DRC and adjoining countries. The failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries may delay our production, increasing the risk of losing customers and business.

Similarly, many jurisdictions have promulgated regulations with the intention to deter disregard and contempt for human rights within supply chains. Although our own operations comply with the relevant requirements under the laws of the jurisdictions where we have operations, possible violation by our suppliers may not be known to us and beyond our control. While we believe our suppliers comply with applicable human rights requirements, there can be no guarantee that they will continue to do so, or that we will be able to obtain the necessary information on their activities to comply with whatever future requirements may be enacted.

Data security and data privacy considerations and regulations may adversely affect our operations.

Our operations depend upon reliable and uninterrupted information technology services, including the integrity of our web-based and electronic customer service systems. Although we have put in place what we believe are reasonable precautions to prevent accidental and/or malicious disruption of these services, there can be no assurance that our preventive measures will preclude failure of the information technology, web-based and electronic customer service systems upon which our business depends. Disruption of these systems could adversely affect our ability to manufacture and to serve our customers.

In addition, in the course of our operations, we receive confidential information from and about our customers, vendors, partners and employees. Although we take what we believe are reasonable precautions to protect such information from disclosure to or interruption, there are no guarantees our precautions will prevent accidental or malicious access to such information. In the event of such access, our reputation could be adversely affected, customers and others may hesitate to entrust us with their confidential information, which would negatively affect our operations, and we would incur costs to remedy the breach.

Moreover, many jurisdictions have proposed regulations concerning data privacy. Although we have taken measures to comply with existing law and regulations in this regard, future laws may impose requirements that make our operations more expensive and/or less efficient. In addition, should we experience a breakdown in our systems or

failure in our precautions that results in a violation of such regulations, we may suffer adverse customer reaction and face governmental penalties.

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Risks Related to the Common Shares and ADSs and Our Trading Markets

Restrictions on the ability to deposit common shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit common shares into our ADS program is restricted by R.O.C. law. Under current R.O.C. law, no person or entity, including you and us, may deposit common shares into our ADS program without specific approval of the R.O.C. FSC except for the deposit of the common shares into our ADS program and for the issuance of additional ADSs in connection with:

(1) distribution of share dividends or free distribution of our common shares;

(2) exercise of the preemptive rights of ADS holders applicable to the common shares evidenced by ADSs in the event of capital increases for cash; or

(3) delivery of our common shares which are purchased in the domestic market in Taiwan directly by the investor or through the depositary or are already in the possession of the investor to the custodian for deposit into our ADS program, subject to the following conditions: (a) the re-issuance is permitted under the deposit agreement and custody agreement, (b) the depositary may accept deposit of those common shares and issue the corresponding number of ADSs with regard to such deposit only if the total number of ADSs outstanding after the issuance does not exceed the number of ADSs previously approved by the R.O.C. FSC, plus any ADSs issued pursuant to the events described in (1) and (2) above and (c) this deposit may only be made to the extent previously issued ADSs have been withdrawn.

As a result of the limited ability to deposit common shares into our ADS program, the prevailing market price of our ADSs on the NYSE may differ from the prevailing market price of the equivalent number of our common shares on the Taiwan Stock Exchange.

Holders of our ADSs will not have the same proposal or voting rights as the holders of our common shares, which may affect the value of your investment.

Except for treasury common shares and common shares held by our subsidiaries which meet certain criteria provided under the R.O.C. Company Act, each common share is generally entitled to one vote and no voting discount will be applied. However, except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to the common shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to the common shares represented by the ADSs. The voting rights attached to the common shares evidenced by our ADSs must be exercised as to all matters brought to a vote of stockholders collectively in the same manner.

Moreover, holders of the ADSs do not have individual rights to propose any matter for stockholders votes at our stockholders meetings. However, holders of at least 51% of the ADS outstanding at the relevant record date may request the depositary to submit to us one proposal per year for consideration at our annual ordinary stockholders meeting, provided that such proposal meets certain submission criteria and limitations, including the language and the length of the proposal, the time of submission, the required certification or undertakings, and the attendance at the annual ordinary stockholders meeting. A qualified proposal so submitted by the depositary will still be subject to

review by our board of directors and there is no assurance that the proposal will be accepted by our board of directors for inclusion in the agenda of our annual ordinary stockholders meeting. Furthermore, if we determine, at our discretion, that the proposal submitted by the depositary does not qualify, we have no obligation to notify the depositary or to allow the depositary to modify such proposal.

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Furthermore, if holders of at least 51% of the ADSs outstanding at the relevant record date instruct the depositary to vote in the same manner regarding a resolution, including election of directors, the depositary will appoint our Chairman, or his designee, to represent the ADS holders at the stockholders meetings and to vote the common shares represented by the ADSs outstanding in the manner so instructed. If by the relevant record date the depositary has not received instructions from holders of ADSs holding at least 51% of the ADSs to vote in the same manner for any resolution, then the holders will be deemed to have instructed the depositary to authorize and appoint our Chairman, or his designee, to vote all the common shares represented by ADSs at his sole discretion, which may not be in your interest.

The rights of holders of our ADSs to participate in our rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our stockholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the R.O.C. Central Bank of China, or the CBC, or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and
- any cash dividends or distributions received from the common shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the CBC will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in international economic conditions.

Our public stockholders may have more difficulty protecting their interests than they would as stockholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and by laws governing R.O.C. corporations. The rights of our stockholders to bring stockholders suits against us or our board of directors under R.O.C. law are much more limited than those of the stockholders of U.S. corporations. Therefore, our public stockholders may have more difficulty protecting their interests in connection with actions taken by our management, members of our board of directors or controlling stockholders than they would as stockholders of a U.S. corporation. Please refer to Item 10. Additional Information B. Memorandum and Articles of Association Rights to Bring Stockholders Suits included elsewhere in this annual report for a detailed discussion of the rights of our stockholders to bring legal actions against us or our directors under R.O.C. law.

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Holders of our ADSs will be required to appoint several local agents in Taiwan if they withdraw common shares from our ADS program and become our stockholders, which may make ownership burdensome.

Non-R.O.C. persons wishing to withdraw common shares represented by their ADSs from our ADS program and hold our common shares represented by those ADSs are required to, among other things, appoint a local agent or representative with qualifications set forth by the applicable R.O.C. laws and regulations to open a securities trading account with a local brokerage firm, pay R.O.C. taxes, remit funds and exercise stockholders rights. In addition, the withdrawing holders are also required to appoint a custodian bank or a securities firm with qualifications set forth by the R.O.C. FSC to hold the securities in safekeeping, make confirmations, settle trades and report all relevant information, in which the securities firm is appointed as the custodian, the payments shall be held in safekeeping in a special account opened in a bank approved by the R.O.C. FSC. Without making this appointment and opening of the accounts, the withdrawing holders would not be able to subsequently sell our common shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange. Under R.O.C. law and regulations, except under limited circumstances, PRC persons are not permitted to withdraw the common shares underlying the ADSs or to register as a stockholder of our company. Under the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors promulgated by the R.O.C. Executive Yuan on April 30, 2009, as amended, only qualified domestic institutional investors, or QDIIs and limited entities or individuals, are permitted to withdraw the common shares underlying the ADSs, subject to compliance with the withdrawal relevant requirements, and only QDIIs, and limited entities or individuals who meet the qualification requirements set forth therein are permitted to own common shares of an R.O.C. company listed for trading on the Taiwan Stock Exchange or the GreTai Securities Market, provided that among other restrictions generally applicable to investments made by PRC persons, their shareholdings are subject to certain restrictions as set forth in the abovementioned regulations and that such mainland area investors shall apply for a separate approval if their investment, individually or in aggregate, amounts to or exceeds 10 percent of the common shares of any R.O.C. listing company.

You may not be able to enforce a judgment of a foreign court in the R.O.C.

We are a company limited by shares incorporated under the R.O.C. Company Act. Most of our assets and most of our directors, executive officers and experts named in the registration statement are located in Taiwan. As a result, it may be difficult for you to enforce judgments obtained outside Taiwan upon us or such persons in Taiwan. We have been advised by our R.O.C. counsel that any judgment obtained against us in any court outside the R.O.C. arising out of or relating to the ADSs will not be enforced by R.O.C. courts if any of the following situations shall apply to such final judgment:

- the court rendering the judgment does not have jurisdiction over the subject matter according to R.O.C. law;
- the judgment or the court procedure resulting in the judgment is contrary to the public order or good morals of the R.O.C.;
- the judgment was rendered by default, except where the summons or order necessary for the commencement of the action was legally served on us within the jurisdiction of the court rendering the judgment within a reasonable period of time or with judicial assistance of the R.O.C.; or

judgments of the R.O.C. courts are not recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

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We may be considered a passive foreign investment company, which could result in adverse U.S. tax consequences for U.S. investors.

We do not believe that we were a passive foreign investment company, or PFIC, for 2014 and we do not expect to become one in the future, although there can be no assurance in this regard. Based upon the nature of our business activities, we may be classified as a passive foreign investment company for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor.

For example, if we are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of common shares and ADSs, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have raised in prior offerings. See Taxation U.S. Federal Income Tax Considerations For U.S. Persons Passive Foreign Investment Company.

The trading price of the common shares and ADSs may be adversely affected by the general activities of the Taiwan Stock Exchange and U.S. stock exchanges, the trading price of our common shares, increases in interest rates and the economic performance of Taiwan.

Our common shares are listed on the Taiwan Stock Exchange. The trading price of our ADSs may be affected by the trading price of our common shares on the Taiwan Stock Exchange and the economic performance of Taiwan. The Taiwan Stock Exchange is smaller and, as a market, more volatile than the securities markets in the United States and some European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange is particularly volatile during times of political instability, such as when the relationship between Taiwan and the PRC becomes tense. Moreover, the Taiwan Stock Exchange has experienced disturbance caused by market manipulation, insider trading and payment defaults, and the government of Taiwan has from time to time intervened in the stock market by purchasing stocks listed on the Taiwan Stock Exchange. The recurrence of these or similar events could deteriorate the price and liquidity of our common shares and ADSs.

The market price of the ADSs may also be affected by general trading activities on the U.S. stock exchanges, which recently have experienced significant volatility with respect to trading prices of technology companies. Fluctuation in interest rates and other general economic conditions may also influence the market price of the ADSs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is United Microelectronics Corporation, commonly known as UMC . We were incorporated under the R.O.C. Company Law as a company limited by shares in May 1980 and our common shares were listed on the Taiwan Stock Exchange in 1985. Our principal executive office is located at No. 3 Li-Hsin Road II,

Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number is 886-3-578-2258. Our Internet website address is www.umc.com. The information on our website does not form part of this annual report. Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000.

We are one of the world s largest independent semiconductor foundries and a leader in semiconductor manufacturing process technologies. Our primary business is the manufacture, or fabrication , of semiconductors, sometimes called chips or integrated circuits , for others. Using our own proprietary processes and techniques, we make chips to the design specifications of our many customers. Our company maintains a diversified customer base across industries, including communication, consumer electronics, computer, and others, while continuing to focus on manufacturing for high growth, large volume applications, including networking, telecommunications, internet, multimedia, PCs and graphics. We sell and market mainly wafers which in turn are used in a number of different applications by our customers. Percentages of our gross wafer sales derived from our products used in communication devices, consumer electronics, computer and other applications were 50.6%, 28.8%, 16.3% and 4.3%, respectively, in 2014.

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We focus on the development of leading mass-producible manufacturing process technologies. We were among the first in the foundry industry to go into commercial operation with such advanced capabilities as producing integrated circuits with line widths of 0.25, 0.18, 0.15, 0.13 micron and 90, 65, 45/40, 28, 14 and 10 nanometer. Advanced technologies have enabled electronic products, especially in relation to communication, consumer and computer products, to integrate their functions in new and innovative methods. Networking capabilities have allowed electronic products such as computers, tablets, cell phones, televisions, PDAs, CD-ROMs and digital cameras to communicate with each other to exchange information. More powerful semiconductors are required to drive multimedia functions (e.g., processing visual data) and to resolve network bandwidth issues. At the same time, the trend toward personal electronic devices has resulted in products that are becoming physically smaller and consume less power. Process technology must also shrink the volumes of products aggressively to cater to this trend of integrating multiple functions, reducing the size of components needed for operation and lowering IC power consumption. Dedicated semiconductor foundries need to achieve this process improvement and at the same time develop multiple process technologies to satisfy the varying needs of communication, consumer and computer products. We believe our superior process technologies will enable us to continue to offer our customers significant performance benefits for their products, faster time-to-market production, cost savings and other competitive advantages.

We provide high quality service based on our performance. In today s marketplace, we believe it is important to make available not only the most manufacturable processes, but also the best solutions to enable customers to design integrated circuits that include entire systems on a chip. Through these efforts, we intend to be the foundry solution for SoC customer needs. To achieve this goal, we believe it is necessary to timely develop and offer the intellectual property and design support that customers need to ensure their specific design blocks work with the other design blocks of the integrated circuit system in the manner intended. Accordingly, we have a dedicated intellectual property and design support team which focuses on timely development of the intellectual property and process specific design blocks our customers need in order to develop products that operate and perform as intended. Our design service team actively cooperates with our customers and vendors of cell libraries and intellectual property offerings to identify, early in the product/market cycle, the offerings needed to ensure that these coordinated offerings are available to our customers in silicon verified form in a streamlined and easy-to-use manner. As a result, we are able to ensure the timely delivery of service offerings from the earliest time in the customer design cycle, resulting in a shorter time-to-volume production. We also provide our customers with real-time online access to their confidential production data, resulting in superior communication and efficiency. We further address our customers needs using our advanced technology and proven methodology to achieve fast cycle time, high yield, production flexibility and close customer communication. For example, we select and configure our clean rooms and equipment and develop our processes to maximize the flexibility in meeting and adapting to rapidly changing customer and industry needs. As a result, our cycle time, or the period from customer order to wafer delivery, and our responsiveness to customer request changes are among the fastest in the dedicated foundry industry. We also provide high quality service and engineering infrastructure.

Our production capacity is comparable to that of certain largest companies in the semiconductor industry, and we believe our leading edge and high volume capability is a major competitive advantage.

Our technology and service have attracted two principal types of foundry industry customers: fabless design companies and integrated device manufacturers. Fabless design companies design, develop and distribute proprietary semiconductor products but do not maintain internal manufacturing capacity. Instead, these companies depend on outside manufacturing sources. Integrated device manufacturers, in contrast, traditionally have integrated internally all functions manufacturing as well as design, development, sales and distribution.

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Texas Instruments, Intel Mobile and STMicroelectronics, and leading fabless design companies, such as Xilinx,

Broadcom, MediaTek, Realtek and Novatek. In 2014, our company s top ten customers accounted for 54.6% of our net operating revenues. We believe our success in attracting these customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance.

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In addition to our semiconductor foundry business, we also established UMC New Business Investment Corporation to focus on investments in the solar energy and LED industries.

On March 16, 2011, our board of directors proposed an offer to the stockholders of Best Elite International Limited, a British Virgin Islands corporation, or Best Elite, to acquire up to an additional 30% equity interest of Best Elite. Hejian is a wholly owned subsidiary of Infoshine, which is a wholly owned subsidiary of Best Elite. Hejian engages in the semiconductor foundry business and owns an 8-inch fab in Suzhou, China. We received approval from the Investment Commission, Ministry of Economic Affairs, Executive Yuan on November 1, 2011, and as of December 31, 2012, we held a 35.03% equity stake in Best Elite, which included the 15.34% equity stake held by the trustee that was originally offered to us in March 2005, plus an additional 19.69% equity stake that was purchased from shareholders pursuant to the March 2011 offer. In order to further integrate and increase our ownership of Best Elite, on April 25, 2012, our board of directors proposed a new offer to the shareholders of Best Elite to acquire up to 64.97% of the issued and outstanding share capital of Best Elite. We received approval from the Investment Commission, Ministry of Economic Affairs, Executive Yuan on December 21, 2012 and acquired an additional 51.85% of the issued and outstanding share capital of Best Elite which we purchased through the April 25, 2012 offer. As of March 31, 2015, our cumulative ownership in Best Elite was 86.88%.

We and Alpha Wisdom Limited, or AWL, together held 94.79% of UMCJ s issued and outstanding share capital as of December 31, 2009 and UMCJ then delisted from the Jasdaq Securities Exchange in accordance with its listing rules on March 19, 2010. Since not all of the outstanding equity securities of UMCJ were acquired, we initiated certain squeeze-out procedures as provided in the Japanese Companies Act. Pursuant to such procedures, as of the end of 2010, we, together with AWL, owned 100% of UMCJ. On May 19, 2011, we acquired the remaining outstanding equity securities of UMCJ from AWL, and AWL filed for liquidation on August 30, 2011.

On August 21, 2012, our board of directors approved the dissolution and liquidation of UMCJ. We decided to close our foundry operations in Japan to focus on our manufacturing facilities in Taiwan and Singapore and reduce operating expenses. On November 28, 2013, we sold all our equity securities of UMCJ to Mach Semiconductor Co., Ltd., and, to continuously serve our Japanese customers, we established UMC Group Japan as our new regional sales hub.

On August 29, 2014, we and Fujitsu Semiconductor Limited, or Fujitsu, announced an agreement where we invested ¥5 billion as an initial investment and received approximately 9.3% of the issued and outstanding share capital to became a minority shareholder of a newly formed subsidiary of Fujitsu named Mie Fujitsu Semiconductor Limited, or MIFS, which will operate a 300mm wafer manufacturing facility located in Kuwana, Mie, Japan. Through this relationship with us, MIFS will aim to expand its business globally as a pure-play foundry company by strengthening its production and development capacity in a cost competitive manner.

On October 9, 2014, our board of directors approved an agreement with the Xiamen Municipal People s Government and Fujian Electronics & Information Group to found a new company named United Semiconductor (Xiamen) Co., Ltd., or UMC (Xiamen), based in Xiamen, China that will focus on 12-inch wafer foundry services. We anticipate that we may invest up to US$1.35 billion in UMC (Xiamen) over the next five years, with our investment starting in 2015 that will be deployed in installments based on the progress of this company. UMC (Xiamen) will manufacture 12-inch wafers and initially offer 55 nanometer and 40 nanometer process technologies. Our participation in UMC (Xiamen) will comply with R.O.C. rules and regulations and will be subject to the review and approval by the relevant R.O.C. authorities. We have obtained the initial investment approval from the R.O.C. government on December 31, 2014.

On December 24, 2014, we transferred our 6-inch fabrication plant, or FAB6A, including machinery equipment and building facilities to our subsidiary, Wavetek Microelectronics Corporation, or Wavetek, in order to further satisfy

customer needs in the fast growing GaAs market and to improve the 6-inch fabrication operational efficiency among our group by fully utilizing the existing assets and resources.

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On December 26, 2014, our subsidiary, Topcell Solar International Co., Ltd., or Topcell, announced its plans to merge with Motech Industries, Inc., or Motech, through a share exchange transaction. The share exchange conversion will be six ordinary shares of Topcell into one newly-issued ordinary share of Motech. Upon completion of the merger, Motech will be the surviving company while Topcell Solar will be absorbed. Our share ownership of Motech after the completion of the merger will be approximately 9% of the issued and outstanding share capital of Motech, which would make us the second largest shareholder of Motech. Although the proposed record date of the merger transaction is currently set on July 1, 2015, the merger must be subject to the approvals from both provisional shareholders meeting and the relevant government authorities.

Please refer to Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources for a discussion of our capital expenditures in the past three years and the plan for the current year.

Our Strategy

To maintain and enhance our position as a market leader, we have adopted a business strategy with a focus on a partnership business model designed to accommodate our customers business needs and objectives and to promote their interests as our partners. We believe that our success and profitability are inseparable from the success of our customers. The goal in this business model is to create a network of partnerships or alliances among integrated device manufacturers, intellectual property and design houses, as well as foundry companies. We believe that we and our partners will benefit from the synergy generated through such long-term partnerships or alliances and the added value to be shared among the partners. The key elements of our strategy are:

Operate as a Customer-Driven Foundry. We plan to operate as a customer-driven foundry. The increasing complexity of 40 nanometer, 28 nanometer, and more advanced technologies has impacted the entire chip industry, as ICs can now be designed with greater gate density and higher performance while incorporating the functions of an entire system. These advanced designs have created a new proliferating market of advanced digital devices such as smart phones, which have decreased in size but greatly increased in functionality. We collaborate closely with our customers as well as partners throughout the entire supply chain, including equipment, electronic design automation tool and intellectual property vendors to work synergistically toward each customer s SoC solution. We also possess experience and know-how in system design and architecture to integrate customer designs with advanced process technologies and intellectual property. We believe the result is a higher rate of first-pass silicon success for our SoC solutions. Our customer-driven foundry solutions begin with a common logic-based platform, where designers can choose the process technologies and transistor options that best fit their specific application. From there, technologies such as radio frequency complementary metal-oxide-semiconductor, or RF CMOS, and embedded Flash memories can be used to further fine-tune the process for customers individual needs. Furthermore, as intellectual property has become critical resources for SoCs, our portfolio includes basic design building blocks as well as more complex intellectual property of optimized portability and cost, developed both internally and by third-party partners. With advanced technology, a broad intellectual property portfolio, system knowledge and advanced 300-millimeter manufacturing, we offer comprehensive solutions that help customers deliver successful results in a timely fashion.

Build up Customer-focused Partnership Business Model. We have focused on building partnership relationships with our customers, and we strive to help our customers achieve their objectives through close cooperation. Unlike the traditional buy-and-sell relationship between a foundry and its customers, we believe our partnership business model will help us understand our customers requirements and, accordingly, better accommodate our customers needs in a number of ways, such as customized processes and services that optimize the entire value chain (not just the foundry portion) and intellectual property-related support. We believe that this business model will enable us to deliver our products to our customers at the earliest time our customers require for their design cycle, resulting in shorter time-to-market and time-to-volume production. Furthermore, we believe we will render more cost-effective services

by focusing our research and development expenditures on the specific requirements of our customers. We believe our partnership business model will help us not only survive a market downturn, but also achieve a better competitive position.

Continue to Focus on High Growth Applications and Customers and Actively Explore New Market Opportunities. We believe one measure of a successful foundry company is the quality of its customers. We focus our sales and marketing on customers who are established or emerging leaders in industries with high growth potential. Our customers include industry leaders such as Broadcom, MediaTek, Realtek, Texas Instruments, Xilinx and Qualcomm. We seek to maintain and expand our relationships with these companies. We strive to demonstrate to these customers the superiority and flexibility of our manufacturing, technology and service capabilities and to provide them with production and design assistance. We are also making efforts to further diversify our customer portfolio in order to maintain a balanced exposure to different applications and different customers. We believe these efforts strengthen our relationships with our customers and enhance our reputation in the semiconductor industry as a leading foundry service provider.

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In addition to customer diversification, we also endeavor to actively exploring new market opportunities. Since renewable energy has become an area of focus for both developed and developing countries, we have strategically invested in the crystalline silicon and thin film solar sectors, and our investees have made improvements in power conversion efficiency with photovoltaic applications for buildings and vehicles.

Maintain Our Leading Position in Mass-Producible Semiconductor Technology and Selectively Pursue Strategic Investments in New Technologies. We believe that maintaining and enhancing our leadership in mass-producible semiconductor manufacturing technology is critical to attract and retain customers. Our reputation for technological excellence has attracted both established and emerging leaders in the semiconductor industries who work closely with us on technology development. In addition, we believe our superior processing expertise has enabled us to provide flexible production schedules to meet our customers particular needs. We plan to continue enhancing capital expenditures in research and development and building internal research and development expertise, to focus on process development and to establish alliances with leading and specialty semiconductor companies to accelerate access to next-generation and specialized technologies. For example, we introduced our 28-nanometer technology to customers in 2011 to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size. In 2011, we achieved more than 10 customers and tapeouts for our 28-nanometer technology in 2011 and delivered pilot production on this generation to our lead customer. In 2014, our 28-nanometer technology further led to over 40 tapeouts. We believe our progress in developing more advanced process technologies has benefited our customers in the fields of computers, communications, consumer electronics and others with special preferences in certain aspects of the products, such as the ultimate performance, density and power consumption.

Moreover, we expect to strengthen our leading position and increase our market share by licensing our technologies to several corporate partners. For example, in 2014, we licensed to MIFS, which is expected to be a pure-play foundry company, our advanced 40 nanometer technology under a technology transfer and license agreement. In addition, we also entered into an agreement with the Xiamen Municipal People s Government and Fujian Electronics & Information Group in 2014 in connection with the newly established UMC (Xiamen) to be located in China, which will be focusing on the manufacturing of 12-inch wafers with initial offering of 55 nanometer and 40 nanometer process technologies. We believe that such strategy enables us to take advantage of our established research and development capabilities while expanding our footprint globally in a cost-effective manner.

We also recognize that every company has limited resources and that the foundry industry is ever-evolving. Accordingly, we believe we should invest in new research and development technology intelligently and in a cost-effective manner to achieve the ultimate output of the resulting technology. In doing so, we balance the rate of return of our research and development with the importance of developing a technology at the right time to enhance our competitive edge without unduly diluting our profitability. We intend to avoid investments in technologies that do not present a commercial potential for volume production. We believe that to develop the earliest and most advanced semiconductor technology without regard to its potential for near term volume production may prove costly to our operations and would not strengthen our competitive position. We perceive a benefit to defer investment in the premature equipment needed to claim the earliest advanced technology and instead to purchase a more advanced and less expensive version of equipment from vendors who design such equipment based on pre-production lessons learned from the earliest technology.

Maintain Scale and Capacity Capabilities to Meet Customer Requirements, with a Focus on 12-inch Wafer Facilities for Future Expansion. We believe that maintaining our foundry capacity with advanced technology and facilities is critical to the maintenance of our industry leadership. Our production capacity is currently among the largest of all semiconductor foundries in the world. We intend to increase our 12-inch wafer production capacity to meet the needs of our customers and to fully capitalize on the expected growth of our industry. We expect our future

capacity expansion plans will focus on 12-inch wafer facilities in order to maintain our technology leadership. 12-inch wafers offer manufacturing advantages over 8-inch wafers due to, among other reasons, the greater number of chips on each wafer and the advantages only offered on newer 12-inch capable equipment. In addition, 12-inch wafer facilities present a more cost-effective solution in achieving an economic scale of production. We intend to carefully monitor current market conditions in order to optimize the timing of our capital spending. We plan to also expand our capacity and capabilities to meet customer requirements in different markets by making strategic investments in other companies. For example, in 2014, we announced investments in Japan with Fujitsu Semiconductor Limited and in China with the Xiamen Municipal People s Government and Fujian Electronics & Information Group that will focus on manufacturing semiconductors using 12-inch wafers.

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B. Business Overview

Manufacturing Facilities

To maintain a leading position in the foundry business, we have placed great emphasis on achieving and maintaining a high standard of manufacturing quality. As a result, we seek to design and implement manufacturing processes that produce consistent, high manufacturing yields to enable our customers to estimate, with reasonable certainty, how many wafers they need to order from us. In addition, we continuously seek to enhance our production capacity and process technology, two important factors that characterize a foundry s manufacturing capability. Our large production capacity and advanced process technologies enable us to provide our customers with volume production and flexible and quick-to-market manufacturing services. All of our fabs operate 24 hours per day, seven days per week. Substantially all maintenance at each of the fabs is performed concurrently with production.

As a step in our continuing expansion of our manufacturing complex in the Tainan Science Park in southern Taiwan, we completed the construction of our second 300mm fab in Taiwan in May 2009, and moved the equipment into this fab in July 2010.

The following table sets forth operational data of each of our manufacturing facilities as of December 31, 2014.

	Fab 6A	Fab 8A	Fab 8C	Fab 8D	Fab 8E	Fab 8F	Fab 8S	Fab 8N	Fab 12A	Fab 12i
Commencement of volume production	1989	1995	1998	2000	1998	2000	2000	2003	2002	2004
Estimated full capacity(1)(2)	37,500 wafers per month	68,000 wafers per month	29,000 wafers per month	28,500 wafers per month	35,000 wafers per month	32,500 wafers per month	28,000 wafers per month	46,800 wafers per month	60,102 wafers per month	45,107 wafers per month
Wafer size	6-inch (150mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	12-inch (300mm)	12-inch (300mm)

(1) Measured in stated wafer size.

(2) The capacity of a fab is determined based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance and expected product mix.

The following table sets forth the size and primary use of our facilities and whether such facilities, including land and buildings, are owned or leased. Our land in the Hsinchu and Tainan Science Parks is leased from the R.O.C. government.

Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)

Fab 6A, 10 Innovation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30076, R.O.C.	27,898 / 34,609	6-inch wafer production	Leased (expires in December 2026)	Owned

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Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Fab 8A, 3, 5 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	43,137 / 83,699	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8C, 6 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	24,572 / 71,427	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8D, 8 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	9,219 / 29,181	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8E, 17 Li-Hsin Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	35,779 / 76,315	8-inch wafer production	Leased (expires in February 2016)	Owned
Fab 8F, 3 Li-Hsin 6th Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	23,781 / 65,736	8-inch wafer production	Leased (expires in February 2018)	Owned
Fab 8S, 16 Creation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30077, R.O.C.	20,365 / 65,614	8-inch wafer production	Leased (expires in December 2023)	Owned

Fab 8N, 333, Xinghua St., Suzhou Industrial Park, Suzhou, Jiangsu Province 215025, People s Republic of China	215,621 / 100,908	8-inch wafer production	Leased (expires in December 2052)	Owned
Fab 12A, 18, 20 Nan-Ke 2nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	290,673 / 384,683	12-inch wafer production	Leased (expires in November 2034)	Owned
Fab 12i, 3 Pasir Ris Drive 12 Singapore 519528	84,836 / 143,510	12-inch wafer production	Leased (expires in March 2031)	Owned
United Tower, 3 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	8,985 / 85,224	Administration office	Leased (expires in December 2033)	Owned
Neihu Rd. office, 8F, 68. Sec. 1, Neihu Rd., Taipei, Taiwan 11493, R.O.C.	626 / 4,817	Administration office	Owned	Owned
Testing Building, 1, Chin-Shan, 7th St., Hsinchu, Taiwan 30080, R.O.C.	10,762 / 41,318	Leased to several companies	Owned	Owned
R&D Building, 18 Nan-Ke 2nd Rd., Tainan Science Park, Sinshih,	42,000 / 47,396	Research and development	Leased (expires in December 2023)	Owned

Tainan, Taiwan 74147, R.O.C.				
Nexpower, 2, Houke S. Rd., Houli District, Taichung, Taiwan 42152, R.O.C.	57,556 / 82,699	Solar PV modules production	Leased (expires in December 2026)	Owned

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Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Topcell, 1560, Sec. 1, Zhongshan Rd., Guanyin Township, Taoyuan, Taiwan 32852, R.O.C.	- / 35,643	6-inch cell production	N/A	Leased (expires in March 2018)
Unistars, 1F, 669, Sec. 4, Zhongxing Rd., Zhudong Township, Hsinchu, Taiwan 31061, R.O.C.	- / 1,955	High-power LED package and LED lighting	N/A	Leased (expires in May 2017)
Wavetek, 10, Chuangxin 1st Rd., Baoshan Township, Hsinchu, Taiwan 30076, R.O.C.	- / 6,345	6-inch wafer production	N/A	Leased (expires in July 2015)

Process Technology

Process technology is a set of specifications and parameters that we implement for manufacturing the critical dimensions of the patterned features of the circuitry of semiconductors. Our process technologies are currently among the most advanced in the foundry industry. These advanced technologies have enabled us to provide flexible production schedules to meet our customers particular needs.

The continued enhancement of our process technologies has enabled us to manufacture semiconductor devices with smaller geometries, allowing us to produce more dice on a given wafer. We pioneered the production of semiconductor products with 0.25 and 0.18 micron process technology in 1997 and 1999, respectively, and used copper interconnect metallurgic to allow better reliability and higher conductibility than traditional aluminum interconnects. We began volume production using 0.13-micron process technology in 2002. Our extensive experience in the 0.13-micron process technology has helped smooth our transition to 90-nanometer pilot production. Our 90-nanometer process marks further advance in our technology achievements, incorporating up to nine copper metal layers, triple gate oxide and other advanced features and using chrome-less phase-shift masks. This technology has been in volume production since the second quarter of 2004 after passing several product certifications. In 2005, our research and development teams continued to work closely with the manufacturing staff to finalize our 90-nanometer technology portfolio. These collaborative efforts, performed in our best-in-class 300mm facilities, contributed to the

improvement of high density 6T-SRAM yield to the maturity level of more than 90%. Our accomplishments led to multiple design awards followed by first silicon success, including a PC graphic IC and the world s first 90-nanometer Wireless Local Area Network (WLAN) RF chip featuring a unique and specially developed inductor scheme. In addition, we were able to develop, within 6 months, several customized 90-nanometer processes tailored to our customers device specifications, and demonstrated product success by delivering record high yield for the first product lots. Our first fully-functional 65-nanometer wireless digital baseband customer IC was produced in July of 2005, after only a year since this research and development project began at this facility.

Since the third quarter of 2006, we have begun the mass production of a next-generation 65-nanometer FPGA product, which features a 65% logic capacity increase over previous generation of FPGAs with triple gate oxide and 11 copper metal layers. Our 65/55-nanometer development team is not only independently developing our technologies in-house but is also bringing up customized process technologies to match customer specific needs. Furthermore, our 45/40-nanometer process technologies, which are jointly developed by us and our strategic partners have been in production since the first half of 2009, significantly increasing the competitive advantages of our customers by providing better device performance in a smaller die size. Our 28nm process technologies with Poly-SiON and High-k/metal gate are developed for low power consumption and high performance applications, respectively. In October 2008, we were the first foundry to deliver fully functional 28nm SRAM chips, and have proven in customer silicon the High-k/metal gate solution used for this technology node. UMC s 28nm progress was also recognized by the industry with the foundry being selected to present at the 2009 IEDM on a hybrid High-k/metal gate approach. Currently, we are already working with several customers to adopt their products on UMC s 28nm technology. In 2013, we successfully developed and released into production 28nm Poly-SiON and High-k/metal gate technologies. Furthermore, we joined the International Business Machines Corporation, or IBM chip alliance, for the 10nm process development. With IBM s know-how and support, we aim to continue to improve our internally developed 14nm FinFET to offer competitive low-power technology enhancements for mobile computing and communication products, as well as develop a baseline 10nm process technology to meet the needs of our customers.

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The table below sets forth our actual process technology range, categorized by line widths, or the minimum physical dimensions of the transistor gate of integrated circuits in production by each fab, in 2014, and the estimated annual full capacity of each fab, actual total annual output and capacity utilization rates in 2012, 2013 and 2014:

	Year ended December 31,				
	Years of Commencement of Operation	2014 Range of Process Technologies (in microns)	Years Ended December 31, 2012	2013	2014
			(in thousands of 8-inch wafer equivalents, except percentages)		
Fab					
Fab 6A	1989	0.5	271	252	252
Fab 8A	1995	0.5 to 0.25	815	813	813
Fab 8C	1998	0.35 to 0.11	360	347	347
Fab 8D	2000	0.13 to 0.09	371	382	358
Fab 8E	1998	0.5 to 0.18	449	418	418
Fab 8F	2000	0.18 to 0.11	389	388	388
Fab 8S	2000	0.18 to 0.11	348	335	335
Fab 8N[(1)]	2003	0.5 to 0.13		469	547
Fab 12A	2002	0.13 to 0.028	1,304	1,465	1,576
Fab 12i	2004	0.13 to 0.040	1,207	1,238	1,289
UMCJ[(2)]	1996	0.35 to 0.15	240		
Total estimated capacity			5,754	6,107	6,323
Total output (actual)			4,533	5,026	5,629
Average capacity utilization			78.8%	82.3%	89.0%

(1) In 2013, we obtained controlling interests in Best Elite, which owns 100% interests in Fab 8N.
(2) Starting November 2013, we lost our controlling interests in UMCJ.

The table below sets forth a breakdown of number and percentage of wafer output by process technologies in 2012, 2013 and 2014.

	Years Ended December 31,					
	2012		2013		2014	
	(in thousands of 8-inch wafer equivalents, except percentages)					
Technology		%		%		%
28 nanometers and under	15	0.3	10	0.2	76	1.5
40 nanometers	334	7.4	622	12.4	766	13.6
65 nanometers	1,296	28.6	1,140	22.7	1,138	20.2
90 nanometers	225	5.0	235	4.7	306	5.4
0.11/0.13 micron	799	17.6	828	16.5	875	15.6
0.15/0.18 micron	544	11.9	796	15.8	904	16.0

0.25/0.35 micron	918	20.3	1,033	20.5	1,174	20.8
0.50 micron or higher	402	8.9	362	7.2	390	6.9
Total	4,533	100.0	5,026	100.0	5,629	100.0

Capacity and Utilization

The fabs in Taiwan that we own directly are named Fab 6A, Fab 8A, Fab 8C, Fab 8D, Fab 8E, Fab 8F and Fab 8S, all of which are located in the Hsinchu Science Park in Taiwan, and Fab 12A, which is located in the Tainan Science Park in Taiwan. The fab in Singapore is named Fab 12i and the fab in China is named Fab 8N.

Our average capacity utilization rate was 78.8% in 2012, 82.3% in 2013 and 89.0% in 2014.

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Equipment

Considering the performance and productivity of our manufacturing capability highly relies on the quality of our capital equipment, we generally purchase equipment that not only meet the demand of our existing process technology, but also have the capability to be upgraded to match our future needs. The principal equipment we use to manufacture semiconductor devices are scanners/steppers, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputters, CVD equipment, probers, testers and so on. We own all of the production equipment except for a few demonstration tools.

Our policy is to purchase high-quality equipment that demonstrates stable performance from vendors with dominant market share to ensure our continued competitiveness in the semiconductor field.

Some of the equipment is available from a limited number of qualified vendors and/or is manufactured in relatively limited quantities, and some equipment has only recently been developed. We believe that our relationships with equipment suppliers are strong enough that we can leverage our position as a major purchaser to purchase equipment on competitive terms, including shorter lead time, compared with the terms received by several other foundries.

Although we face the challenge of procuring the right equipment in sufficient quantity necessary for ramp-up or expansion of our fabrication facilities under constraint of short lead times, we have not in the past experienced any material problems in procuring the latest generation equipment on a timely basis even in periods of unpredictably high market demand. We manage the risks in the procurement process through timely internal communications among different divisions, efficient market information collection, early reservation of appropriate delivery slots and constant communications with our suppliers as well as by utilizing our good relationships with the vendors.

Raw Materials

Our manufacturing processes use many raw materials, primarily silicon wafers, chemicals, gases and various types of precious sputtering targets. These raw materials are generally available from several suppliers. Our policy with respect to raw material purchases, similar to that for equipment purchases, is to select only a small number of qualified vendors who have demonstrated quality and reliability on delivery time of the raw materials. We may have any long-term supply contracts with our vendors if necessary.

Our general inventory policy is to maintain sufficient stock of each principal raw material for production and rolling forecasts of near-term requirements received from customers. In addition, we have agreements with several key material suppliers under which they hold similar levels of inventory in their warehouses for our use. However, we are not under any obligation to purchase raw material inventory that is held by our vendors for our benefit until we actually order it. We typically work with our vendors to plan our raw material requirements on a monthly basis, with indicative pricing generally set on a quarterly basis. The actual purchase price is generally determined based on the prevailing market conditions. In the past, prices of our principal raw materials have not been volatile to a significant degree. Although we have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate, shortages could occur in various critical materials due to interruption of supply or an increase in industry demand.

The most important raw material used in our production processes is silicon wafer, which is the basic raw material from which integrated circuits are made. The principal makers for our wafers are Shin-Etsu, Siltronic AG, SunEdison Corporation and Sumco Group. We have in the past obtained and believe that we will continue to be able to obtain a sufficient supply of silicon wafers. We believe that we have close working relationships with our wafer suppliers. Based on such long-term relationships, we believe that these major suppliers will use their best efforts to

accommodate our demand.

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We use a large amount of water in our manufacturing process. We obtain water supplies from government-owned entities and recycle approximately 85% of the water that we use during the manufacturing process. We also use substantial amounts of dual loop electricity supplied by Taiwan Power Company in the manufacturing process. We maintain back-up generators that are capable of providing adequate amounts of electricity to maintain the required air pressure in our clean rooms in case of power interruptions. We believe our back-up devices are reasonably adequate in preventing business interruptions caused by power outages and emergency situations.

Quality Management

We believe that our advanced process technologies and reputation for high quality and reliable services and products have been important factors in attracting and retaining leading international and domestic semiconductor companies as customers.

We structure our quality management system in accordance with the latest international quality standards and our customers strict quality and reliability requirements. Our quality management system incorporates comprehensive quality control programs into the entire business flow of foundry operation including, among others, new process development management, production release control, incoming raw material inspection, statistical process control and methodology development, process change management, technical documentation control, product final inspection, metrology tool calibration and measurement system analysis, quality audit program, nonconformity management, customer complaint disposition, eight-discipline problem solving and customer satisfaction monitoring.

We set a high quality goal to ensure consistent high yielding and reliable product performance. Our quality program is continually enhanced through top-down annual Business Policy Management and bottom-up Total Quality Management activities. In addition, our efforts to observe best practices among fabs in the foundry industry have also contributed to the improvement of our overall quality management system.

Many of our customers perform physical production site qualification process in the early development phase and routine quality conformance audits in the volume production phase. These audits include both quality system review and physical fabrication area inspection for verification of conformity with the international quality standard and customers quality requirement. Our quality management system and quality control programs have been qualified and routinely audited by numerous customers who are recognized as world-class semiconductor companies with best-in-class quality standards.

Our Quality Assurance Division and Reliability Technology and Assurance Division collaborate to provide quality and reliability performance to customers. With our wafer processing quality and reliability conformance monitor program, we monitor the product quality and reliability at various stages of the entire manufacturing process before shipment to customers.

All our fabs are certified in compliance with ISO/TS 16949 and QC080000 IECQ HSPM standards. ISO/TS 16949 sets the criteria for developing a fundamental quality management system emphasizing on customer satisfaction in quality management, continual improvement, defect prevention and variation and waste reduction. QC080000 IECQ HSPM sets the criteria for developing a process management system for hazardous substances and focuses on developing environmentally friendly manufacturing processes. We are committed to continuously improve our quality management system and to deliver high quality product to our customers.

Services and Products

We primarily engage in wafer fabrication for foundry customers. To optimize fabrication services for our customers, we work closely with them as they finalize circuit design and contract for the preparation of masks to be used in the manufacturing process. We also offer our customers turnkey services by providing subcontracted assembly and test services. We believe that this ability to deliver a variety of foundry services in addition to wafer fabrication enables us to accommodate the needs of a full array of integrated device manufacturers, system companies and fabless design customers with different in-house capabilities.

Wafer manufacturing requires many distinct and intricate steps. Each step in the manufacturing process must be completed with precision in order for finished semiconductor devices to work as intended. The processes require taking raw wafers and turning them into finished semiconductor devices generally through five steps: circuit design, mask tooling, wafer fabrication, assembly and test. The services we offer to our customers in each of these five steps are described below.

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Circuit Design. At this initial design stage, our engineers generally work with our customers to ensure that their designs can be successfully and cost-effectively manufactured in our facilities. We have assisted an increasing number of our customers in the design process by providing them with access to our partners electronic design analysis tools, intellectual property and design services as well as by providing them with custom embedded memory macro-cells. In our Silicon Shuttle program, we offer customers and intellectual property providers early access to actual silicon samples with their desired intellectual property and content in order to enable early and rapid use of our advanced technologies. The Silicon Shuttle program is a multi-chip test wafer program that allows silicon verification of intellectual property and design elements. In the Silicon Shuttle program, several different vendors can test their intellectual property using a single mask set, greatly reducing the cost of silicon verification for us and the participating vendors. The high cost of masks for advanced processes makes this program attractive to intellectual property vendors. ARM Limited, Faraday Technology Corp., MIPS Technologies International, and Synopsys Inc. have utilized our Silicon Shuttle program. In our alliances with them, we coordinate with leading suppliers of intellectual property, design and ASIC services to ensure their offerings are available to our customers in an integrated, easy to use manner which matches customers need to our technologies. With a view to lowering customer design barriers, we expanded our design support functions from conventional design support to adding intellectual property development to complement third-party intellectual properties and to provide customers with the widest range of silicon-verified choices. Our offerings range from design libraries to basic analog mixed-mode intellectual properties which, together, have helped shorten our customer s design cycle time.

Mask Tooling. Our engineers generally assist our customers to design and/or obtain masks that are optimized for our advanced process technologies and equipment. Actual mask production is usually provided by independent third parties specializing in mask tooling.

Wafer Fabrication. As described above, our manufacturing service provides all aspects of the wafer fabrication process by utilizing a full range of advanced process technologies. During the wafer fabrication process, we perform procedures in which a photosensitive material is deposited on the wafer and exposed to light through the mask to form transistors and other circuit elements comprising of a semiconductor. The unwanted material is then etched away, leaving only the desired circuit pattern on the wafer. As part of our wafer fabrication services, we also offer wafer probing services, which test, or probe, individual die on the processed wafers and identify dice that fail to meet required standards. We prefer to conduct wafer probing internally to obtain speedier and more accurate data on manufacturing yield rates.

Assembly and Testing. We offer our customers turnkey services by providing the option to purchase finished semiconductor products that have been assembled and tested. We outsource assembly and test services to leading assembly and test service providers, including Siliconware Precision Industries Co., Ltd., or Siliconware, and Advanced Semiconductor Engineering Inc. in Taiwan. After final testing, the semiconductors are shipped to our customers designated locations.

In addition to our foundry business, we also engage in the research, development and manufacture of products in the solar energy and LED industries.

Customers and Markets

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Texas Instruments, Intel Mobile and STMicroelectronics, and leading fabless design companies, such as Xilinx, Broadcom, MediaTek, Realtek and Novatek. Although we are not dependent on any single customer, a significant portion of our net operating revenues has been generated from sales to a few customers. Our top ten customers accounted for approximately 54.6% of our net operating revenues in 2014. Set forth below is a geographic breakdown

of our operating revenues in 2012, 2013 and 2014 by the location of our customers.

Region	Years Ended December 31, 2012	2013	2014
	%	%	%
Taiwan	36.4	32.9	34.2
Singapore	27.7	23.8	12.5
China (including Hong Kong)	5.3	9.5	10.7
Japan	2.5	3.7	5.4
USA	13.3	12.4	8.9
Europe	6.6	9.8	19.6
Others	8.2	7.9	8.7
Total	100.0	100.0	100.0

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We believe our success in attracting these end customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance. As an independent semiconductor foundry, most of our operating revenue is generated by our sales of wafers. For 2014, gross wafer sales represented 88.8% of our net operating revenue. The following table presented the percentages of our gross wafer sales by types of customers for the years ended December 31, 2012, 2013 and 2014.

	Years Ended December 31,		
Customer Type	**2012**	**2013**	**2014**
	%	%	%
Fabless design companies	83.6	88.6	90.8
Integrated device manufacturers	16.4	11.4	9.2
Total	100.0	100.0	100.0

We focus on providing a high level of customer service in order to attract customers and maintain their ongoing loyalty. Our culture emphasizes responsiveness to customer needs with a focus on flexibility, speed and accuracy throughout our manufacturing and delivery processes. Our customer-oriented approach is especially evident in two types of services: customer design development services and manufacturing services. For example, in 2013, we expand our regional business by opening our UMC Korea office, in order to provide local support to our customers in Korea, and shorten time-to-market for our Korea-based customers designing and manufacturing on UMC process technologies. We believe that our large production capacity and advanced process technology enable us to provide better customer service than many other foundries through shorter turn-around time, greater manufacturing flexibility and higher manufacturing yields.

We work closely with our customers throughout the design development and prototyping processes. Our design support team closely interacts with customers and intellectual property vendors to facilitate the design process and to identify their specific requirements for intellectual property offerings. We are responsive to our customers requirements in terms of overall turn-around time and production time-to-market by, for example, helping our customers streamline their intellectual property offering processes and delivering prototypes in a timely and easy-to-use fashion. We also maintain flexibility and efficiency in our technical capability and respond quickly to our customers design changes.

For intellectual property offerings, we work with several leading intellectual property vendors from digital, memory and analog fields in the semiconductor industry, such as Faraday Technology Corp., Synopsys Inc., ARM Limited, Sidense Corp., Kilopass Technology, eMemory Technology Inc., True Circuits, Inc., Silicon Storage Technology, Inc., eSilicon Corp., Krivi Semiconductor Private Limited, Cadence Design System, Inc., Cypress Semiconductor Corporation and Dolphin Integration SA, to deliver quality intellectual property blocks that have been silicon validated using our advanced processes. Our alliances with major electronic design automation vendors, such as Cadence, Mentor and Synopsys Inc., provide our customers with digital/analog reference design procedures and easy-to-use design solutions. By continuously enhancing our intellectual property offerings, reference design procedures and design services through collaboration with major vendors, we aim to provide complete, accurate and user-friendly design solutions to our customers.

As a design moves into manufacturing production, we continue to provide ongoing customer support through all phases of the manufacturing process. The local account manager works with our customer service representative to

ensure the quality of our services, drawing upon our marketing and customer engineering support teams as required.

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We offer an online service, MyUMC , which gives our customers easy access to our foundry services by providing a total online supply chain solution. MyUMC offers 24-hour access to detailed account information such as manufacturing, engineering and design support documents through each customer s own customized start page. The features that are available to customers through MyUMC include (i) viewing the status of orders from the start of production to the final shipping stages; (ii) designing layouts to shorten customers tape out time; (iii) collecting customer engineering requests; (iv) gathering and downloading documents for design purposes; and (v) and accessing online in real-time the same manufacturing data used by our fab engineers. In addition, we have a system-to-system connecting services to provide direct data exchange between our system and our customers systems. These services, which include our UMC Design View Room Cloud Service , facilitate our design collaborations with our customers to help reduce the cost of chip designs and reduce the time to market. In order to continue to improve our information security management, our Information Technology Division received the certification of ISO/IEC 27001:2005 in March 2008.

We price our products on a per die or per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Our main sales office is located in Taiwan, which is in charge of our sales activities in Asia. United Microelectronics (Europe) BV, our wholly-owned subsidiary based in Amsterdam, assists our sales to customers in Europe. Our sales in North America are made through UMC Group (USA), our subsidiary located in Sunnyvale, California. We also have sales offices in China, Japan and Korea to support our customers in those regions.

We typically designate a portion of our wafer manufacturing capacity to some of our customers primarily under two types of agreements: reciprocal commitment agreements and deposit agreements. Under a reciprocal commitment agreement, the customer agrees to pay for, and we agree to supply, a specified capacity at a specified time in the future. Under a deposit agreement, the customer makes in advance a cash deposit for an option on a specified capacity at our fabs for a stated period of time. Option deposits are credited to wafer purchase prices as shipments are made. If this customer does not use the specified capacity, it will forfeit the deposit but, in certain circumstances and with our permission, the customer may arrange for a substitute customer to utilize such capacity. In some cases, we also make available capacity to customers under other types of agreements, such as capacity commitment arrangements with technology partners.

We advertise in trade journals, organize technology seminars, hold a variety of regional and international sales conferences and attend a number of industry trade fairs to promote our products and services. We also publish a corporate newsletter for our customers.

Competition

The worldwide semiconductor foundry industry is highly competitive, particularly during periods of overcapacity and inventory correction. We compete internationally and domestically with dedicated foundry service providers as well as with integrated device manufacturers and final product manufacturers which have in-house manufacturing capacity or foundry operations. Some of our competitors have substantially greater production, financial, research and development and marketing resources than we have. As a result, these companies may be able to compete more aggressively over a longer period of time than we can. In addition, several new dedicated foundries have commenced operations and compete directly with us. Any significant increase in competition may erode our profit margins and weaken our earnings.

We believe that our primary competitors in the foundry services market are Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as

well as the foundry operation services of some integrated device manufacturers such as IBM, Samsung, Intel and Toshiba. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to develop substantial new foundry capacity, although much of such capacity involves less cost-effective production than the 12-inch fabs for which we possess technical know-how. New entrants in the foundry business are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. The principal elements of competition in the semiconductor foundry industry include technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, manufacturing yields, customer service and price. We believe that we compete favorably with the new competitors on each of these elements, particularly our technical competence and research and development capabilities.

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Intellectual Property

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our production processes and activities. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our production processes. As of December 31, 2014, we held 4,409 U.S. patents and 6,416 patents issued outside of the United States.

Our ability to compete also depends on our ability to operate without infringing on the proprietary rights of others. The semiconductor industry is generally characterized by frequent claims and litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting patents that allegedly cover certain of our technologies and alleging infringement of certain intellectual property rights of others. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm our company. See Item 3. Key Information D. Risk Factors Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

In order to minimize our risks from claims based on our manufacture of semiconductor devices or end-use products whose designs infringe on others intellectual property rights, we in general accept orders only from companies that we believe enjoy satisfactory reputation and for products that are not identified as risky for potential infringement claims. Furthermore, we obtain indemnification rights from customers. We also generally obtain indemnification rights from equipment vendors to hold us harmless from any losses resulting from any suit or proceedings brought against our company involving allegation of infringement of intellectual property rights on account of our use of the equipment supplied by them.

We have entered into various patent cross-licenses with major technology companies, including a number of leading international semiconductor companies, such as IBM and LSI. Our cross licenses may have different terms and expiry dates. Depending upon our competitive position and strategy, we may or may not renew our cross licenses and further, we may enter into different and/or additional technology and/or intellectual property licenses in the future.

Research and Development

In 2012, 2013 and 2014, we spent NT$9,787 million, NT$12,493 million and NT$13,664 million (US$432 million), respectively, on research and development, which represented 8.5%, 10.1% and 9.8%, respectively, of our net operating revenues of such years. Our research and development efforts mainly focus on delivering SoC foundry solutions that consist of the world s leading process technologies, customer support services and manufacturing techniques. These resources provide our foundry customers with improved opportunities to develop SoC products that supply the global market. Our commitment to research and development can be illustrated by our 2014 research and development expenditures, which reached approximately 9.8% of net operating revenues. In June 2007, we completed the construction of a research and development center for nanometer technologies in the Tainan Science Park. The research and development center allows for seamless application of advanced process technology in the research and development phase to the manufacturing phase.

As of March 31, 2015, we employed 1,590 professionals in our research and development activities. In addition, other management and operational personnel are also involved in research and development activities but are not separately identified as research and development professionals.

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Our Investments

Depending on the market conditions, we intend to gradually reduce our investments through exchangeable bond offerings and other measures available to our company.

In December 2009, we issued two tranches of zero coupon exchangeable bonds due 2014. The two exchangeable bond offerings consist of US$127.2 million bonds exchangeable into common shares of Unimicron Technology Corporation, or Unimicron, and US$80 million bonds exchangeable into common shares of Novatek Microelectronics Corp., Ltd., or Novatek. As of December 31, 2012 and 2013, certain bondholders have exercised their rights to exchange their bonds with the total principal amount of US$43 million and US$77 million into common shares of Novatek. On July 22, 2013, we called back all the outstanding amount of the US$3 million bonds exchangeable into common shares of Novatek. We recognized a gain of NT$45 million from the redemption and classified the gain as other gains and losses. Gains arising from the exercise of exchange rights during the years ended December 31, 2012 and 2013, respectively, amounted NT$1,389 million and NT$1,137 million and was recognized as gain on disposal of investment. We redeemed all of the outstanding bonds of the US$127.2 million zero coupon bonds exchangeable into common shares of Unimicron that we originally issued in December 2009, at their 97.53% of principal amount of each bond on December 2, 2014, which was the final maturity date.

The following table sets forth the sales of our investments in 2012:

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT$ millions)
Novatek Microelectronics Corp.	18	$ 1,728
Epistar Corp.	10	671
Parade Technologies, Ltd.	2	549
Sandforce, Inc.	2	498
Pixart Imaging, Inc.	5	448
Simplo Technology Co., Ltd.	2	360

The following table sets forth the sales of our investments in 2013:

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT$ millions)
Industrial Bank of Taiwan Corp.	118	$ 772
Parade Technologies, Ltd.	3	632
Pixart Imaging Inc.	6	373

The following table sets forth the sales of our investments in 2014:

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT$ millions)	(in US$ millions)
Montage Technology Group Ltd.	1	$ 915	29
Epistar Corp.	11	726	23
Parade Technologies, Ltd.	1	460	15

Dexon Dynamic Investment Fund VIII	0	359	11

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Environmental, Safety and Health Matters

UMC implemented extensive ESH management systems since 1996. These systems enable our operations to identify applicable ESH regulations, assist in evaluating compliance status and timely establish loss preventive and control measures. The systems we implemented in all our fabs have been certified as meeting the ISO 14001 and OHSAS 18001 standards. ISO 14001 consists of a set of standards that provide guidance to the management of organizations to achieve an effective environmental management system. Procedures are established at manufacturing locations to ensure that all accidental spills and discharges are properly addressed. OHSAS 18001 is a recognizable occupational health and safety management system standard, which may be applied to assess and certify our management systems. Our goal in implementing ISO 14001 and OHSAS 18001 systems is to continually improve our ESH management, comply with ESH regulations and to be a sustainable green foundry. UMC s major ESH policies include:

Environmental Protection Aspects:

To be an environmentally friendly enterprise characterized by continual improvement with a goal of pollution-free production;

To incorporate our environmental management system into the general organizational management system;

To take initiatives to reduce waste production and prevent pollution by introducing and developing environmentally friendly technology for design, production and operation;

To conserve energy and recycle resources in order to be a model of environmental protection for the international community;

To fulfill corporate social responsibilities by playing an active role in public and community affairs to improve and protect the environment; and

To educate employees about environmentally sound ethics and practices.

Safety and Health Aspects:

To achieve a goal of zero accidents and comply with all applicable safety and regulatory requirements to ensure safety is the top priority for UMC s sustainable development;

To reinforce best safety and health management practice to reach international ESH and risk management standards;

To adopt risk control advanced ESH management and rescue technologies to enhance company s standards;

To provide safe work environment and operation through preventive management and audit;

To eliminate hazard factors and prevent incidents through each and every ownership of responsibilities in safety and health; and

To encourage all employees to actively participate in safety and health training and promotional activities.

As a member of the global community and a semiconductor industry leader, we have implemented measures to deal with environmental problems and mitigate climate change. We have introduced green concepts in our operations, including green commitment, management, procurement, production, products, recycling, office, education and marketing.

In order to conquer the green barrier formed by the RoHS (the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment) Directive, we established a cross-division HSPM (Hazardous Substances Process Management) committee to manage all development and implementation of related work. We completed the final system audit for QC 080000 ICEQ HSPM qualification, a certification for having a hazardous substance process management system that meets the RoHS Directive, on June 9, 2006 and became the first semiconductor manufacturer worldwide to achieve HSPM certification for all fabs. In 2009, we completed the report on the carbon footprint verification for integrated circuit wafers produced at our facilities, the first such report in the foundry industry. In 2010, we completed water footprint verification for our 200 mm and 300 mm wafers. These verifications provide scientific and reliable statistics on the carbon and water information of products manufactured in our fabs as well as self-reviews of environmental impact.

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With respect to safety and health management, we realized that lowering the risks in equipment and processes can reduce accidents, but cannot guarantee the safety of all employees. In order to achieve the goal of zero-accident , we intend to promote the concept of safety is my responsibility . We have educated the employees with the concepts of be aware of your own safety well as the safety of others and safety is everyone s responsibility, and my personal accountability.

Furthermore, we have implemented the FMEA method to foster employees capabilities in risk analysis. Therefore, we established a channel for communication to encourage and ensure the employees to fully express their opinions for professional response and assistance. By doing so, we hope to establish a working attitude of Safety and health first to further improve the quality of our working environment, and eventually to become a good example of global safety and hygiene management.

The following list sets forth some of the important awards that we received in environmental protection, safety and health:

Selected as a member of Dow Jones Sustainability Indexes for seven years since 2008;

Awarded Taiwan Corporate Sustainability Award by Taiwan Institute for Sustainable Energy. (2008-2014);

Awarded Ten Most Sustainable Company Awards by Taiwan Institute for Sustainable Energy. (2014);

Awarded The Channel NewsAsia Sustainability Ranking: Top 4 by Channel NewsAsia. (2014);

Awarded Enterprises Environmental Award of the Republic of China by the Environmental Protection Administration of Executive Yuan, R.O.C. (total of 15 times since 2001);

Awarded The Best Participation of Green Procurement for Enterprises by the Environmental Protection Administration of Executive Yuan, R.O.C. (2012 -2014); and

Awarded Excellent Industrial Safety and Health Executive Organization of Hsinchu Science Park by The Science Park Administration. (1998-2014).

Climate Change

Our climate change policies announced on April 22, 2010 include: (i) achieving carbon neutral status via carbon management, (ii) becoming a comprehensive low-carbon emissions solution provider, and (iii) leveraging corporate resources to cultivate a low-carbon emissions economy. In order to implement these policies, we completed a carbon emission reduction plan named 333-project , which consisted of reducing electrical energy consumption by 3% and per-fluorinated compounds emissions by 33% per wafer by 2012. We surpassed these targets by implementing cleaner gases and various energy saving technologies and reached the targets of reducing normalized per-fluorinated compounds, or PFC, emissions by 39% and electricity usage by 4% by 2013 compared with the base year 2009.

Thereafter, we started another aggressive project named 369 project in 2013. We are in the process of reducing the usage of electricity by 3%, the usage of pipe water by 6% and the waste generation by 9% by 2015 compared with the base year 2012. Meanwhile, we also endeavor to reduce carbon emissions through the following two measures: (1) we continue to implement a greenhouse gas emission reduction plan to assist customers in establishing a low-carbon emissions supply chain, and (2) we continue to enhance our research and development in advanced processes to provide low-power products and reduce carbon emissions at the consumer level.

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Since 1999, we have been a pioneer in the foundry industry to implement measures to reduce per-fluorinated compounds, and we completed the replacement of C_3F_8 with C_4F_8 in 2011. We have made a significant achievement by reducing normalized per-fluorinated compounds by approximately 67%, which is one of the major greenhouse gas reduction objectives of the World Semiconductor Council, during 2000 to 2013. Although the Greenhouse Gas Reduction Act proposal is still under the Legislative Yuan s review, the Environmental Protection Administration of the Executive Yuan, or EPA, is governing the matters related to greenhouse gases, including without limitation the allocation of carbon emission credits, the maintenance of carbon emission credit accounts, and the sales and transfer procedures thereof by its administrative orders. In 2013, we received 2,873,000 tons of carbon emissions credits from EPA. In 2014, we and Dragon Steel Corporation executed a contract to trade 2,000,000 tons of carbon emission credits. It was the first trade of carbon emissions credits that was reviewed and recorded by the EPA, indicating a significant milestone in Taiwan s carbon emissions credits trading market. We plan to use all of the gains from our carbon emissions credit sales, if any, to enforce environmental protection and promote the sustainable development of the environment.

We also support timely disclosure of carbon information and ensuring data quality. Since 2006, we have participated in the Carbon Disclosure Project formed by global institutional investors and disclosed our annual greenhouse gas emission volume, reduction goals and results. In 2014, we were selected as the CDP s Climate Disclosure Leadership Index for two years. We recorded the highest foundry s score among all participating Taiwanese semiconductor companies. Moreover, we engage third-party verifiers to ensure the quality of the data. We completed verification on greenhouse gas emission and reduction records during 2000 to 2010 for all of our fabs in Taiwan and during 2011 to 2013 for all of our fabs in both Taiwan and Singapore. We expect to complete the 2014 greenhouse gas emissions data verification by the end of 2015.

In addition, our environmental efforts include the establishment of our New Business Development Center, which helps promote a low carbon economy by investing across the entire supply chain of the green technology industry, including the solar energy, and LED industries. Our New Business Development Center currently focuses its primary investments in the solar energy and LED industries.

Risk Management

Risk and safety matters are administered by our Risk Management and Environmental Safety Health Division, or the GRM & ESH, established in 1998. We are pursuing the goal of a highly protected risk status in the semiconductor industry through the implementation of strict engineering safety procedures, regular enforcement of safety codes and standards, and compliance of detailed industry safety guidelines.

We have adopted the Triple Star Ranking System of AIG Insurance, a global leader in risk management and insurance, since 1999. All fabs have been ranked as top-class following AIG s risk evaluation and risk improvement recommendations. The ranking system focuses on 20 items, including ten Physical Protection Elements and ten Human Elements. Our latest 12-inch lines, Fab 12A P1/2, 12A P3/4 and 12i, obtained triple-stars in all 20 elements in the very first Triple Star Audit. Furthermore, we were awarded the Outstanding Performance Award in Risk Management by AIG Insurance again in 2013. The newly expanded 12-inch line, Fab12A P5/6, is built in accordance with the international loss control standards, and we anticipate that this facility will achieve the top-class ranking by AIG within six months after becoming operational in 2015.

We have also implemented proactive efforts in earthquake risk prevention. We believe our efforts contributed to our quick and exemplary recovery from two major earthquakes in Taiwan on September 21, 1999 and March 4, 2010, respectively. Our Hsinchu fabs and Fab 12A in Tainan sustained only minor impact to their operations from the earthquake without interruption to the power system or water service. Normal operations resumed shortly after the

incidents.

Extreme weather also presents a risk to various business operations. In order to understand the potential impact on us, we implemented a flood risk simulation project in 2014. Since Hsinchu Science-Based Industrial Park is located at a relatively higher elevation, we concluded that there is no potential flood risk. However, we have concluded that there is theoretical flood risk for Fab 12A in Tainan, and as a result, we have scheduled a physical improvement plan to upgrade the flood protection level of this facility.

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We are also devoted in the pursuit of corporate resilience and continuity by committing non-interrupted services to satisfy our valued customers and important stakeholders. In 2013, we were the first foundry in the world to receive ISO 22301 certification for its business continuity management system from the Societe Generale de Surveillance, which demonstrates our commitment to developing our disaster response abilities and our mechanisms for quick recovery. We will continue to improve this system and further extend the scope to our suppliers.

Insurance

We maintain industrial all risk insurance for our buildings, facilities, equipment and inventories as well as third-party properties. The insurance for fabs and their equipment covers losses from physical damage and business interruption up to their respective policy limits except for policy exclusions. We purchase directors and officers liability insurance for our board directors and executive officers, covering the liabilities incurred in relation to his/her/its operation of business and legally responsible for. We also maintain public liability insurance for losses to third parties arising from our business operations. We believe that our insurance arrangement is adequate to cover all major types of losses relevant to the semiconductor industry practice. However, significant damage to any of our production facilities, whether as a result of fire or other causes, could seriously harm our business.

C. Organizational Structure

The following list shows our corporate structure as of December 31, 2014:

Company	Jurisdiction of Incorporation	Percentage of Ownership as of December 31, 2014
UMC Group (USA)	U.S.A.	100.00%
United Microelectronics (Europe) B.V.	The Netherlands	100.00%
UMC Capital Corp.	Cayman Islands	100.00%
TLC Capital Co., Ltd.	Taiwan, R.O.C.	100.00%
UMC New Business Investment Corp.	Taiwan, R.O.C.	100.00%
Green Earth Limited	Samoa	100.00%
Fortune Venture Capital Corp.	Taiwan, R.O.C.	100.00%
UMC Investment (Samoa) Limited	Samoa	100.00%
Unitruth Investment Corp.	Taiwan, R.O.C.	100.00%
UMC Capital (USA)	U.S.A.	100.00%
ECP VITA PTE. LTD.	Singapore	100.00%
Soaring Capital Corp.	Samoa	100.00%
Unitruth Advisor (Shanghai) Co., Ltd.	China	100.00%
Tera Energy Development Co., Ltd.	Taiwan, R.O.C.	100.00%
Nexpower Technology Corp.	Taiwan, R.O.C.	58.27%
Wavetek Microelectronics Corporation	Taiwan, R.O.C.	81.53%
Everrich Energy Investment (HK) Limited	China	100.00%
Everrich (Shandong) Energy Co., Ltd.	China	100.00%
Unistars Corp.	Taiwan, R.O.C.	78.72%
Topcell Solar International Co., Ltd.	Taiwan, R.O.C.	91.82%

Smart Energy Enterprises Limited	China	100.00%
NPT Holding Limited	Samoa	58.27%
NLL Holding Limited	Samoa	58.27%
SocialNex Italia 1 S.R.L.	Italy	58.27%
Tera Energy USA Inc.	U.S.A.	100.00%
UMC (Beijing) Limited	China	100.00%
Wavetek Microelectronics Investment (Samoa) Limited	Samoa	81.53%
Wavetek Microelectronics Corporation (USA)	U.S.A.	81.53%
Best Elite International Limited	British Virgin Islands	86.88%
Infoshine Technology Limited	British Virgin Islands	86.88%
Oakwood Associates Limited	British Virgin Islands	86.88%
Hejian Technology (Suzhou) Co., Ltd.	China	86.88%
UnitedDS Semiconductor (Shandong) Co., Ltd.	China	86.88%
UMC Group JAPAN	Japan	100.00%
UMC Korea Co., Ltd.	Korea	100.00%
Omni Global Limited	Samoa	100.00%
United Microtechnology Corporation (California)	U.S.A.	100.00%
United Microtechnology Corporation (New York)	U.S.A.	100.00%

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D. Property, Plants and Equipment

Please refer to B. Business Overview Manufacturing Facilities for a discussion of our property, plants and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial information as prepared in accordance with IFRSs. You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to such statements included in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information-D. Risk Factors or in other parts of this annual report on Form 20-F.

For the convenience of readers, NT dollar amounts used in this section for, and as of, the year ended December 31, 2014 have been translated into U.S. dollar amounts using US$1.00 = NT$31.60, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2014. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount.

Overview

We are one of the world s leading independent semiconductor foundries, providing comprehensive wafer fabrication services and technologies to our customers based on their designs.

Cyclicality of the Semiconductor Industry

As the semiconductor industry is highly cyclical, revenues varied significantly over this period. It can take several years to plan and construct a fab and bring it to operations. Therefore, during periods of favorable market conditions, semiconductor manufacturers often begin building new fabs or acquiring existing fabs in response to anticipated demand growth for semiconductors. In addition, after commencement of commercial operations, fabs can increase production volumes rapidly. As a result, large amounts of semiconductor manufacturing capacity typically become available during the same time period. Absent a proportional growth in demand, this increase in supply often results in semiconductor manufacturing overcapacity, which has led to a sharp decline in semiconductor prices and significant capacity under-utilization. Our average capacity utilization rate was 78.8%, 82.3% and 89.0% for the years ended December 31, 2012, 2013 and 2014, respectively. We believe that our operating results in 2012, 2013 and 2014 continue to reflect the ongoing uncertainty in the global economy, conservative corporate information technology spending and low visibility with respect to end market demand.

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Pricing

We price our products on either a per die or a per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Because semiconductor wafer prices tend to fluctuate frequently, we in general review our pricing on a quarterly basis. As a majority of our costs and expenses are fixed or semi-fixed, fluctuations in our products average selling price historically have had a substantial impact on our margins. Our average selling price decreased approximately 5.5% in 2013 compared to 2012 and further decreased approximately 3.7% in 2014 compared to 2013, respectively, primarily due to nominal price erosion.

We believe that our current level of pricing is comparable to that of other leading foundries in each respective geometry. We believe that our ability to provide a wide range of advanced foundry services and process technologies as well as large manufacturing capacity will enable us to compete effectively with other leading foundries at a comparable price level.

Capacity Utilization Rates

Our operating results are characterized by relatively high fixed costs. In 2012, 2013 and 2014, approximately 65.7%, 66.8% and 67.1%, respectively, of our manufacturing costs consisted of depreciation, a portion of indirect material costs, amortization of license fees and indirect labor costs.

If our utilization rates increase, our costs would be allocated over a larger number of units, which generally leads to lower unit costs. As a result, our capacity utilization rates can significantly affect our margins. Our utilization rates have varied from period to period to reflect our production capacity and market demand. Our average capacity utilization rate was 78.8%, 82.3% and 89.0% for the years ended December 31, 2012, 2013 and 2014, respectively. Utilization rates were primarily affected by global macroeconomic factors. Other factors affecting utilization rates are efficiency in production facilities, product flow management, the complexity and mix of the wafers produced, overall industry conditions, the level of customer orders, mechanical failure, disruption of operations due to expansion of operations, relocation of equipment or disruption of power supply and fire or natural disaster.

Our production capacity is determined based on the capacity ratings of the equipment in the fab, provided by the engineers, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance, expected product mix and research and development. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors.

Change in Product Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our revenues and profitability. The value of a wafer is determined principally by the complexity and performance of the processing technology used to produce the wafer, as well as by the yield and defect density. Production of devices with higher levels of functionality and performance, with better yields and lower defect density as well as with greater system-level integration requires better manufacturing expertise and generally commands higher wafer prices. The increase in price generally has more than offset associated increases in production cost once an appropriate economy of scale is reached.

Prices for wafers of a given level of technology generally decline over the processing technology life cycle. As a result, we have continuously been migrating to increasingly sophisticated technologies to maintain the same level of

profitability. We began our volume production with 65-nanometer and 40-nanometer technologies in 2006 and 2009, respectively. We introduced our 28-nanometer technology to customers in 2011 and started large-scale commercial production since 2014, which contributed approximately 7% of our foundry revenue in 2014. These types of technology migration require continuous capital and research and development investment. Because developing and acquiring advanced technologies involve substantial capital investment, we expect to continue to spend a substantial amount of capital on upgrading our technologies and capabilities.

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Manufacturing Yields

Manufacturing yield per wafer is measured by the number of functional dice on that wafer over the maximum number of dice that can be produced on that wafer. A small portion of our products is priced on a per die basis, and our high manufacturing yields have assisted us in achieving higher margins. In addition, with respect to products that are priced on a per wafer basis, we believe that our ability to deliver high manufacturing yields generally has allowed us to either charge higher prices per wafer or attract higher order volumes, resulting in higher margins.

We continually upgrade our process technologies. At the beginning of each technological upgrade, the manufacturing yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the current technology. The yield is generally improved through the expertise and cooperation of our research and development personnel and process engineers, as well as equipment and at times raw material suppliers. Our policy is to offer customers new process technologies as soon as the new technologies have passed our internal reliability tests.

Investments

Most of our investments were made to improve our market position and for strategy considerations, a significant portion of which are in foundry-related companies including fabless design customers, raw material suppliers and intellectual property vendors. In addition, we also invest in non-foundry-related businesses, such as Cathay Financial Holding Co., Ltd. composed of insurance, securities, banking and other diversified financial institutions. We have established our NBI to identify and make strategic investments in developing industries such as solar energy and LED.

In recent years, many countries have listed energy saving and carbon reduction as primary administrative policies to tackle the challenge of potential energy shortages in future. Technologies for solar energy and energy saving are expected to become a focus in future technology development. On August 24, 2009, our board of directors approved the establishment of NBI to focus on investments in the solar energy and LED industries.

In the solar manufacturing industry, our investments consist of companies engaged in the manufacturing of crystalline PV cells and thin-film PV modules, providing engineering procurement and construction (EPC) services, and financings. Majority of our investments in the LED industry focus on epi wafer manufacturing, as well as developing advanced wafer technology - chip scale packaging.

The solar energy and LED markets were adversely affected by over-supply in 2013 and 2014. Therefore, we have been focused on improving the operational efficiency and develop leading-end technologies, while continuously to strengthen the financial structure of our investments. We remain committed to further optimize our investments in the solar energy and LED industries and believe that such investments will position us well for future growth. Other than our investments through our NBI, we have, from time to time, disposed of investments for financial, strategic or other purposes in recent years. See Item 4. Information on the Company B. Business Overview Our Investments for a description of our investments.

Treasury Share Programs

We have from time to time announced plans, none of which were binding on us, to buy back up to a fixed amount of our common shares on the Taiwan Stock Exchange at the price range set forth in the plans. On March 13, 2013, our board of directors resolved to purchase up to 200 million common shares on the Taiwan Stock Exchange at a price between NT$7.80 and NT$16.90 per share during the period from March 14, 2013 to May 13, 2013 to transfer to our employees as employee compensation. During 2012, 2013 and 2014, we purchased an aggregate of nil, 200 million and nil common shares, respectively, and transferred nil, nil and 5.49 million of such common shares that we

repurchased under these plans to our employees as employee compensation in 2012, 2013 and 2014, respectively.

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Critical Accounting Policies

The preparation of our consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, the accompanying disclosures and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation for uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets or liabilities within the next fiscal year are discussed below. We based our assumptions and estimates on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

Classification and Measurement of Financial Instruments

Financial assets and financial liabilities are recognized when we become a party to the contractual provisions of the instrument. We determine the classification of our financial assets at initial recognition. In accordance with IAS 39 - Financial Instruments: Recognition and Measurement , our financial assets are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and notes, accounts and other receivables. Our financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. Purchase or sale of financial assets and liabilities are recognized using trade date accounting. All financial instruments are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs, and are subsequently measured at fair value or amortized cost using the effective interest method, less impairment, based on the classification. We assess whether objective evidence of impairment exists for a financial asset or a group of financial assets at each reporting date.

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 11 to our audited consolidated financial statements included elsewhere in this annual report for more details.

Derivative Instruments

UMC has exchangeable bonds where the bondholders may exchange the bonds into shares of certain public entities which UMC holds as available-for-sale financial assets. In accordance with IAS 39, if the economic characteristics and risks of the embedded call or put options are not clearly and closely related to the host contract, the derivative financial instruments embedded in exchangeable bonds would be recognized separately as financial assets or liabilities at fair value through profit or loss.

Both the host contract and bifurcated embedded derivative financial instrument in exchangeable bonds are classified as current liabilities if the bondholders have the right to demand settlement by exercising the exchange option of the bonds.

The embedded derivative features contained in exchangeable bonds are bifurcated and separately accounted for if the economic characteristics and risks of the embedded derivative instruments are not clearly and closely related to those

of the host contracts. Those bifurcated embedded derivatives are fair valued at the end of each reporting period by using the option pricing model with the changes in fair value included in earnings. The valuation model uses the market-based observable inputs including share price, volatility, credit spread and swap rates.

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Inventories

Inventories are accounted for on a perpetual basis. Raw materials are stated at actual purchase costs, while the work in process and finished goods are stated at standard costs and subsequently adjusted to weighted-average costs at the end of each month. The cost of work in progress and finished goods comprises raw materials, direct labor, other direct costs and related production overheads. Allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Cost associated with underutilization of capacity is expensed as incurred.

Inventories are valued at lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Please refer to Note 6(4) to our audited consolidated financial statements included elsewhere in this annual report. Costs of completion include direct labor and overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, supplies, utilities and royalties that is expected to be incurred at normal production level. We estimate normal production level taking into account loss of capacity resulting from planned maintenance, based on historical experience and current production capacity.

Post-Employment Benefits

All regular employees are entitled to a defined benefit pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee s name with the Bank of Taiwan and hence, not associated with us. Therefore, fund assets are not to be included in our consolidated financial statements. Pension benefits for employees of the overseas branch and subsidiaries are provided in accordance with the local regulations.

Post-employment benefit plan that is classified as a defined benefit plan is accounted for under the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. We recognize all remeasurements of defined benefit pension plans in the periods which they occur in other comprehensive income, which then are immediately recognized in retained earnings.

Cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The assumptions used for measuring pension cost and the present value of the pension obligation are disclosed in Note 6(14) to our audited consolidated financial statements included elsewhere in this annual report.

In determining the appropriate discount rate, management considers the interest rates of the government bonds extrapolated from maturity corresponding to the expected duration of the defined benefit obligation. As for the rate of future salary increase, management takes account of past experiences, comparisons within the industry and the geographical region, inflation and the discount rate.

Share-Based Payment Transactions

The cost of equity-settled transactions between our employees and us is measured based on the fair value at the date on which they are granted. The fair value of the equity instruments is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the periods in which the performance and/or service conditions are being fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has passed and our best estimate of the quantity of equity instruments that will ultimately vest. The charge to profit or loss for a period represents the movement in cumulative expense recognized between the beginning and the end of that period. No expense will be recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employees as measured at the date of modification.

We measure the cost of equity-settled transactions with employees based on reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. Please refer to Note 6(16) to our audited consolidated financial statements included elsewhere in this annual report for more details.

Revenue Recognition-Sales Returns and Discounts

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales returns and discounts are estimated based on customer complaints, historical experiences and any other known factors that might significantly affect the estimation.

Impairment of Property, Plant and Equipment

At each reporting date or whenever events indicate that the asset s value has declined or significant changes in the market with an adverse effect have taken place, we assess whether there is an indication that an asset in the scope of IAS 36 - Impairment of Assets may be impaired. If any indication exists, we complete impairment testing for the cash-generating unit (CGU) to which the individual assets belong. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an individual asset or CGU is the higher of fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on best information available to reflect the amount that an entity could obtain from the disposal of the asset in an arm s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use is measured at the net present value of the future cash flows the entity expects to derive from the asset or CGU. Cash flow projection involves subjective judgments and estimates which include the estimated useful lives of property, plant and equipment, capacity that generates future cash flows, capacity of physical output, potential fluctuations of economic cycle in the industry and our operating situation.

Income Tax

Income tax expense (benefit) is the aggregate amount of current income tax and deferred income tax included in the determination of profit or loss for the period. Current income tax assets and liabilities for the current period and prior periods are measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity rather than profit or loss.

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in financial statements at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which

we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items not relating to profit or loss is not recognized in profit or loss but rather in other comprehensive income or directly in equity. Deferred tax assets are reassessed and recognized at each reporting date. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered. Deferred tax assets and liabilities offset each other, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

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Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. We establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations made by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in our respective domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences. Please refer to Note 6(22) to our audited consolidated financial statements included elsewhere in this annual report for more details on unrecognized deferred tax assets.

Classification of Joint Arrangements

A joint venture is a type of joint arrangement whereby we that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement with no single party controls the arrangement on its own, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

We hold significant percentage of the voting rights of our joint arrangements. We have joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

Our joint arrangements are structured as limited companies and provide us and the parties to the agreements with rights to the net assets of the limited companies under the arrangements. Therefore, these entities are classified as our joint ventures.

A. Operating Results

Effect of Adopting IFRSs in 2013

We started to prepare our annual consolidated financial statements in accordance with IFRSs as of and for the year ended December 31, 2013 and thereafter. Prior to December 31, 2012, we prepared our annual consolidated financial statements in accordance with R.O.C. GAAP. Effective January 1, 2013, companies listed on the Taiwan Stock Exchange, including us, must report their financial statements under TIFRSs pursuant to the requirements of the Framework for Adoption of International Financial Reporting Standards by Companies in the R.O.C. promulgated by the FSC on May 14, 2009. Accordingly, we have adopted TIFRSs for reporting in the R.O.C. our annual consolidated financial statements starting from the year ended December 31, 2013. We also prepare our interim unaudited quarterly financial statements beginning in the first quarter of 2013 under TIFRSs, which are furnished to the SEC on Form 6-K. At the same time, we have adopted IFRSs as issued by the IASB for our annual reports on Form 20-F with the U.S. SEC starting from the year ended December 31, 2013.

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In accordance with rule amendments adopted by the U.S. SEC for foreign private issuers reporting under IFRSs, we are not required to provide reconciliations to U.S. GAAP in this annual report following our adoption of IFRSs.

Net Operating Revenues

We generate our net operating revenues primarily from the manufacture and sales of wafer fabricating semiconductor devices, solar energy and new generation LED. We also derive a small portion of our net operating revenues from wafer probe services that we perform internally as well as mask tooling services and assembly and test services that we subcontract to other companies.

Operating Costs

Our operating costs consist principally of:

- overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, supplies, utilities and royalties;
- wafer costs;
- direct labor costs; and
- service charges paid to subcontractors for mask tooling, assembly and test services.

Our total depreciation expenses were NT$35,118 million, NT$37,242 million and NT$38,786 million (US$1,227 million) in 2012, 2013 and 2014, respectively.

Operating Expenses

Our operating expenses consist of the following:

- Sales and marketing expenses. Sales and marketing expenses consist primarily of intellectual property development expenses, salaries and related personnel expenses, wafer sample expenses and related marketing expenses. Wafer samples are actual silicon samples of our customers early design ideas made with our most advanced processes and provided to those customers;
- General and administrative expenses. General and administrative expenses consist primarily of salaries for our administrative, finance and human resource personnel, fees for professional services, and cost of computer and communication systems to support our operations; and

Research and development expenses. Research and development expenses consist primarily of research testing related expenses, salaries and related personnel expenses and depreciation on the equipment used for our research and development.

Net Other Operating Income and Expenses

Net other operating income and expenses consist primarily of:

gains or losses arising from disposal of property, plant and equipment;

the recognition or reversal of impairment losses of property, plant and equipment and intangible assets; and

net rental income or loss from property.

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Non-operating Income and Expenses

Our non-operating income and expenses primarily consist of the following:

1. Other income, which consists of:

   interest income, which is primarily derived from time deposits; and

   dividend income, which is primarily derived from financial assets at fair value through profit or loss, available-for-sale financial assets and financial assets measured at cost.

2. Other gains and losses, which principally consist of:

   gains or losses on valuation of financial assets and liabilities, which are primarily derived from disposal of and changes in the values of financial assets and liabilities classified as fair value through profit or loss, according to IAS 39;

   impairment loss, which is primarily derived from the loss recognized in available-for-sale financial assets and financial assets measured at cost, noncurrent;

   gains or losses on disposal of investments, which are primarily derived from our disposal of available-for-sale financial assets, financial assets measured at cost and investments accounted for under the equity method; and

   other gains and losses, which are primarily derived from our branch s grant income received from the government in Singapore.

3. Finance costs, which principally consist of:

   interest expenses, which are primarily derived from bonds payable and bank loans; and

   financial expenses, which are primarily derived from shareholder services proxy fee.

4. Share of profit or loss of associates and joint ventures, which is primarily derived from the recognition of investee companies net profit based on the ownership percentage we hold.

5. Bargain purchase gain, which is mainly derived from the acquisition of Best Elite. The purchase consideration was less than the fair value of Best Elite s net assets due to our unique position to better utilize the assets, such as improving utilization, and the lack of liquidity of Best Elite s ordinary and preferred shares.

Taxation

Based on our status as a company engaged in the semiconductor business in Taiwan, we have been granted exemptions from income taxes in Taiwan with respect to income attributable to capital increases for the purpose of purchasing equipment related to the semiconductor business for a period of five years following each such capital increase. This tax exemption resulted in tax savings of approximately NT$55 million, nil and NT$182 million (US$6 million) in 2012, 2013 and 2014, respectively. Our tax rate was 17% in 2014, the same rate applicable to companies outside the Hsinchu Science Park. We also benefit from other tax incentives generally available to technology companies in Taiwan, such as tax credits applicable against corporate income tax that range from 5% to 20% of the amount of investment in certain qualified equipment and technology. These tax incentives resulted in tax savings of approximately NT$343 million, NT$38 million and NT$549 million (US$17 million) in 2012, 2013 and 2014, respectively.

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In 1997, the R.O.C. Income Tax Law was amended to integrate corporate income tax and stockholder dividend tax to eliminate the double taxation effect for resident stockholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to stockholders as dividends in the following year will be assessed a 10% retained earnings tax.

As a result, if we do not distribute all of our annual retained earnings generated beginning January 1, 1998 as cash and/or stock dividends in the following year, these earnings will be subject to the 10% retained earnings tax.

In addition, the R.O.C. government enacted the R.O.C. Income Basic Tax Act, also known as the Alternative Minimum Tax Act , or the AMT Act, which became effective on January 1, 2006 to impose an alternative minimum tax. AMT is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the AMT Act. Prior to 2013, a company is subject to a 10% AMT if its annual taxable income under the AMT Act exceeds NT$2 million. Effective on January 1, 2013, after the amendment on August 8, 2012, the statutory tax rate was increased from 10% to 12%, if its annual taxable income under the AMT Act exceeds NT$0.5 million.

After taking into account the tax exemptions and tax incentives discussed above, we recorded NT$2,146 million, NT$2,257 million and NT$3,125 million (US$99 million) of income tax expenses in 2012, 2013 and 2014, respectively. Our effective income tax rate in 2014 was 23.03%.

Comparisons of Results of Operations

The following table sets forth some of our results of operations data as a percentage of our net operating revenues for the periods indicated.

	Years Ended December 31,		
	2012	**2013**	**2014**
	%	%	%
Net operating revenues	100.0	100.0	100.0
Operating costs	(83.3)	(81.0)	(77.2)
Gross profit	16.7	19.0	22.8
Operating expenses			
Sales and marketing	(2.4)	(2.6)	(2.9)
General and administrative	(2.7)	(2.9)	(2.5)
Research and development	(8.5)	(10.1)	(9.8)
Subtotal	(13.6)	(15.6)	(15.2)
Net other operating income and expenses	(2.4)	(0.1)	(0.4)
Operating income	0.7	3.3	7.2
Non-operating income and expenses	4.7	8.3	2.5
Income from continuing operations before income tax	5.4	11.6	9.7

Income tax expense	(1.8)	(1.8)	(2.2)
Net income	3.6	9.8	7.5
Total other comprehensive income (loss), net of tax	(5.5)	0.1	4.3
Total comprehensive income (loss)	(1.9)	9.9	11.8
Net income attributable to:			
Stockholders of the parent	5.3	10.2	7.9
Non-controlling interests	(1.7)	(0.4)	(0.4)
Total comprehensive income (loss) attributable to:			
Stockholders of the parent	(0.2)	10.3	12.2
Non-controlling interests	(1.7)	(0.4)	(0.4)

We obtained a controlling interest in Best Elite in 2013, and therefore its results of its operations have been included in our consolidated financial statements since 2013. We integrated our operating resources with Best Elite to reach cooperative synergy and provide enhanced manufacturing solutions to customers that help increase the competiveness of their products. As a result of our acquisition, Best Elite s operational efficiency has improved with the integration of its assets with our advanced technologies and manufacturing platforms as well as leveraging on our purchasing power, which contributed to an increase of 64.6% in Best Elite s operating income in 2014 as compared to 2013.

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net operating revenues. Net operating revenues increased by 13.1% from NT$123,812 million in 2013 to NT$140,012 million (US$4,431 million) in 2014, primarily due to the increased demand from our customers, resulting in a 11.6% increase in foundry wafer shipments from 4,997 thousand 8-inch equivalent wafers in 2013 to 5,577 thousand 8-inch equivalent wafers in 2014, and a perpetual 40nm licensing fee from Fujitsu.

Operating Costs. Operating costs increased by 7.9% from NT$100,249 million in 2013 to NT$108,159 million (US$3,423 million) in 2014, primarily due to the net effect of the increase in shipments and the higher capacity utilization in response to the increased customer demand.

Gross profit and gross margin. Gross profit increased from NT$23,563 million in 2013 to NT$31,853 million (US$1,008 million) in 2014. Our gross margin increased from 19.0% in 2013 to 22.8% in 2014, primarily due to the higher capacity utilization in response to the increased customer demand and a perpetual 40nm licensing fee from Fujitsu.

Operating income and operating margin. Operating income increased from NT$4,032 million in 2013 to NT$10,076 million (US$319 million) in 2014. Our operating margin increased from 3.3% in 2013 to 7.2% in 2014. The increase in operating margin was largely due to the increase in gross margin, partially offset by the increase in operating expenses and net other operating expenses. Operating expenses increased by 9.4% from NT$19,406 million in 2013 to NT$21,238 million (US$672 million) in 2014.

Sales and marketing expenses. Our sales and marketing expenses increased by 23.5% from NT$3,247 million in 2013 to NT$4,012 million (US$127 million) in 2014. The increase in sales and marketing expenses was mainly due to an increase of NT$600 million (US$19 million) in intellectual property royalty expenses as a result of the increased number of intellectual property under which we are granted licenses. Our sales and marketing expenses as a percentage of our net operating revenues increased from 2.6% in 2013 to 2.9% in 2014.

General and administrative expenses. Our general and administrative expenses slightly decreased by 2.8% from NT$3,666 million in 2013 to NT$3,562 million (US$113 million) in 2014, primarily as a result of the decrease in employee welfare expenses, which was mainly due to deconsolidation of UMCJ in 2013. Our general and administrative expenses as a percentage of our net operating revenues were 2.9% and 2.5% in 2013 and 2014, respectively.

Research and development expenses. Our research and development expenses increased by 9.4% from NT$12,493 million in 2013 to NT$13,664 million (US$432 million) in 2014. The increase in research and development expenses resulted primarily from an increase of NT$490 million (US$16 million) in personnel expenses, NT$460 million (US$15 million) in research expenses for advanced technologies, NT$290 million (US$9 million) in depreciation on the equipment used for research and development. Our research and development expenses as a percentage of our net operating revenues decreased from 10.1% in 2013 to 9.8% in 2014.

Net other operating income and expenses. Net other operating expenses increased by 331.2% from NT$125 million in 2013 to NT$539 million (US$17 million) in 2014, mainly due to an impairment loss of property, plant and equipment of NT$597 million (US$19 million) in 2014, all of which came from new business segment. Net other operating expense as a percentage of our net operating revenue increased from 0.1% in 2013 to 0.4% in 2014.

Non-operating income and expenses. Non-operating income decreased by 66.1% from NT$10,309 million in 2013 to NT$3,496 million (US$111 million) in 2014, mainly due to a bargain purchase gain of NT$7,154 million in 2013.

Other comprehensive income (loss), net of tax. Our other comprehensive income increased from NT$198 million in 2013 to NT$6,069 million (US$192 million) in 2014. We attributed this change primarily to the increase in the income of exchange differences on translation of foreign operations from NT$270 million in 2013 to NT$4,330 million (US$137 million) in 2014, and the increase in an unrealized gain on available-for-sale financial assets from a loss of NT$784 million in 2013 to a gain of NT$1,465 million (US$46 million) in 2014, partially offset by the decrease in remeasurements of defined benefit pension plans from an income of NT$379 million in 2013 to a loss of NT$2 million (US$0.06 million) in 2014.

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Net income attributable to the stockholders of the parent. Due to the factors described above, our net income decreased by 11.9% from NT$12,609 million in 2013 to NT$11,109 million (US$352 million) in 2014.

Total comprehensive income attributable to the stockholders of the parent. Due to the factors described above, our comprehensive income increased by 33.1% from NT$12,796 million in 2013 to NT$17,035 million (US$539 million) in 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net operating revenues. Net operating revenues increased by 7.0% from NT$115,675 million in 2012 to NT$123,812 million in 2013, primarily due to the increased demand from our customers, resulting in a 12.3% increase in foundry wafer shipments from 4,449 thousand 8-inch equivalent wafers in 2012 to 4,997 thousand 8-inch equivalent wafers in 2013. Due to nominal price erosion, these increases were partially offset by the lower average selling price in 2013, which decreased approximately 5.5% from 2012.

Operating Cost. Operating costs increased by 4.0% from NT$96,365 million in 2012 to NT$100,249 million in 2013, primarily due to the net effect of the increase in shipments and the higher capacity utilization in response to the increased customer demand.

Gross profit and gross margin. Gross profit increased from NT$19,310 million in 2012 to NT$23,563 million in 2013. Our gross margin increased from 16.7% in 2012 to 19.0% in 2013, primarily due to the increase in shipments, the decrease in sales returns and allowances and the improvement of operating efficiency of our new business segment.

Operating income and operating margin. Operating income increased from NT$822 million in 2012 to NT$4,032 million in 2013. Our operating margin increased from 0.7% in 2012 to 3.3% in 2013. The increase in operating margin is largely due to the increase in gross margin and the decrease in net other operating expenses, partially offset by the increase in operating expenses. Operating expenses increased by 23.6% from NT$15,697 million in 2012 to NT$19,406 million in 2013.

Sales and marketing expenses. Our sales and marketing expenses increased by 18.1% from NT$2,749 million in 2012 to NT$3,247 million in 2013. The increase in sales and marketing expenses was mainly due to an increase of NT$180 million in mask expenses and NT$380 million in intellectual property royalty expenses as a result of an increase in intellectual property under which we are granted a license. Our sales and marketing expenses as a percentage of our net operating revenues increased from 2.4% in 2012 to 2.6% in 2013.

General and administrative expenses. Our general and administrative expenses increased by 15.9% from NT$3,161 million in 2012 to NT$3,666 million in 2013 primarily as a result of an increase of NT$200 million in personnel expenses. Our general and administrative expenses as a percentage of our net operating revenues were 2.7% and 2.9% in 2012 and 2013, respectively.

Research and development expenses. Our research and development expenses increased by 27.6% from NT$9,787 million in 2012 to NT$12,493 million in 2013. The increase in research and development expenses resulted primarily from an increase of NT$1,160 million in research expenses for advanced technologies and an increase of NT$710 million in RD wafers expenses. Our research and development expenses as a percentage of our net operating revenues increased from 8.5% in 2012 to 10.1% in 2013.

Net other operating income and expenses. Net other operating expenses decreased by 95.5% from NT$2,791 million in 2012 to NT$125 million in 2013. The decrease in net other operating expenses is resulted primarily from a decrease of NT$3,190 million in losses arising from impairment of property, plant and equipment. Net other operating expense as a percentage of our net operating revenue decreased from 2.4% in 2012 to 0.1% in 2013.

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Non-operating income and expenses. Non-operating income increased by 88.4% from NT$5,473 million in 2012 to NT$10,309 million in 2013, mainly due to a bargain purchase gain of NT$7,154 million in 2013 and a decrease in gain on disposal of investments from NT$4,830 million in 2012 to NT$2,224 million in 2013.

Other comprehensive income (loss), net of tax. Our other comprehensive income was NT$198 million in 2013, compared to our other comprehensive loss of NT$6,381 million in 2012. We attributed this change primarily to an increase in exchange differences on translation of foreign operations from a loss of NT$3,228 million in 2012 to an income of NT$270 million in 2013, and a decrease in unrealized loss on available-for-sale financial assets from NT$2,492 million in 2012 to NT$784 million in 2013.

Net income attributable to the stockholders of the parent. Due to the factors described above, our net income increased by 106.9% from NT$6,094 million in 2012 to NT$12,609 million in 2013.

Total comprehensive income (loss) attributable to the stockholders of the parent. Due to the factors described above, our comprehensive income amounted to NT$12,796 million in 2013 compared to a comprehensive loss of NT$281 million in 2012.

B. Liquidity and Capital Resources

The foundry business is highly capital intensive. Our development over the past three years has required significant investments. Additional expansion for the future generally will continue to require significant cash for acquisition of plant and equipment to support increased capacities, particularly for the production of 12-inch wafers, although our expansion program will be adjusted from time to time to reflect market conditions. In addition, the semiconductor industry has historically experienced rapid changes in technology. To maintain competitiveness at the same capacity, we are required to make adequate investments in plant and equipment. In addition to our need for liquidity to support the large fixed costs of capacity expansion and the upgrading of our existing plants and equipment for new technologies, as we ramp up production of new plant capacity, we require significant working capital to support purchases of raw materials for our production and to cover variable operating costs such as salaries until production yields provide sufficiently positive margins for a fabrication facility to produce operating cash flows.

We incurred capital expenditures of NT$52,186 million, NT$32,911 million and NT$43,237 million (US$1,368 million) in 2012, 2013 and 2014, respectively. Constructing a fab requires a significant amount of funding from financing activities. Once a fab is in operation at acceptable capacity and yield rates, it can provide significant cash flows.

We have financed our capital expenditure requirements in recent years from operating cash inflows as well as from bank borrowings, the issuance of bonds and equity-linked securities denominated in NT dollars and U.S. dollars. Operating cash inflows significantly exceed operating income, reflecting the significant non-cash depreciation expense. We generated cash flows from operations of NT$40,398 million, NT$43,472 million and NT$44,788 million (US$1,417 million) in 2012, 2013 and 2014, respectively.

On May 24, 2011, we issued US$500 million aggregate principal amount of currency linked zero coupon convertible bonds due 2016. Each bond, at the option of the holder, will be convertible into our ADSs. The proceeds of this offering will be used for purchasing machinery and equipment. As of December 31, 2012 and 2013, no bonds had been converted into our ADSs, and we have repurchased and cancelled US$142 million principal amount of these bonds in the open market transactions in prior years. On May 27, 2014, we redeemed US$324 million principal amount of these bonds as requested by investors and on June 27, 2014, we further redeemed another US$34 million

principal amount of these bonds, which represented all of the remaining outstanding bonds. As of June 27, 2014, all of our currency linked zero coupon bonds due 2016 were redeemed.

In early June 2012, we issued five-year and seven-year domestic unsecured corporate bonds totaling NT$10,000 million, with a face value of NT$1 million per unit. The five-year domestic unsecured corporate bond was issued in the amount of NT$7,500 million. Interest will be paid annually at 1.43%, and the principal will be repayable in June 2017 upon maturity. The seven-year domestic unsecured corporate bond was issued in the amount of NT$2,500 million. Interest will be paid annually at 1.63%, and the principal will be repayable in June 2019 upon maturity. The proceeds of this offering are used for purchasing machinery and equipment. As of December 31, 2014, NT$10,000 million aggregate principal amount of these bonds were outstanding.

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In mid-March 2013, we issued another five-year and seven-year domestic unsecured corporate bonds totaling NT$10,000 million, with a face value of NT$1 million per unit. The five-year domestic unsecured corporate bond was issued in the amount of NT$7,500 million. Interest will be paid annually at 1.35%, and the principal will be repayable in March 2018 upon maturity. The seven-year domestic unsecured corporate bond was issued in the amount of NT$2,500 million. Interest will be paid annually at 1.50%, and the principal will be repayable in March 2020 upon maturity. The proceeds of this offering are used for purchasing machinery and equipment. As of December 31, 2014, NT$10,000 million aggregate principal amount of these bonds were outstanding.

In mid-June 2014, we issued an aggregate principal amount of NT$5,000 million of seven-year and ten-year domestic unsecured corporate bonds, with a denomination of NT$1 million per bond. The seven-year domestic unsecured corporate bond was issued with an aggregate principal amount of NT$2,000 million with an annual coupon bearing an interest rate of 1.7%. The ten-year domestic unsecured corporate bond was issued with an aggregate principal amount of NT$3,000 million with an annual coupon bearing an interest rate of 1.95%. The proceeds of this offering were used for repay debts. As of December 31, 2014, NT$5,000 million aggregate principal amount of these bonds were outstanding.

As of December 31, 2014, we had NT$45,701 million (US$1,446 million) of cash and cash equivalents and NT$740 million (US$23 million) of financial assets at fair value through profit or loss, current. Cash equivalents included time deposits and commercial paper with original maturities of three months or less and repurchase agreements collateralized by government bonds and corporate bonds. These agreements bore interest rates ranging from 0.46% to 0.60%; 0.48% to 0.56% and 0.48% to 0.51% in 2012, 2013 and 2014, respectively. The terms of these agreements were typically less than two weeks. As of December 31, 2012, 2013 and 2014, we held repurchase agreements in the amount of NT$4,585 million, NT$5,669 million and NT$4,526 (US$143 million), respectively.

We believe that our working capital, cash inflows from operations and unused lines of credit are sufficient for our present requirements.

At our 2014 annual general meeting, our stockholders authorized our board of directors to raise capital from private placement, through issuing instruments such as common shares, depositary receipts (including but not limited to ADS), or Euro/Domestic convertible bonds (including secured or unsecured corporate bonds), based on market conditions and our needs. The amount of common shares issued or convertible is proposed to be no more than 10% of our issued and outstanding share capital (i.e., no more than 1,269,208,166 common shares). According to Item 6, Article 43-6 of the R.O.C. Security and Exchange Act, any private placement of our common shares must be conducted separately within one year after approval at the annual general meeting of stockholders. The approval to conduct a private placement of our common shares will expire on June 10, 2015. Considering market conditions, our board of directors has resolved to terminate any plans for a private placement of our common shares under the 2014 general meeting authorization.

Operating Activities

Net cash generated by operating activities increased from NT$43,472 million in 2013 to NT$44,788 million (US$1,417 million) in 2014, primarily due to an increase in cash collected from our customers. Net cash generated by operating activities increased from NT$40,398 million in 2012 to NT$43,472 million in 2013.

Investing Activities

Net cash used in our investing activities increased from NT$31,516 million in 2013 to NT$42,606 million (US$1,348 million) in 2014, primarily due to the cash we used to purchase equipment at our fabs increased from NT$32,911

million in 2013 to NT$43,237 million (US$1,368 million) in 2014. Net cash used in our investing activities decreased from NT$49,123 million in 2012 to NT$31,516 million in 2013, primarily due to the cash we used to purchase equipment at our fabs decreased from NT$52,186 million in 2012 to NT$32,911 million in 2013, partially offset by the decrease in net cash provided by acquisition and disposal of available-for-sale financial assets from NT$3,965 million in 2012 to NT$2,232 million in 2013.

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Financing Activities

Net cash used in our financing activities increased from NT$3,924 million in 2013 to NT$8,258 million (US$261 million) in 2014, primarily due to an increase in redemption of bonds from NT$2,153 million in 2013 to NT$14,137 million (US$447 million) in 2014, a decrease in proceeds from bonds issued from NT$10,000 million in 2013 to NT$5,000 million (US$158 million) in 2014 and the increase in cash dividends and cash paid from additional paid-in capital from NT$5,061 million in 2013 to NT$6,253 million (US$198 million) in 2014. Such increase in net cash used was partially offset by drawing down bank loans of NT$4,684 million in 2013 and an increase in bank loans of NT$6,560 million (US$208 million) in 2014, as well as our acquisition of treasury stock of NT$2,245 million in 2013.

Net cash used in our financing activities was NT$3,924 million in 2013, compared to net cash provided by financing activities of NT$3,588 million in 2012. This was primarily due to increase in the bank loans we drew down from NT$424 million in 2012 to NT$4,684 million in 2013 and increase in redemption of bonds from NT$139 million in 2012 to NT$2,153 million in 2013, as well as our acquisition of treasury stock of NT$2,245 million in 2013. Such increase in net cash used is partially offset by decrease in cash dividends paid from NT$6,316 million in 2012 to NT$5,061 million in 2013.

We had NT$6,251 million (US$198 million) outstanding short-term loans as of December 31, 2014. We had total availability under existing short-term lines of credit of NT$19,650 million (US$622 million) as of December 31, 2014.

We had bonds payable of NT$24,978 million (US$790 million) in the aggregate as of December 31, 2014.

As of December 31, 2014, our outstanding long-term debts primarily consisted of NT$1,231 million (US$39 million) unsecured and NT$150 million (US$5 million) secured long-term bank loans due in 2015, NT$3,667 million (US$116 million) unsecured and NT$1,385 million (US$44 million) secured long-term bank loans due in 2016, NT$4,200 million (US$133 million) unsecured and NT$168 million (US$5 million) secured long-term bank loans due in 2017, NT$300 million (US$9 million) unsecured and NT$100 million (US$3 million) secured long-term bank loans due in 2018, and NT$1,000 million (US$32 million) unsecured long-term bank loans due in 2019. The interest rates of our long-term bank loans range from 1.23% to 2.51%.

As of December 31, 2014, we had no current portion of bonds due within one year. As of the same date, the current portion of long-term bank loans due within one year was NT$3,775 million (US$119 million).

Capital Expenditures

We have continued to expand our manufacturing capacity, especially our 40 nanometer and 28 nanometer technology processes. As a result, our capital expenditures have been used for expanding our factory space and purchasing equipment for both research and development and production purposes. We have entered into several construction contracts for the expansion of our factory space in Taiwan. As of December 31, 2014, these construction contracts amounted to NT$11,657 million (US$369 million) with an unpaid portion of the contracts, which would be accrued, of approximately NT$5,233 million (US$166 million). In 2012, 2013 and 2014, we spent approximately NT$52,186 million, NT$32,911 million and NT$43,237 million (US$1,368 million), respectively, primarily to purchase equipment for research and development and production purposes.

We continue to maintain high levels of capital expenditures as we believe there are promising opportunities for 28-nanometer and 40-nanometer technologies. We continue to devote most of our capital expenditure to improvement of advanced technology within 12-inch fabs. We will focus on our addressable markets (i.e., 40 & 28-nanometer) and continue to build up our production capacity. We believe our 28-nanometer technology progress will propel our

advanced process growth, strengthen our future competitiveness, and enhance our portfolio of comprehensive foundry solutions available to our customers.

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We believe that our existing cash and cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure requirements at least through the end of 2015. Due to rapid changes in technology in the semiconductor industry, however, we have frequent demand for investment in new manufacturing technologies. We cannot assure you that we will be able to raise additional capital, should that become necessary, on terms acceptable to us, or at all. If financing is not available on terms acceptable to us, management intends to reduce expenditures so as to delay the need for additional financing. To the extent that we do not generate sufficient cash flows from our operations to meet our cash requirements, we may rely on external borrowings and securities offerings to finance our working capital needs or our future expansion plans. The sale of additional equity or equity-linked securities may result in additional dilution to our stockholders. Our ability to meet our working capital needs from cash flow from operations will be affected by the demand for our products and change in our product mix, which in turn may be adversely affected by several factors. Many of these factors are beyond our control, such as economic downturns and declines in the average selling price of our products. The average selling price of our products have been subjected to downward pressure in the past and are reasonably likely to be subject to further downward pressure in the future. We have not historically relied on, and we do not plan to rely on in the foreseeable future, off-balance sheet financing arrangements to finance our operations or expansion.

Transactions with Related Parties

Our transactions with related parties have been conducted on arm s-length terms. See Item 7. Major Stockholders and Related Party Transactions B. Related Party Transactions and Note 7 to our audited consolidated financial statements included in this annual report.

Inflation/Deflation

We do not believe that inflation in the R.O.C. has had a material impact on our results of operations.

C. Research, Development, Patents and Licenses, Etc.

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, effective research and development is essential to our success. We invested approximately NT$9,787 million, NT$12,493 million, NT$13,664 million (US$432 million) in 2012, 2013 and 2014, respectively, in research and development, which represented 8.5%, 10.1% and 9.8%, respectively, of net operating revenues for such years. We believe that our continuous spending on research and development will help us maintain our position as a technological leader in the foundry industry. As of March 31, 2015, we employed 1,590 professionals in our research and development division.

Our current research and development activities seek to upgrade and integrate manufacturing technologies and processes, as well as to drive 28 nanometer High-k/metal gate technology in mass production, and to develop 14 nanometer technology including EUV (Extreme Ultraviolet) lithography, and FinFET (Fin Field-Effect Transistor). Although we emphasize firm-wide participation in the research and development process, we maintain central research and development teams primarily responsible for developing cost-effective technologies that can serve the manufacturing needs of our customers. Monetary incentives are provided to our employees if projects result in successful patents. We believe we have a strong foundation in research and development and intend to continue our efforts on technology developments. Our top management believes in the value of continued support of research and development efforts and intends to continue our foundry leadership position by providing customers with comprehensive technology and SoC solutions in the industry.

D. Trend Information

Please refer to Item 5. Operating and Financial Review and Prospects Overview for a discussion of the most significant recent trends in our production, sales, costs and selling prices. In addition, please refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments and events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

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E. Off-balance Sheet Arrangements

We do not generally provide letters of credit to, or guarantees for, or engage in any repurchase financing transactions with any entity other than our consolidated subsidiaries. We have, from time to time, entered into foreign currency forward contracts to hedge our existing assets and liabilities denominated in foreign currencies and identifiable foreign currency purchase commitments. We do not engage in any speculative activities using derivative instruments. See Item 11. Quantitative and Qualitative Disclosure About Market Risk .

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commitments with definitive payment terms on a consolidated basis which will require significant cash outlays in the future as of December 31, 2014.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(in NT$ millions)				
Long-term debt [1]					
Unsecured bonds	25,000		7,500	10,000	7,500
Long-term loans	12,201	3,775	7,313	1,113	
Operating lease obligations [2]	4,218	427	740	504	2,547
Purchase obligations [3]	103	103			
Other long-term obligations [4]	3,177	2,896	275	3	3
Total contractual cash obligations	44,699	7,201	15,828	11,620	10,050

(1) Assuming the domestic bonds are paid off upon maturity.
(2) Represents our obligations to make lease payments to use machineries, equipment and land on which our fabs are located, primarily in the Hsinchu Science Park and the Tainan Science Park in Taiwan, Pasir Ris Wafer Fab Park in Singapore.
(3) Represents commitments for purchase of raw materials. These commitments are not recorded on our balance sheet as of December 31, 2014.
(4) Represents intellectual properties and royalties payable under our technology license agreements. The amounts of payments due under these agreements are determined based on fixed contract amounts.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name, age, position, tenure and biography of each of our directors and executives as of March 31, 2015. There is no family relationship among any of these persons.

The business address of our directors and executive officers is the same as our registered address.

Name	Age	Position	Years with Us
Stan Hung	54	Chairman and Director	23
Po-Wen Yen	58	Chief Executive Officer and Director (Representative of Hsun Chieh Investment Co.)	28
Jann-Hwa Shyu [(1)]	56	Director (Representative of Silicon Integrated Systems Corp.) and Senior Vice President	29
Wen-Yang Chen	62	Director (Representative of UMC Science and Culture Foundation) and Chief Operating Officer	35
Ting-Yu Lin	53	Director	9
Paul S.C. Hsu [(2)]	79	Independent Director	11
Chung-Laung Liu [(2)]	81	Independent Director	9
Chun-Yen Chang [(2)]	78	Independent Director	9
Cheng-Li Huang [(2)]	66	Independent Director	6
Chitung Liu	49	Chief Financial Officer	14

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(1) Jann-Hwa Shyu was appointed as a representative of Representative of Silicon Integrated Systems Corp. on January 9, 2015.
(2) Member of the Audit Committee.

Stan Hung is a director and the Chairman of our company. Mr. Hung was our CFO & Senior Vice President from 2000 to 2007. He was also the Chairman of Epitech Technology Corporation in 2007 and ITE Technology Corporation for a portion of 2008, respectively. Prior to re-joining United Microelectronics Corporation in 1991, Mr. Hung was a financial manager at Optoelectronics Corporation. He is also the Chairman of Fortune Venture Capital Corporation, TLC Capital Co., Nexpower Technology Corporation, UMC New Business Investment Corporation, and a Director of Epistar Corporation, Crystalwise Technology Inc. and Altek Corporation as well as an independent director of United BioPharma, Inc. Mr. Hung received a bachelor s degree in accounting from Tam Kang University in 1982.

Po-Wen Yen is a director of our company and our Chief Executive Officer. Prior to becoming our Chief Executive Officer, Mr. Yen was our senior vice president responsible for 12-inch operations. Mr. Yen is a representative of Hsun Chieh Investment Co. Mr. Yen joined us in 1986 and was responsible for the operation of Fabs 8A and 8C. He also served as the vice president for UMC-SG, our 300mm operation in Singapore. He is also a director of Fortune Venture Capital Corporation, TLC Capital Co., and UMC New Business Investment Corporation. In 2003, Mr. Yen received the National Manager Excellence Award from Chinese Professional Management Association. Mr. Yen earned a bachelor s degree in Chemical Engineering from National Tsing Hua University and his master s degree in chemical engineering from National Taiwan University.

Jann-Hwa Shyu is a director and our senior vice president. Mr.Shyu is a representative of Silicon Integrated Systems Corp. Mr.Shyu is responsible for operation management of 10 fabs in Hsinchu, Tainan, Singapore, and Suzhou, China. Mr. Shyu joined us in 1986 as an engineer, specializing in semiconductor process development, process integration, and fab operation management. In 2002, Mr. Shyu established Hejian in Suzhou Industrial Park and served as its president. Under his leadership, Hejian has been ranked one of the China s Top 10 IC & Discrete Device Manufacturer every year since 2004. In 2006, Mr. Shyu received China s Semiconductor Industry Leadership Award. Following our acquisition of Hejian in 2013, Mr. Shyu was appointed to his current position as a senior vice president. He earned his master s degree in Chemical Engineering from National Cheng-Kung University,

Wen-Yang Chen is a director of our company. Mr. Chen is a representative of UMC Science and Culture Foundation. Mr. Chen was our Chief Operating Officer from 2009 to 2013. Prior to joining us, Mr. Chen worked for companies including Digital Equipment Corporation and Vishay. Mr. Chen joined us in 1980 and was responsible for the operation of our 6A, 8A, 8E, 8D and 8F Fabs, specializing in development and integration of semiconductor processes and factory management. Mr. Chen is also the Chairman of Wavetek Microelectronics Corporation as well as a director of Fortune Venture Capital Corporation, TLC Capital Co., UMC New Business Investment Corporation, and a director of UMC Science and Culture Foundation. Mr. Chen received Award of the Excellent Engineers from Chinese Institute of Engineers in 1994 and Manager Excellence Award in 2002.

Ting-Yu Lin is a director of our company. Mr. Lin is also the chairman of Sunrox International Inc. Mr. Lin received a master s degree in international finance from Meiji University in 1993.

Paul S.C. Hsu is an independent director of our company. Professor Hsu is a Kao Reyan Chair Professor of Feng Chia University, Taiwan, the Chairman of Social Ethics Association and the Chairman of Taiwan Institute of Directors. Professor Hsu is an independent director of Gintech Energy Corporation and Yummy Town (Cayman) Holdings Corporation, a director of Faraday Technology Corporation and Far Eastern Electronic Toll Collection Co,

Ltd as well as a supervisor of Far Eastern International Bank. Professor Hsu received a Ph.D. degree in business administration from the University of Michigan in 1974.

Chung-Laung Liu is an independent director of our company. Professor Liu is the William M.W. Mong Honorary Chair Professor of National Tsing Hua University, Taiwan. Professor Liu is also the Chairman of TrendForce Corp., a supervisor of MediaTek Incorporation, an independent director of Richteck Technology Corp., and Powerchip semiconductor Corp., as well as a director of Macronix International Co., Ltd. Professor Liu received a doctorate degree in science from Massachusetts Institute of Technology in 1962.

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Chun-Yen Chang is an independent director of our company. Professor Chang is an academician of Academia Sinica and a chair professor and president of National Chiao Tung University, Taiwan. Professor Chang is also an independent director of BizLink Holding Inc. and GlobalWafers Co., Ltd. Professor Chang received a Ph.D. degree in electrical engineering from National Chiao Tung University in 1970.

Cheng-Li Huang is an independent director of our company. Dr. Huang was a professor of Tamkang University and served as its Comptroller. He was also the chief executive of Tamkang Accounting Education Foundation and the publisher of Journal of Contemporary Accounting. Professor Huang is also a supervisor of Win Semiconductors Corp. Professor Huang received a Ph.D. degree in accounting from University of Warwick in 1999.

Chitung Liu is the Chief Financial Officer of our company. Prior to joining our company in 2001, Mr. Liu was a managing director of UBS. Mr. Liu is also a director of Unimicron Corporation, UMC New Business Investment Corporation Fortune Venture Capital Corporation, TLC Capital Co., Ltd. and Nexpower Technology Corp., Mr. Liu received an executive MBA degree from National Taiwan University in 2009.

B. Compensation

The aggregate compensation paid and benefits in kind granted to our directors in 2014 were approximately NT$16.6 million. The remuneration was out of our 2014 earnings distribution plan, and the distribution percentage for directors is [0.1]%. See Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions . Some of the remuneration was paid to the legal entities that certain directors represent. The aggregate compensation paid and benefits in kind granted to our executive officers in 2014 were approximately NT$134 million, which include NT$47 million as bonus. Certain of our directors who also served as executive officers held stock options to purchase 6.3 million common shares as of March 31, 2015.

C. Board Practices

All of our directors were elected in June 2012 for a term of three years. Neither we nor any of our subsidiaries has entered into a contract with any of our directors by which our directors are expected to receive benefits upon termination of their employment.

Our board of directors established an audit committee in March 2005. In the annual ordinary stockholders meeting held on June 13, 2008, we amended our articles of incorporation to introduce the mechanism of an Audit Committee. See Item 10. Additional Information B. Memorandum and Articles of Association Directors . After the re-election of directors in the stockholders meeting on June 12, 2012, our board of directors appointed Paul S.C. Hsu, Chung-Laung Liu, Chun-Yen Chang and Cheng-Li Huang to be the members of the audit committee. Each audit committee member is an independent director who is financially literate with accounting or related financial management expertise. The audit committee meets as often as it deems necessary to carry out its responsibilities. Pursuant to an audit committee charter, the audit committee has responsibility for, among other things, overseeing the qualifications, independence and performance of our internal audit function and independent auditors, and overseeing the accounting policies and financial reporting and disclosure practices of our company. The audit committee also has the authority to engage special legal, accounting or other consultants it deems necessary in the performance of its duties.

Remuneration Committee

The R.O.C. Securities and Exchange Act, as amended on November 24, 2010, further introduced the mechanism of a Remuneration Committee , which requires all the publicly listed companies in the R.O.C., including our company, to adopt a remuneration committee. On March 18, 2011, R.O.C. FSC promulgated the Regulations Governing the Establishment and Exercise of Powers by Compensation Committees of Public Companies, according to which, public listed companies of our size shall set up the remuneration committee no later than September 30, 2011 and the remuneration committee shall be composed of no less than three members commissioned by the board of directors. In addition, for a company with independent directors, such as us, at least one of the remuneration committee members shall be the independent director of such company. We established a remuneration committee in accordance with Article 14-6 of the R.O.C. Securities and Exchange Act on April 27, 2011. The members of the remuneration committee are independent directors Chun-Yen Chang, Chung-Laung Liu, Paul S.C. Hsu, and Cheng-Li Huang, with Chun-Yen Chang serving as convener and chairperson. We amended our articles of incorporation to implement the mechanism of our remuneration committee during the annual ordinary stockholders meeting held on June 15, 2011.

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In November 2003, the Securities and Exchange Commission approved changes to the NYSE s listing standards related to the corporate governance practices of listed companies. Under these rules, listed foreign private issuers, like us, must disclose any significant ways in which their corporate governance practices differ from those followed by NYSE-listed U.S. domestic companies under the NYSE s listing standards. A copy of the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to U.S. companies is available on our website http://www.umc.com/english/investors/Corpgovdifference.asp.

D. Employees

As of March 31, 2015, we had 18,538 employees, which includes 10,272 engineers, 7,461 technicians and 805 administrative staff performing administrative functions on a consolidated basis. We have in the past implemented, and may in the future evaluate the need to implement, labor redundancy plans based on the work performance of our employees.

	As of December 31,		
	2012	2013	2014
Employees			
Engineers	8,640	9,698	10,272
Technicians	6,215	7,232	7,558
Administrative Staff	769	854	793
Total	15,624	17,784	18,623

Employee salaries are reviewed annually. Salaries are adjusted based on industry standards, inflation and individual performance. As an incentive, additional bonuses in cash may be paid at the discretion of management based on the performance of individuals. In addition, except under certain circumstances, R.O.C. law requires us to reserve from 10% to 15% of any offerings of our new common shares for employees subscription.

Our employees participate in our profit distribution pursuant to our articles of incorporation. Employees are entitled to receive additional bonuses based on a certain percentage of our allocable surplus income. On March 18, 2015, our board of directors proposed an employee bonus in cash in the amount of NT$1,459 million (US$46.17 million) in relation to retained earnings in 2014.

Our employees are not covered by any collective bargaining agreements. We believe we have a good relationship with our employees.

E. Share Ownership

As of March 31, 2015, each of our directors and executive officers held common shares and/or ADSs of United Microelectronics, either directly for their own account or indirectly as the representative of another legal entity on our board of directors, except for Chung-Laung Liu, Paul S.C. Hsu, Chun-Yen Chang and Cheng-Li Huang, our independent directors. As of April 11, 2015, our most recent record date, Hsun Chieh Investment Co. held approximately 441 million of our common shares, representing approximately 3.47% of our issued and outstanding share capital. Silicon Integrated Systems Corp. held approximately 315 million of our common shares, representing approximately 2.48% of our issued and outstanding share capital. Stan Hung held approximately 14 million of our common shares, representing approximately 0.11% of our issued and outstanding share capital. Ting-Yu Lin held

approximately 13 million of our common shares, representing approximately 0.1% of our issued and outstanding share capital.

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We have adopted employee stock option plans in the past, pursuant to which options may be granted to our full-time regular employees, including those of our domestic and overseas subsidiaries. The exercise price for the options would be the closing price of our common shares on the Taiwan Stock Exchange on the day the options are granted, while the expiration date for such options is 6 years from the date of its issuance. The 300 million stock options with an exercise price of NT$10.4 that we granted in June 2009 will expire on June 18, 2015. Except for the grant in the prior sentence, all stock options we previously granted had expired prior to 2013.

According to our Employee Stock Options Plan, an option holder may exercise an increasing portion of his or her options starting two years after the grant of the options. According to the vesting schedule, 50%, 75% and 100% of such option holder s options shall vest two, three and four years after the grant of the options, respectively. Upon a voluntary termination or termination in accordance with the R.O.C. Labor Law, the option holder shall exercise his or her vested options within 30 days, subject to exceptions provided therein, and after the termination otherwise such options shall terminate. If termination was due to death, the heirs of such option holder have one year starting from the date of the death to exercise his or her vested options. If termination was due to retirement or occupational casualty, the option holder or his or her heirs may exercise all his or her options within a certain period as provided. The options are generally not transferable or pledgeable by the option holders. The total number of common shares issuable upon exercise of option held by our directors and executive officers as of March 31, 2015 was 14.9 million. The units granted to each of our directors and executive officers as a percentage of our issued and outstanding share capital as of March 31, 2015 were less than 1%.

ITEM 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our common shares as of (i) April 11, 2015, our most recent record date and (ii) as of certain record dates in each of the preceding three years, for (1) the stockholders known by us to beneficially own more than 2% of our common shares and (2) all directors and executive officers as a group. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules.

	As of April 13, 2013	As of April 13, 2014	As of April 11, 2015	
	Percentage of common shares beneficially owned	Percentage of common shares beneficially owned	Percentage of common shares beneficially owned	Number of common shares beneficially owned
Name of Beneficial Owner				
Hsun Chieh Investment Co., Ltd. (1)	3.4%	3.48%	3.47%	
Silicon Integrated Systems Corp.	2.4%	2.48%	2.48%	
Directors and executive officers as a group	6.27%	6.39%	6.28%	

(1) 36.5% owned by United Microelectronics Corp. as of March 31, 2015.

None of our major stockholders have different voting rights from those of our other stockholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly.

For information regarding our common shares held or beneficially owned by persons in the United States, see Item 9. The Offer and Listing A. Offer and Listing Details Market Price Information for Our American Depositary Shares in this annual report.

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B. Related Party Transactions

From time to time we have engaged in a variety of transactions with our affiliates. We generally conduct transactions with our affiliates on an arm s-length basis. The sales and purchase prices with related parties are determined through negotiation, generally based on market price.

The following table shows our aggregate ownership interest, on a consolidated basis, in major related fabless design companies that we enter into transactions from time to time as of December 31, 2014.

Name	Ownership %
Silicon Integrated Systems Corp.	19.70

We provide foundry services to this fabless design company and the sales price was determined on arm s length prices and terms, through mutual agreement based on the market conditions. We derived NT$156 million and NT$117 million (US$4 million) of our net operating revenues in 2013 and 2014, respectively, from the provision of our foundry services. For more information, please refer to Note 7 to our audited consolidated financial statements included in this annual report.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Please refer to Item 18 for a list of all financial statements filed as part of this annual report on Form 20-F.

Except as described in Item 4. Information on the Company B. Business Overview Litigation , we are not currently involved in material litigation or other proceedings that may have, or have had in the recent past, significant effects on our financial position or profitability.

As for our policy on dividend distributions, see Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions . On June 12, 2012, our stockholders approved a cash dividend of NT$0.5 per share for an aggregate of NT$6,316,434,833. On June 20, 2012, our board of directors resolved to adjust the cash dividend ratio to NT$0.49980232 per common share, because the outstanding common shares had increased accordingly as a result of the exercise of employee stock options. On June 11, 2013, our stockholders approved a cash dividend of NT$0.4 per common share for an aggregate of NT$5,061,310,216. On June 19, 2013, our board of directors resolved to adjust the cash dividend ratio to NT$0.40639654 per common share because the number of outstanding common shares had changed as a result of the exercise of employee stock options and our repurchase of treasury common shares. On June 11, 2014 our stockholders approved a cash distribution of NT$0.5 per common share for an aggregate of NT$6,253,157,145, among which NT$0.49 per common share was from additional paid-in capital while the remaining was from earnings. On March 18, 2015, our board of directors proposed dividends of NT$6,939,321,835 (approximately NT$0.55 per common share) which are expected to be approved at our annual general stockholders meeting on June 9, 2015.

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The following table sets forth the cash dividends per share and stock dividends per share as a percentage of common shares outstanding paid during each of the years indicated in respect of common shares outstanding at the end of each such year, except as otherwise noted.

	Cash Dividend per Share NT$	Stock Dividend per Share NT$	Total Number of Common Shares Issued as Stock Dividend	Number of Outstanding Common Shares at Year End
1997		3.0	868,629,276	4,117,758,265
1998		2.9	1,199,052,940	5,480,221,725
1999		1.5	834,140,790	6,638,054,462
2000		2.0	1,809,853,716	11,439,016,900
2001		1.5	1,715,104,035	13,169,235,416
2002		1.5	1,968,018,212	15,238,578,646
2003		0.4	607,925,145	15,941,901,463
2004		0.8	1,288,558,185	17,550,800,859
2005	0.1029	1.029	1,758,736,435	18,856,632,324
2006	0.409141420	0.10228530	179,031,672	19,131,192,690
2007	0.7			13,214,494,883
2008	0.75	0.45	562,958,816	12,987,771,315
2009				12,987,771,315
2010	0.5			12,987,912,315
2011	1.11164840			13,084,341,565
2012	0.49980232			12,951,805,540
2013	0.40639654			12,692,081,665
2014	0.5			12,725,207,790

(1) We declare stock dividends in a NT dollar amount per share, but we pay the stock dividends to our stockholders in the form of common shares. The amount of common shares distributed to each stockholder is calculated by multiplying the dividend declared by the number of common shares held by the given stockholder, divided by the par value of NT$10 per share. Fractional common shares are not issued but are paid in cash.

B. Significant Changes

For the significant subsequent events following the close of the last financial year up to the date of this annual report on Form 20-F, please refer to Note 10 to our audited consolidated financial statements included elsewhere in this annual report.

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ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price Information for Our Common Shares

Our common shares have been listed on the Taiwan Stock Exchange since July 1985. There is no public market outside Taiwan for our common shares. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for our common shares. The closing price for our common shares on the Taiwan Stock Exchange on April 17, 2015 was NT$14.30 per share.

	High	Low	Average Daily Trading Volume (in thousands
	NT$	NT$	of shares)
2010	18.60	12.95	53,660.37
2011	18.10	10.45	44,048.44
2012	15.65	10.10	39,247.79
2013	12.40	10.90	41,684.47
First Quarter	12.40	10.90	3,528.18
Second Quarter	14.50	11.00	82,540.32
Third Quarter	15.05	11.75	74,070.55
Fourth Quarter	13.10	11.90	37,050.69
2014	16.50	12.00	55,017.35
First Quarter	13.05	12.00	50,562.17
Second Quarter	15.10	12.80	53,799.21
Third Quarter	16.50	12.60	62,688.43
Fourth Quarter	14.85	12.05	52,503.20
October	13.40	12.05	42,408.72
November	14.05	13.20	51,824.47
December	14.85	13.55	62,322.08
2015 (through April 17)	16.05	14.30	64,158.78
First Quarter	16.05	14.70	66,976.26
January	15.75	14.70	92,357.28
February	16.05	15.40	63,900.50
March	16.00	15.20	45,720.09
Second Quarter (through April 17)	15.80	14.30	50,071.37
April (through April 17)	15.80	14.30	50,071.37

Source: Taiwan Stock Exchange.

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Market Price Information for Our American Depositary Shares

Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000. The outstanding ADSs are identified by the CUSIP number 910873 40 5. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the NYSE for our ADSs. The closing price for our ADSs on the New York Stock Exchange on April 17, 2015 was US$2.23 per ADS. Each of our ADSs represents the right to receive five common shares.

	High	Low	Average Daily Trading Volume (in thousands of shares)
	NT$	NT$	
2010	4.22	2.55	3,932,515
2011	3.46	1.79	3,454,527
2012	2.72	1.75	2,733,811
2013	2.43	1.77	1,862,883
First Quarter	2.15	1.80	2,651,914
Second Quarter	2.34	1.77	2,145,941
Third Quarter	2.43	1.88	1,638,086
Fourth Quarter	2.15	1.94	1,064,906
2014	2.58	1.95	1,043,726
First Quarter	2.15	1.97	995,294
Second Quarter	2.45	2.05	1,476,770
Third Quarter	2.58	1.99	1,088,724
Fourth Quarter	2.32	1.95	618,612
October	2.19	1.95	857,701
November	2.21	2.12	508,377
December	2.32	2.14	463,859
2015 (through April 17)	2.54	2.22	861,128
First Quarter	2.54	2.22	885,775
January	2.49	2.22	1,247,122
February	2.54	2.43	755,601
March	2.53	2.35	669,702
Second Quarter (through April 17)	2.51	2.23	735,836
April (through April 17)	2.51	2.23	735,836

Sources: Thomson One

As of March 31, 2015, there were a total of 140,554,847 ADSs listed on the NYSE. With certain limited exceptions, holders of common shares that are not R.O.C. persons are required to hold these common shares through a brokerage or custodial account in the R.O.C. As of March 31, 2015, 702,774,235 common shares were registered in the name of a nominee of JPMorgan Chase & Co., the depositary under the deposit agreement. JPMorgan Chase & Co. has advised us that, as of March 31, 2015, 140,356,457 ADSs representing these 701,782,285 common shares were held of record by Cede & Co., and 198,390 ADSs were held by U.S. registered stockholders. We have no further

information as to common shares held or beneficially owned by U.S. persons.

B. Plan of Distribution

Not applicable.

C. Markets

The principal trading markets for our common shares are the Taiwan Stock Exchange and the New York Stock Exchange, on which our common shares trade in the form of ADSs.

D. Selling Stockholders

Not applicable.

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E. Dilution
Not applicable.

F. Expenses of the Issue
Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital
Not applicable.

B. Memorandum and Articles of Association
The following statements summarize the material elements of our capital structure and the more important rights and privileges of stockholders conferred by the R.O.C. law and our articles of incorporation.

Objects and Purpose

The scope of business of United Microelectronics as set forth in Article 2 of our articles of incorporation, includes (i) integrated circuits; (ii) semiconductor parts and components; (iii) parts and components of microcomputers, microprocessors, peripheral support and system products; (iv) parts and components of semiconductor memory systems products; (v) semiconductor parts and components for digital transceiver product and system products; (vi) semiconductor parts and components for telecom system and system products; (vii) testing and packaging of integrated circuits; (viii) mask production; (ix) research and development, design, production, sales, promotion and after-sale services related to our business; and (x) export/import trade related to our business.

Directors

The R.O.C. Company Act and our articles of incorporation provide that our board of directors is elected by stockholders and is responsible for the management of our business. As of March 31, 2015, our board of directors consisted of nine directors, out of which four are independent directors. In the annual ordinary stockholders meeting held on June 11, 2007, we amended our articles of incorporation to abolish the managing director mechanism. In the annual ordinary stockholders meeting held on June 13, 2008, we amended our articles of incorporation to introduce the mechanism of an Audit Committee. The Chairman presides at all meetings of our board of directors, and also has the authority to represent our company. The term of office for our directors is three years, and our directors are elected by our stockholders by means of cumulative voting. The amendment to our articles of incorporation on June 11, 2007 also adopts a nomination system which provides that holders of one percent or more of the issued and outstanding shares of our company would be entitled to submit a roster of candidates to be considered for nomination to our company s board of directors at a stockholders meeting involving the election of directors. Pursuant to the R.O.C. Company Act, entity that owns our common shares may be elected as a director, in which case a natural person must be designated to act as the legal entity s representative. A legal entity that is our stockholder may designate its representative to be elected as our director on its behalf. In the event several representatives are designated by the

same legal entity, any or all of them may be elected. A director who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of such legal entity, and the replacement director may serve the remainder of the term of office of the replaced director. As of March 31, 2015, three of our nine directors are representatives of other legal entities, as shown in Item 6. Directors, Senior Management and Employees A. Directors and Senior Management .

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According to the R.O.C. Company Act and the rules promulgated under the R.O.C. Securities and Exchange Act, a director who has a personal interest in a matter to be discussed at the meeting of the board of directors, shall explain the essential contents of such personal interest in the meeting of the board of directors. In case that such personal interest may impair the interests of us, such director shall abstain from joining the discussion and voting on such matter. In case that such director is the representative designated by a legal entity stockholder to be elected as our director and such legal entity stockholder has personal interest in the matter to be discussed at the meeting of the board of directors, the rules provided in the preceding two sentences shall also apply. Our articles of incorporation, as amended on June 13, 2008, provide that our board of directors is authorized, by taking into account of the extent of his/her/its involvement of our operation activities and the value of his/her/its contribution, to determine the compensation for each director at a comparable rate adopted by other companies of the same industry regardless of the profit received by our company. In addition, according to our articles of incorporation, we may distribute 0.1% of the balance of our earnings after deduction of payment of all taxes and dues, deduction of any past losses, allocation of 10% of our net income as a legal reserve, and allocation of special reserve according to applicable laws and regulations or the order of the competent authority, if any, as remuneration to directors. Our articles of incorporation do not impose a mandatory retirement age limit for our directors. Furthermore, our articles of incorporation do not impose a shareholding qualification for each director, while the laws and regulations require the aggregate shareholding of all directors, excluding independent directors, to meet certain thresholds considering the paid-in capital and the numbers of the independent directors. According to our current internal Loan Procedures, we shall not extend any loan to our directors.

In order to strengthen corporate governance of companies in Taiwan, effective from January 1, 2007, the amended R.O.C. Securities and Exchange Act authorizes the R.O.C. FSC, after considering certain factors, including the scale, shareholding structure and business nature of a public company, to require that a public company, such as our company, meet certain criteria, including having at least two independent directors but not less than one fifth of the total number of directors.

In addition, pursuant to the amended R.O.C. Securities and Exchange Act, a public company is required to either establish an audit committee, or R.O.C. Audit Committee, or retain supervisors, provided that the R.O.C. FSC may, after considering the scale and business nature of a public company and other necessary situation, require the company to establish an audit committee in place of its supervisors. We have amended our articles of incorporation in the annual ordinary stockholders meeting held on June 13, 2008, introducing the mechanism of an R.O.C. Audit Committee. On February 20, 2013, the R.O.C. FSC has ruled that a public company with certain scale or of certain business nature, including us, shall establish an R.O.C. Audit Committee instead of the supervisors. According to our latest amended articles of incorporation and audit committee charter, our R.O.C. Audit Committee is composed of all independent directors and performs the power and duties provided by applicable laws and regulations, including without limitation the powers and the duties of supervisors provided under the R.O.C. Company Act. A company is not allowed to maintain both supervisors and a R.O.C. Audit Committee, so we chose to eliminate our supervisors when we established our R.O.C. Audit Committee in 2009.

According to our current articles of incorporation, we may purchase directors and officers liability insurance for our directors, covering the liabilities incurred in relation to his/her/its operation of business and legally responsible for.

Common Shares

As of December 31, 2014, our authorized share capital was NT$260 billion, divided into 26 billion common shares, of which 12,730,304,790 common shares were issued and 12,730,304,790 common shares were outstanding (including 5,097,000 common shares of capital collected in advance). All common shares presently issued are fully paid and in registered form, and existing stockholders are not subject to any capital calls. We do not have any outstanding

warrants or option to purchase our common shares, except for the options exercisable for 79 million common shares granted to our employees under our Employee Stock Options Plan discussed below.

Employee Stock Option

According to our Employee Stock Options Plan, options may be granted to our full-time regular employees, including those of our domestic and overseas subsidiaries. Since 2004 to 2009, we obtained approvals by relevant R.O.C. authorities to grant up to an aggregate of 1,500 million stock options to acquire our common shares under our Employee Stock Option Plan. According to the plan, an option holder may exercise an increasing portion of his or her options in time starting two years after the grant of the options. According to the vesting schedule, 50%, 75% and 100% of such option holder s options shall vest two, three and four years after the grant of the options, respectively.

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The table below shows the number of outstanding options granted and the month in which they were granted:

	June 2009
Number of Options Granted	300
Number of Options Outstanding as of March 31, 2015	79
Common Shares Available to Option Holders as of March 31, 2015	79

Except for the employee stock options disclosed in the table above, there was no other outstanding options as of March 31, 2015.

New Common Shares and Preemptive Rights

New common shares may only be issued with the prior approval of our board of directors. If our issuance of any new common shares will result in any change in our authorized share capital, we are required under R.O.C. law to amend our articles of incorporation and obtain approval of our stockholders in a stockholders meeting. We must also obtain the approval of, or submit a registration with, the R.O.C. FSC and the Science Park Administration. According to the R.O.C. Company Act, when a company issues capital stock for cash, 10% to 15% of the issue must be offered to its employees. In addition, if a listed company intends to offer new common shares for cash, at least 10% of the issue must also be offered to the public. This percentage can be increased by a resolution passed at a stockholders meeting, which will reduce the number of new common shares in which existing stockholders may have preemptive rights. Unless the percentage of the common shares offered to the public is increased by a resolution, existing stockholders of the company have a preemptive right to acquire the remaining 75% to 80% of the issue in proportion to their existing shareholdings. According to the Corporate Merger and Acquisition Act of the R.O.C., as effective on February 8, 2002, and amended on May 5, 2004, if new common shares issued by our company are solely for the purpose of acquisition, share swap or spin-off, the above-mentioned restrictions, including the employee stock ownership plan, the preemptive rights of the existing stockholders and the publicity requirement of a listed company, to such issuance of new common shares may not be applied.

Stockholders

We only recognize persons registered in our register as our stockholders. We may set a record date and close our register of stockholders for specified periods to determine which stockholders are entitled to various rights pertaining to our common shares.

Transfer of Common Shares

Under the R.O.C. Company Act, a public company, such as our company, may issue individual share certificates, one master certificate or no certificate at all, to evidence common shares. Our articles of incorporation, as amended on June 13, 2008, provide that we may deliver common shares in book-entry form instead of by means of issuing physical share certificates. We have issued our common shares in uncertificated/scripless form since 2007. Therefore, the transfer of our common shares is carried out on the book-entry system. The settlement of trading of our common shares is normally carried out on the book-entry system maintained by the Taiwan Depositary and Clearing Corporation. Transferees must have their names and addresses registered on our register in order to assert stockholder s rights against us. Our stockholders are required to file their respective specimen seals with our share registrar, Horizon Securities Co., Ltd.

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Stockholders Meetings

We are required to hold an annual ordinary stockholders meeting once every calendar year within six months from the end of each fiscal year. Our board of directors may convene an extraordinary meeting whenever the directors deem necessary, and they must do so if requested in writing by stockholders holding no less than 3% of our issued common shares who have held these common shares for more than a year. At least 15 days advance written notice must be given of every extraordinary stockholders meeting and at least 30 days advance written notice must be given of every annual ordinary stockholders meeting. Unless otherwise required by law or by our articles of incorporation, voting for an ordinary resolution requires an affirmative vote of a simple majority of those present. A distribution of cash dividends would be an example of an ordinary resolution. The R.O.C. Company Act also provides that in order to approve certain major corporate actions, including any amendment of our articles of incorporation, dissolution, merger or spin-off, entering into, amendment, or termination of any contract for lease of the company s business in whole, or for entrusted business, or for joint operation with others, on regular basis, the transfer of all or an essential part of the business or assets, accept all of the business or assets of any other company which would have a significant impact on our operations, removing directors or the distribution of dividend in stock form, a special resolution shall be adopted by the holders of the majority of our common shares represented at a stockholders meeting at which holders of at least two-thirds of our issued and outstanding common shares are present. However, in the case of a public company, such as our company, such resolution may be adopted by the holders of at least two-thirds of the common shares represented at a stockholders meeting at which holders of at least a majority of our issued and outstanding common shares are present. However, if we are the controlling company and hold no less than 90% of our subordinate company s outstanding common shares, our merger with the subordinate company can be approved by a board resolution adopted by majority consent at a meeting with at least two-thirds of our directors present without stockholders approval. In addition, according to the Corporate Merger and Acquisition Act of the R.O.C., if a company intends to transfer all or an essential part of its business or assets to its wholly-owned subsidiary, subject to the qualifications set forth in the said act, such transaction only needs to be approved by majority board resolution rather than special resolution by the stockholder s meeting as required by the R.O.C. Company Act.

Voting Rights

Each common share is generally entitled to one vote and no voting discount will be applied. However, treasury common shares and our common shares held by (i) an entity in which we own more than 50% of the voting shares or paid-in capital, or (ii) a third party in which we and an entity controlled by us jointly own, directly or indirectly, more than 50% of the voting shares or paid-in capital are not entitled to any vote. Except as otherwise provided by law or our articles of incorporation, a resolution can be adopted by the holders of a simple majority of the issued and outstanding common shares represented at a stockholders meeting. The quorum for a stockholders meeting to discuss the ordinary resolutions is a majority of the issued and outstanding common shares. Pursuant to the R.O.C Company Act amended on December 28, 2011, the election of directors by our stockholders shall be conducted by means of cumulative voting rather than other voting mechanisms adopted in our articles of incorporation. Except as otherwise provided under applicable laws and regulations, in all other matters, a stockholder must cast all his or her votes in the same manner when voting on any of these matters.

Our stockholders may be represented at an ordinary or extraordinary stockholders meeting by proxy if a valid proxy form is delivered to us five days before the commencement of the ordinary or extraordinary stockholders meeting, unless such proxy has been revoked no later than two days before the date of the stockholders meeting. Voting rights attached to our common shares exercised by our stockholders proxy are subject to the proxy regulation promulgated by the R.O.C. FSC.

Authorized by latest amendment of the R.O.C Company Act, the R.O.C. FSC has issued an administrative order on February 20, 2012 to require Taiwan Stock Exchange-listed companies, such as our company, and GreTai Securities Market-listed companies in the R.O.C. with NT$10 billion or more of paid-in share capital and with 10,000 or more stockholders as of the first date of the close period applicable to the stockholders meeting to adopt an e-voting system for stockholders meeting. The e-voting system provides a new platform for stockholders to exercise their voting rights online. As a company that meets the foregoing criteria, we have successfully adopted the e-voting system in the 2012 stockholders meeting and voted by poll on each agenda for discussion.

Any stockholder who has a personal interest in a matter to be discussed at our stockholders meeting, the outcome of which may impair our interests, shall not vote or exercise voting rights on behalf of another stockholder on such matter.

According to the R.O.C. Company Act newly amended on January 4, 2012, a stockholder of a public company who holds common shares for others, such as a depositary, may choose to exercise his/her/its voting power separately. On April 13, 2012, R.O.C. FSC promulgated the Regulations Governing the Split Voting of the Stockholders and Compliance Matters for Public Companies, the implementation rules of such split voting method, which stipulates that the depository of the overseas depositary receipts may exercise its voting power separately in accordance with the instructions of the respective holders of the ADS. Notwithstanding the foregoing, before any amendment to the currently effective Deposit Agreement is made, holders of our ADSs generally will not be able to exercise voting rights on the common shares underlying their ADSs on an individual basis.

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Dividends and Distributions

We are not allowed under R.O.C. law to pay dividends on our treasury common shares. We may distribute dividends on our issued and outstanding common shares if we have earnings. Before distributing a dividend to stockholders, among other things, we must recover any past losses, pay all outstanding taxes and set aside a legal reserve equivalent to 10% of our net income until our legal reserve equals our paid-in capital, and a special reserve, if any.

At an annual ordinary stockholders meeting, our board of directors submits to the stockholders for their approval proposals for the distribution of dividends or the making of any other distribution to stockholders from our net income or reserves for the preceding fiscal year. Dividends are paid to stockholders proportionately. Dividends may be distributed either in cash or in common shares or a combination of cash and common shares, as determined by the stockholders at such meeting.

Our articles of incorporation provide that we may distribute as remuneration to directors 0.1% of the balance of our earnings deducted by:

- payment of all taxes and dues;
- deduction of any past losses;
- allocation of 10% of our net income as a legal reserve; and
- special reserve, if any.

The amount of no less than 5% of the residual amount after the deductions illustrated above, plus, at discretion, any undistributed earnings from previous years, shall be distributed as bonus to employees. Originally, the distribution of employee bonus were in the form of new common shares; in the annual ordinary stockholders meeting held in June 2005, our stockholders approved an amendment of our articles of incorporation to enable the distribution of employee bonus in the form of cash or in common shares. Employees eligible for such distribution may include certain qualified employees from our subordinate companies and the qualification of such employees is to be determined by our board of directors. The remaining amount may be distributed according to the distribution plan proposed by our board of directors based on our dividend policy, and submitted to the stockholders meeting for approval.

In the annual ordinary stockholders meeting held in June 2005, our stockholders approved a change of the percentage of stock dividend issued to our stockholders, if any, to no more than 80% and cash dividend, if any, to no less than 20%.

In addition to permitting dividends to be paid out of net income, we are permitted under the R.O.C. Company Act to make distributions to our stockholders of additional common shares by capitalizing reserves, including the legal reserve and capital surplus of premiums from issuing stock and earnings from gifts received, or make such distributions by cash, if we do not have losses. However, where legal reserve is distributed by capitalization or in cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

For information as to R.O.C. taxes on dividends and distributions, see E. R.O.C. Tax Considerations in this Item.

Acquisition of Our Common Shares by Us

An R.O.C. company may not acquire its own common shares, except under certain exceptions provided in the R.O.C. Company Act or the R.O.C. Securities and Exchange Act. Under the amendments to the R.O.C. Company Act, which took effect on November 14, 2001, a company may purchase up to 5% of its issued common shares for transfer to employees as employee compensation in accordance with a resolution of its board of directors, passed by a majority vote, at a meeting with at least two-thirds of the directors present.

Under Article 28-2, an amendment to the R.O.C. Securities and Exchange Act, which took effect on July 21, 2000, we may, by a board resolution adopted by majority consent at a meeting with two-thirds or more of our directors present, purchase up to 10% of our issued common shares on the Taiwan Stock Exchange or by a tender offer, in accordance with the procedures prescribed by the R.O.C. FSC, for any of the following purposes:

to transfer our common shares to our employees as employee compensation;

to transfer upon conversion of bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by us; or

if necessary, to maintain our credit and our stockholders equity; provided that the common shares so purchased shall be canceled thereafter.

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We have from time to time announced plans, none of which was binding on us, to buy back up to a fixed amount of our common shares on the Taiwan Stock Exchange at the price range set forth in the plans disclosed in Item 16E. Purchase Of Equity Securities By The Issuer And Affiliated Purchasers. We may not spend more than the aggregate amount of the retained earnings, the premium from issuing stock and the realized portion of the capital reserve to purchase our common shares. Historically, we have cancelled some of the repurchased common shares and transferred some of the repurchased common shares to our employees as employee compensation. In 2010 and 2013, we purchased an aggregate of 300 million and 200 million, respectively, of our common shares under these plans. From February 3, 2010 to April 2, 2010, we purchased 300 million of our common shares on the Taiwan Stock Exchange at an average price of NT$16.15 per share to transfer to our employees as employee compensation. From March 14, 2013 to May 13, 2013, we purchased 200 million of our common shares on the Taiwan Stock Exchange at an average price of NT$11.23 per share to transfer to our employees as employee compensation.

On March 14, 2012, our board of directors approved the cancellation of 157,934,400 treasury common shares, which were purchased from December 17, 2008 to February 16, 2009. On April 24, 2013, our board of directors approved the cancellation of 300,000,000 treasury common shares, which were purchased from February 3, 2010 to April 2, 2010.

We may not pledge or hypothecate any purchased common shares. In addition, we may not exercise any stockholders rights attached to such common shares. In the event that we purchase our common shares on the Taiwan Stock Exchange, our affiliates, directors, managers and their respective spouses and minor children and/or nominees are prohibited from selling any of our common shares during the period in which we purchase our common shares.

In addition to the share purchase restriction, the Company Act provides that our subsidiaries may not acquire our common shares or the equity securities of our majority-owned subsidiaries if the majority of the outstanding voting equity securities or paid-in capital of such subsidiary is directly or indirectly held by us.

Liquidation Rights

In a liquidation, you will be entitled to participate in any surplus assets after payment of all debts, liquidation expenses and taxes proportionately.

Rights to Bring Stockholders Suits

Under the R.O.C. Company Act, a stockholder may bring suit against us in the following events:

- within 30 days from the date on which a stockholders resolution is adopted, a stockholder may file a lawsuit to annul a stockholders resolution if the procedure for convening a stockholders meeting or the method of resolution violates any law or regulation or our articles of incorporation. However, if the court is of the opinion that such violation is not material and does not affect the result of the resolution, the court may reject the stockholder s claim.

- if the substance of a resolution adopted at a stockholders meeting contradicts any applicable law or regulation or our articles of incorporation, a stockholder may bring a suit to determine the validity of such resolution.

Stockholders may bring suit against our directors under the following circumstances:

Stockholders who have continuously held 3% or more of our issued common shares for a period of one year or longer may request in writing that the audit committee institutes an action against a director on our behalf. In case the audit committee fails to institute an action within 30 days after receiving such request, the stockholders may institute an action on our behalf. In the event stockholders institute an action, a court may, upon the defendant s motion, order such stockholders to furnish appropriate security.

Stockholders who hold more than 3% or more of our total issued common shares may institute an action with a court to remove a director of ours who has materially violated the applicable laws or our articles of incorporation or has materially damaged the interests of our company if a resolution for removal on such grounds has first been voted on and rejected by our stockholders and such suit is filed within 30 days of such stockholders vote.

In the event that any director, manager or stockholder holding more than 10% of our common shares or any respective spouses or minor children and/or nominees of any of them sells common shares within six months after acquisition of such common shares, or repurchases the common shares within six months after the sale, we may claim for recovery of any profits realized from the sale and purchase. If our board of directors or audit committee fail to claim for recovery, any stockholder may set forth a 30-day period for our board of directors or audit committee to exercise the right. In the event our directors or audit committee fail to exercise the right during such 30-day period, such requesting stockholder shall have the right to claim such recovery on our behalf. Our directors shall be jointly and severally liable for damages suffered by us as a result of their failure to exercise the right of claim.

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Other Rights of Stockholders

Under the R.O.C. Company Act and the Corporate Merger and Acquisition Act, dissenting stockholders are entitled to appraisal rights in the event of a spin-off or a merger and various other major corporate actions. Dissenting stockholders may request us to redeem all their common shares at a then fair market price to be determined by mutual agreement. If no agreement can be reached, the valuation will be determined by a court. Subject to applicable law, dissenting stockholders may, among other things, exercise their appraisal rights by notifying us in writing before the related stockholders meeting and/or by raising and registering their dissent at the stockholders meeting and also waive their voting rights.

One or more stockholders who have held 3% or more of the issued and outstanding common shares one year or longer may require our board of directors to call an extraordinary stockholders meeting by sending a written request to our board of directors.

Effective from June 24, 2005, the R.O.C. Company Law allows stockholder(s) holding 1% or more of the total issued common shares of a company to, during the period of ten days or more prescribed by the company, submit one proposal in writing containing no more than three hundred words (in terms of Chinese characters) for discussion at the annual ordinary stockholders meeting.

Financial Statements

For a period of at least 10 days before our annual ordinary stockholders meeting, we must make available our annual financial statements at our principal offices in Hsinchu, Taiwan, and our share registrar in Taipei for our stockholders inspection.

Transfer Restrictions

Our directors, managers and stockholders holding more than 10% of our common shares are required to report any changes in their shareholding to us on a monthly basis. In addition, the number of common shares that they can sell or transfer on the Taiwan Stock Exchange on a daily basis is limited by R.O.C. law. Further, they may sell or transfer our common shares on the Taiwan Stock Exchange only after reporting to the R.O.C. FSC at least three days before the transfer, provided that such reporting is not required if the number of common shares transferred does not exceed 10,000 in one business day.

C. Material Contracts

Cross License Agreement, dated as of January 1, 2006, between United Microelectronics Corporation and International Business Machines Corporation.

We entered into a five-year cross license agreement with IBM effective as of January 1, 2006, which provides for the cross license of certain semiconductor patents including process, topography and design. Under this agreement, IBM had granted to us and our subsidiaries, nonexclusive and non-transferable licenses, without the right to grant sublicenses, for making our and our subsidiaries licensed products in R.O.C., Japan and Singapore and selling, leasing, licensing, using and/or transferring our and our subsidiaries licensed products worldwide under IBM s patents filed prior to January 1, 2011; we granted IBM, royalty-free, worldwide and non-transferable licenses, without the right to grant sublicenses, for the term of the cross license for making, selling, leasing, licensing, using and/or transferring IBM s licensed products under our patents filed prior to January 1, 2011. We also agreed to pay IBM

certain royalty fees under this agreement. This five-year cross license agreement with IBM terminated on December 31, 2010. We entered into a new life-of-the-patents cross license agreement with IBM that will be effective until June 30, 2029, the expiration date of the last-to-expire of the licensed patents thereunder. Under this agreement, IBM has granted to us and our subsidiaries, nonexclusive and non-transferable licenses, without the right to grant sublicenses, for making our and our subsidiaries licensed products in R.O.C., Japan, Singapore and PRC and selling, leasing, licensing, using and/or transferring our and our subsidiaries licensed products worldwide under IBM s patents filed effectively prior to July 1, 2009; we granted IBM, royalty-free, worldwide and non-transferable licenses, without the right to grant sublicenses, for the term of the cross license for making, selling, leasing, licensing, using and/or transferring IBM s licensed products under our patents filed effectively prior to July 1, 2009. We also agreed to pay IBM certain royalty fees under this agreement. In addition, we have renewed the aforesaid patent cross license agreement with IBM on June 13, 2013, under which IBM grants us a license under all its patents entitling to an effective filing date prior to December 31, 2015.

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Technology Agreement, dated as of June 29, 2012, between United Microelectronics Corporation and International Business Machines Corporation.

We entered into a technology license agreement with International Business Machines Corporation (IBM) on June 29, 2012. Under this agreement, IBM granted us a perpetual license under its 20nm bulk industry standard CMOS technology and developmental processes associated with manufacturing integrated circuits using a three dimensional FinFet device technology for using, offering for sale, selling, importing or otherwise transferring our licensed products.

Membership Participation Agreement, dated as of June 13, 2013, between United Microelectronics Corporation and International Business Machines Corporation.

We entered into a membership participation agreement with IBM to participate in its 10nm CMOS process technology development project, which was closed on March 31, 2014.

Patent Portfolio License Agreement, dated as of February 8, 2013, between United Microelectronics Corporation and Mosaid Technologies Incorporated.

We entered into a Patent Portfolio License Agreement with Mosaid Technologies Incorporated, or Mosaid, effective from February 8, 2013, which provides for the license under its semiconductor manufacturing process patents during the period from February 8, 2013 to February 8, 2018. Under this agreement, Mosaid grants to us and our subsidiaries, a nonexclusive and non-transferable license for making, selling, importing or otherwise disposing of our and our subsidiaries licensed products. The parties further agree not to assert patent claims against each other prior to February 8, 2018. We also agree to pay Mosaid certain royalty fees under this agreement.

Major Long-term Supply and Marketing Agreements

We have entered into long-term distribution, sales, service and marketing agreements with the following companies: UMC Group (USA), an agreement effective from January 1, 2013 through December 3, 2018; United Microelectronics (Europe) B.V., an agreement effective from January 1, 2013 through December 3, 2017; UMC Group Japan Co., Ltd., an agreement effective from February 8, 2013 through December 31, 2017; UMC Korea Co. Ltd., an agreement effective from January 1, 2015 through December 31, 2015 and UMC (Beijing) Limited, an agreement effective from January 1, 2015 through December 31, 2015.

Major Construction Agreements

We entered into various major facility construction agreements in connection with the cleanroom s facility, piping, and various material supply systems, with major companies such as M+W High Projects Taiwan co., Ltd., Apex Science & Engineering Corp., Nova technology Corp., Asia IC Mic-Process, Inc., Wholetech System Hitech Limited, for the phase 5 facilities in our Fab12A in the Tainan Science Park. These agreements are effective from July 2014 to August 2015, and the total contractual amount exceeds NT$3.5 billion.

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Major Long-term Loan Agreement

We entered into a long-term secured loan agreement effective from January 30, 2013 through January 30, 2020 with the Land Bank of Taiwan for up to NT$6 billion. We pledged the equipment at our semiconductor facilities in Tainan Science Park as collateral. Before the expiration of the utilization period of the long-term secured loan on January 30, 2015, we did not apply for any disbursements of the long-term secured loan and we have no intention to renew or extend the agreement upon its expiration.

D. Exchange Controls

Foreign Investment and Exchange Controls in Taiwan

We have extracted from publicly available documents the information presented in this section. Please note that citizens of the People s Republic of China and entities organized in the People s Republic of China are subject to special R.O.C. laws, rules and regulations, which are not discussed in this section.

General

Historically, foreign investments in the securities market of Taiwan were restricted. However, commencing in 1983, the Taiwan government has from time to time enacted legislation and adopted regulations to make foreign investment in the Taiwan securities market possible. Initially, only overseas investment trust funds of authorized securities investment trust enterprises established in Taiwan were permitted to invest in the Taiwan securities market. Since January 1, 1991, qualified foreign institutional investors are allowed to make investments in the Taiwan public securities market. Since March 1, 1996, non-resident foreign institutional and individual investors, called general foreign investors , are permitted to make direct investments in the Taiwan public securities market. On September 30, 2003, the Executive Yuan amended the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, or the Investment Regulations, under which the Qualified Foreign Institutional Investors , or QFII, designations have been abolished and the restrictions on foreign portfolio investors have been revised. According to the Investment Regulations, Foreign Institutional Investor , or FINI, means an entity which is incorporated under the laws of countries other than the R.O.C. or the branch of a foreign entity that is established within the territory of the R.O.C., and Foreign Individual Investor , or FIDI, means an overseas Chinese or a foreign natural person. In addition, the Investment Regulations also lifted some restrictions and simplified procedures of investment application.

On April 30, 2009, the R.O.C. FSC promulgated regulations allowing QDIIs under PRC regulations and certain other PRC persons to invest in the securities of R.O.C. companies. However, prior approval from the Investment Commission of the R.O.C. Ministry of Economic Affairs is required for QDIIs or certain other PRC persons to own 10% or more of the issued and outstanding share capital of a listed R.O.C. company.

Foreign Ownership Limitations

Foreign ownership of the issued share capital in a Taiwan Stock Exchange-listed company or a GreTai Securities Market-listed company has been limited to 50% in the past. Since December 30, 2000, the 50% limit has been lifted. Foreign investors can now hold such investments without any foreign ownership percentage limitations, unless the law has imposed restrictions otherwise.

Foreign Investors

Each FINI who wishes to invest directly in the R.O.C. securities market is required to register with the Taiwan Stock Exchange and obtain an investment identification number if the FINI is a non-resident and has no sub-investment accounts in the R.O.C. Each FIDI who wishes to invest directly in the R.O.C. securities market is also required to register with the Taiwan Stock Exchange and obtain an investment identification number. The R.O.C. FSC has lifted the limitation on the amount of investment in the R.O.C. securities market for a non-resident FIDI Except for some restrictions imposed by specific laws and regulations, the individual and aggregate foreign ownership of the issued share capital in a Taiwan Stock Exchange-listed company or a GreTai Securities Market-listed company is not restricted. An R.O.C. custodian for a non-resident FINI or FIDI is required to submit to the CBC, and the Taiwan Stock Exchange a report of trading activities, inward and outward remittance of capital and status of assets under custody and other matters every month. Foreign institutional investors are not subject to any ceiling for investment in the R.O.C. securities market.

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Foreign Investment Approval

Foreign investors (both institutional and individual) who wish to make direct investments in the common shares of R.O.C. companies are required to submit a foreign investment approval application to the Investment Commission of the R.O.C. MOEA, or other government authority and enjoy benefits granted under the Statute for Foreigner s Investment and the Statute for Overseas Chinese s Investment. The Investment Commission of the R.O.C. MOEA or other government authority reviews each foreign investment approval application and approves or disapproves the application after consultation with other governmental agencies, if necessary. Any non-R.O.C. person possessing a foreign investment approval may repatriate annual net profits and interests attributable to an approved investment. Investment capital and capital gains attributable to the investment may be repatriated with approval of the Investment Commission of the R.O.C. MOEA or other government authority.

In addition to the general restrictions against direct investments by foreign investors in R.O.C. companies, foreign investors are currently prohibited from investing in certain prohibited industries in Taiwan under the Negative List . The prohibition on direct foreign investment in the prohibited industries in the Negative List is absolute in the absence of a specific exemption from the application of the Negative List. Under the Negative List, some other industries are restricted so that foreign investors may directly invest only up to a specified level and with the specific approval of the relevant authority responsible for enforcing the legislation that the Negative List is intended to implement. Our business does not operate in a restricted industry under the Negative List.

In June of 2009, the R.O.C. MOEA further allowed PRC persons to make direct investments in Taiwan. However, such direct investment is still subject to various restrictions, such as that that only the industries listed in the Positive List, as promulgated by the Executive Yuan, are legally permitted targets and that all the PRC persons who wish to make direct investments in R.O.C. are required to submit an investment approval application to the Investment Commission of the R.O.C. MOEA.

Exchange Controls

Taiwan s Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle foreign exchange transactions by the Ministry of Finance and the CBC. Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters. All foreign currency needed for the importation of merchandise and services may be purchased from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, R.O.C. companies and residents may remit to and from Taiwan foreign currencies of up to US$50 million (or its equivalent) and US$5 million, (or its equivalent) respectively in each calendar year. These limits apply to remittances involving a conversion between NT dollars and U.S. dollars or other foreign currencies. A requirement is also imposed on all private enterprises to register all medium- and long-term foreign debt with the CBC.

In addition, foreign currency earned from or needed to be paid for direct investment or portfolio investments, which are approved by the competent authorities, may be retained or sold by the investors or purchased freely from the designated bank.

Aside from the transactions discussed above, a foreign person without an alien resident card (or who has relevant resident card with a validity of less than one year) or an unrecognized foreign entity may remit to and from Taiwan foreign currencies of up to US$100,000 per remittance without obtaining prior approval or permit if required documentation is provided to Taiwan authorities. This limit applies to remittances involving a conversion between NT

dollars and U.S. dollars or other foreign currencies.

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Depositary Receipts

In April 1992, the R.O.C. SFB (the predecessor of the R.O.C. FSC) began allowing R.O.C. companies listed on the Taiwan Stock Exchange to sponsor the issuance and sale of depositary receipts evidencing depositary shares. Notifications for these issuances are still required. In December 1994, the Ministry of Finance began allowing companies whose shares are traded on the GreTai Securities Market to sponsor the issuance and sale of depositary receipts evidencing depositary shares. On October 24, 2002, the R.O.C. SFB began allowing public companies that are not listed on the Taiwan Stock Exchange or the GreTai Securities Market to sponsor the issuance and sale of depositary receipts by way of private placements outside the R.O.C.

A holder of depositary shares wishing to withdraw common shares underlying depositary shares is required to appoint a local agent or representative with qualifications set forth by the R.O.C. FSC to, among other things, open a securities trading account with a local brokerage firm, pay R.O.C. taxes, remit funds, and exercise stockholders right. In addition, the withdrawing holder is also required to appoint a custodian bank or a securities firm with qualifications set forth by the R.O.C. FSC to hold payments and the securities in safekeeping, make confirmations, settle trades and report all relevant information in which the securities firm is appointed as the custodian, and the payments be held in safekeeping in a special account opened in a bank approved by the R.O.C. FSC. Without making this appointment and the opening of accounts, the withdrawing holder would be unable to subsequently sell the common shares withdrawn from a depositary receipt facility on either the Taiwan Stock Exchange or the GreTai Securities Market.

After the issuance of a depositary share, a holder of the depositary share may immediately, comparing to a three-month waiting period restriction which was lifted in 2003, request the depositary issuing the depositary share to cause the underlying common shares to be sold in the R.O.C. or to withdraw the common shares represented by the depositary receipt and deliver the common shares to the holder. On April 30, 2009 and July 3, 2009, the R.O.C. Executive Yuan approved the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors and the Regulations Governing Investment in Taiwan by Mainland Area Persons, respectively, under which qualified PRC persons are permitted to invest in Taiwan companies under limited circumstances, including purchase of the depositary receipts issued by a Taiwan company. However, prior approval from the Investment Commission of the R.O.C. Ministry of Economic Affairs is required for a qualified PRC person s ownership of 10% or more of the issued and outstanding share capital of a listed R.O.C. company or certain other manners of investment by a qualified PRC person.

No deposits of common shares may be made in a depositary receipt facility and no depositary receipts may be issued against deposits without specific R.O.C. FSC approval, unless they are:

(1) stock dividends;

(2) free distributions of common shares;

(3) due to the exercise by a holder of his or her preemptive rights in the event of capital increases for cash; or

(4) permitted under the deposit agreement and the custody agreement, due to the direct purchase of common shares or purchase through the depositary in the domestic market or the surrender of common shares under

the possession of investors and then delivery of such common shares to the custodian for deposit in the depositary receipt facility, provided that the total number of depositary receipts outstanding after an issuance cannot exceed the number of issued depositary shares previously approved by the R.O.C. FSC in connection with the offering plus any depositary shares issued pursuant to the events described in (1), (2) and (3) above. These issuances may only be made to the extent previously issued depositary shares have been withdrawn.

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A depositary may convert New Taiwan dollars from the proceeds of the sale of common shares or cash distributions received into other currencies, including U.S. dollars. A depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion into New Taiwan dollars of subscription payments for rights offerings or conversion into foreign currencies from the proceeds from the sale of subscription rights for new common shares. It is expected that the CBC will grant this approval as a routine matter.

A holder of depositary shares may convert NT dollars into other currencies from proceeds from the sale of any underlying common shares. Proceeds from the sale of the underlying common shares withdrawn from the depositary receipt facility may be used for reinvestment in securities listed on both the Taiwan Stock Exchange and the GreTai Securities Market, provided that the investor designates a local securities firm or financial institution as agent to open an NT dollar bank account in advance.

E. Taxation

R.O.C. Tax Considerations

The following summarizes the principal R.O.C. tax consequences of owning and disposing of the ADSs or common shares to a holder of ADSs or common shares that is not a resident of the R.O.C. A foreign individual holder will be considered as not a resident of the R.O.C., or a non-R.O.C. resident, for the purposes of this section if he or she is not physically present in Taiwan for 183 days or more during any calendar year. An entity holder will be considered as not a resident of the R.O.C., or a non-R.O.C. resident, if it is organized under the laws of a jurisdiction other than Taiwan for profit making purpose and has no fixed place of business or other permanent establishment or business agent in the R.O.C. Prospective purchasers of ADSs or common shares should consult their own tax advisors concerning the tax consequences of owning ADSs or common shares in the R.O.C. and any other relevant taxing jurisdiction to which they are subject.

Dividends

Dividends, whether in cash or common shares, declared by us out of retained earnings and paid out to a holder that is not an R.O.C. resident in respect of common shares represented by ADSs are subject to R.O.C. withholding tax at the time of distribution. The rate of withholding is currently 20% of the amount of the distribution in the case of cash dividends or of the par value of the common shares distributed in the case of stock dividends. Under current practice adopted by tax authorities, a 20% withholding rate is applied to a non-R.O.C. resident ADS holder without requiring the holder to apply for or obtain foreign investment approval. As discussed in the section Tax Reform below, certain of our retained earnings will be subject to a 10% undistributed retained earnings tax. To the extent dividends are paid out of retained earnings that have been subject to the retained earnings tax, up to a maximum amount of half of the amount of such tax will be used by us to offset a non-R.O.C. resident s withholding tax liability on such dividend. Consequently, the effective rate of withholding on dividends paid out of retained earnings previously subject to the retained earnings tax may be less than 20%. There is no withholding tax with respect to stock dividends declared out of our capital surplus of premiums from issuing stock resulting from the capital paid by the shareholders.

Capital Gains

The R.O.C. Income Tax Act as amended on August 8, 2012 restored the securities income tax provisions. Starting from January 1, 2013, the non-R.O.C. resident entities remain exempt from income tax on capital gains from the sale or disposal of common shares, while the non-R.O.C. resident individuals are subject to income tax on any capital gain generated from the sale or disposal of securities by such individuals. According to the R.O.C. Income Tax Act, the

capital gain generated from sale of common shares listed on the Taiwan Stock Exchange, Gre-Tai Securities Market or Emerging Stock Market shall be deemed zero except for the following situations, in which the capital gain shall be the net capital gain (after deduction of any losses incurred by the seller from trading of common shares within the year) calculated in accordance with the applicable formula as provided under the tax relevant laws and rules: if the seller is an individual who (i) sells more than 100,000 common shares on the Emerging Stock Market within a year; (ii) sells common shares, which had been obtained before the initial public offering of such common shares (IPO), on the Taiwan Stock Exchange or Gre-Tai Securities Market (unless such IPO is completed before December 31, 2012 or the common shares were acquired (x) during the pre-IPO underwriting process and (y) in the volume of no more than 10,000 common shares); or (iii) is a non-R.O.C. resident. The capital gains are taxed at a flat rate of 15% and only half of the capital gains are subject to income tax if the common shares so sold or disposed of have been held for one year or longer.

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Further, effective from January 1, 2018, if an individual who is a R.O.C. resident sells common shares listed on the Taiwan Stock Exchange, GreTai Securities Market or Emerging Stock Market for more than NT$1 billion within a year, 0.5% of the amount in excess of NT$1 billion shall be deemed as the capital gain and shall be subject to the tax at the rate of 20%; provided, however, that such individual may choose to calculate the net capital gain in accordance with the applicable formula and have such gain be taxed as provided in the preceding paragraph.

It is unclear whether a non-R.O.C. resident holder of ADSs will be considered to be the ultimate holder and seller for the purpose of calculation and application of capital gain tax when the holder of ADSs withdraws the ADSs and requests the depositary to sell the underlying common shares in the R.O.C.

Subject to the Alternative Minimum Tax Act, gains realized from various securities transactions by an R.O.C.-resident entity shall be calculated as taxable income for the purpose of the AMT Act and may further be subject to income tax. If the above entity has held common shares for more than three (3) years, 50% of capital gain may be exempted from AMT. In addition, gains realized from transfers of ADSs by non-R.O.C. resident holders are not regarded as income from sources in the R.O.C. and, as a result, any gains derived therefrom are currently not subject to R.O.C. income tax.

Securities Transaction Tax

The R.O.C. government imposes a securities transaction tax that will apply to sales of common shares, but not to sales of ADSs. The securities transaction tax, which is payable by the seller, is generally levied on sales of common shares at the rate of 0.3% of the sales proceeds. Withdrawals of our common shares from our depositary facility are not subject to the R.O.C. securities transaction tax.

Preemptive Rights

Distribution of statutory preemptive rights for common shares by us in compliance with the R.O.C. Company Act is not subject to R.O.C. tax. Proceeds derived from sales of statutory preemptive rights evidenced by securities are subject to the R.O.C. securities transaction tax, currently at the rate of 0.3% of the gross amount received, as well as the R.O.C. securities income tax. Proceeds derived from sales of statutory preemptive rights that are not evidenced by securities are subject to capital gains tax at the rate of 20% of the gains realized for non-R.O.C. resident entities and non-R.O.C. resident individuals . Subject to compliance with the R.O.C. law, we have sole discretion to determine whether statutory preemptive rights are evidenced by securities or not.

Estate Taxation and Gift Tax

R.O.C. estate tax is payable on any property within the R.O.C. of a deceased individual who is a non-resident individual or a non-ROC citizen and R.O.C. gift tax is payable on any property located within the R.O.C. donated by any such person. Under the newly amended Articles 13 and 19 of the R.O.C. Estate and Gift Tax Act, which became effective on January 23, 2009, estate tax is currently payable at the rate of 10% and gift tax is payable at the rate of 10%. Under R.O.C. estate and gift tax laws, the common shares will be deemed located in the R.O.C. irrespective of the location of the owner. It is unclear whether a holder of ADSs will be considered to own common shares for this purpose.

Tax Treaties

The Republic of China does not have an income tax treaty with the United States. On the other hand, the Republic of China has income tax treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia,

Macedonia, Swaziland, the Netherlands, the United Kingdom, Gambia, Senegal, Sweden, Belgium, Denmark, Israel, Paraguay, Hungary, France, India, Slovakia, Switzerland, Germany, Thailand, Kiribati, Luxembourg , and Austria which may limit the rate of Republic of China withholding tax on dividends paid with respect to common shares in Taiwan companies. It is unclear whether a non-R.O.C. holder of ADSs will be considered to own common shares for the purposes of such treaties. Accordingly, a holder of ADSs who is otherwise entitled to the benefit of a treaty should consult its own tax advisors concerning eligibility for benefits under the treaty with respect to the ADSs.

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