

UNITED MICROELECTRONICS CORP
Form 20-F
April 18, 2014
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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
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2013
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)

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

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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.

12,692,081,665 Common Shares of Registrant issued as of December 31, 2013 (including 200,000,000 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 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

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 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 Accelerated filer Non-accelerated filer

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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

Other

by the International Accounting Standards Board

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

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UNITED MICROELECTRONICS CORPORATION

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2013

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SUPPLEMENTAL INFORMATION

The references to United Microelectronics, we, us, our, our company and the Company in this annual report refer to 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 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.

R.O.C. GAAP means the generally accepted accounting principles in the Republic of China, U.S. GAAP means the generally accepted accounting principles in the United States, IFRSs means International Financial Reporting Standards as issued by the International Accounting Standards Board, or IASB. 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 expressions are 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.

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ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated balance sheets data as of January 1, 2012, December 31, 2012 and 2013 and the selected consolidated statements of comprehensive income data for the years ended December 31, 2012 and 2013 are derived from our audited consolidated financial statements included elsewhere in this annual report. This is our first set of annual consolidated financial statements prepared in accordance with IFRSs as issued by the IASB. In accordance with the requirements of the Taiwan Financial Supervisory Commission, or FSC, beginning on January 1, 2013, we have adopted 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 for the year ended December 31, 2013 and thereafter. Prior to December 31, 2012, we prepared our consolidated financial information in accordance with R.O.C. GAAP with reconciliations to U.S. GAAP. As a result of the foregoing, our consolidated financial information with respect to the year ended December 31, 2012 included in this annual report may differ from our consolidated financial information in our annual report last year. A description of the principal differences between our previous accounting standards and IFRSs and the impacts of the transition to IFRSs are provided in Note 14 to the consolidated financial statements included elsewhere in this annual report. 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. Furthermore, pursuant to the transitional relief granted by the U.S. SEC for companies adopting IFRSs for the first time, no audited financial statements and financial information prepared under IFRSs for the year ended December 31, 2011 have been included in this annual report.

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.

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	Years Ended December 31,		
	2012 NT\$	2013 NT\$	US\$
(in millions, except per share and per ADS data)			
Consolidated Statements of Comprehensive Income Data			
Net operating revenues	115,675	123,812	4,151
Operating costs	(96,365)	(100,249)	(3,361)
Gross profit	19,310	23,563	790
Operating expenses	(15,697)	(19,406)	(651)
Net other operating income and expenses	(2,791)	(125)	(4)
Operating income	822	4,032	135
Non-operating income and expenses	5,473	10,309	346
Income from continuing operations before income tax	6,295	14,341	481
Income tax expense	(2,146)	(2,257)	(76)
Net income	4,149	12,084	405
Other comprehensive income (loss)	(6,381)	198	7
Total comprehensive income (loss)	(2,232)	12,282	412
Net income attributable to:			
Stockholders of the parent	6,094	12,609	423
Non-controlling interests	(1,945)	(525)	(18)
Total comprehensive income (loss) attributable to:			
Stockholders of the parent	(281)	12,796	429
Non-controlling interests	(1,951)	(514)	(17)
Earnings per share: ⁽¹⁾			
Basic	0.49	1.02	0.03
Diluted ⁽²⁾	0.46	0.96	0.03
Shares used in earnings per share calculation:			
Basic	12,464	12,346	12,346
Diluted ⁽²⁾	13,289	13,150	13,150
Earnings per ADS equivalent:			
Basic	2.44	5.11	0.17
Diluted ⁽²⁾	2.32	4.82	0.16

	As of		
	January 1, 2012 NT\$	December 31, 2012 NT\$	December 31, 2013 NT\$
(in millions, except per share data)			
Consolidated Balance Sheets Data			
Total assets	279,336	281,214	293,914
			9,853

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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\$29.83 = 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, 2013. 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 11, 2014, the noon buying rate was NT\$30.08 to US\$1.00.

	Average (1)	High	Low	At Period-End
2009	33.02	35.21	31.95	31.95
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	29.70	30.20	28.93	29.83
October	29.38	29.49	29.32	29.42
November	29.52	29.65	29.37	29.59
December	29.72	30.03	29.59	29.83
2014 (through April 11)	30.27	30.65	29.90	30.08
January	30.14	30.31	29.90	30.31
February	30.31	30.37	30.25	30.29
March	30.40	30.65	30.24	30.45
April (through April 11)	30.17	30.29	29.99	30.08

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.

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.

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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 and the combination of an increase in supply coupled with a decrease in the availability of government subsidies 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.

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;

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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 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 shares and ADSs are likely to suffer.

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.

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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.

In addition, some of our customers rely upon third-party vendors, or IP Vendors, for the intellectual property they embed into their designs. Although we work and collaborate with IP 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.

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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, or IP, 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 .

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, 2014, 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 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.

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.

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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;

market conditions;

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 2013, our top ten customers accounted for 56.6% 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.

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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;

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.

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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.

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 and Japanese Yen. 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, we are still affected by fluctuations in foreign exchange rates among the U.S. dollar, the Japanese Yen, 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.

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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.

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.

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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, 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.

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.

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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.

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.

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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, and in 2013, we operated fabs in Taiwan, Singapore, Japan and China. For the years ended December 31, 2012 and 2013, we generated approximately 33.4% and 30.1% 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, Japan 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.

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 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 such as UMC. 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.

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We, like many R.O.C. technology companies, have benefited from substantial tax incentives provided by the R.O.C. government. In 2013, such incentives resulted in a tax credit of NT\$779 million (US\$26 million). 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 five-year tax holidays for the relevant investment plans approved by R.O.C. tax authority before the expiration of the Statute for Upgrading Industries, 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 was increased to 12% beginning in 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.

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 each May 31, and our first report will be filed by May 31, 2014. In order to comply with the aforementioned rules and regulations promulgated by the U.S. SEC, we will spare no effort to verify with our vendors all relevant factual data and file the required report. Although we expect that we and our vendors will be able to comply with the requirements of any new regulations promulgated by the U.S. SEC, there can be no guarantee that we will be able to gather all the

information required. In addition, there is increasing public sentiment that companies should avoid using conflict materials from the DRC and adjoining countries. Although we believe our suppliers do not rely on such conflict materials, there can be no guarantee 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.

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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.

Risks Related to the Shares and ADSs and Our Trading Markets

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

The ability to deposit 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 shares into our ADS program without specific approval of the R.O.C. FSC except for the deposit of the 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 shares;
- (2) exercise of the preemptive rights of ADS holders applicable to the shares evidenced by ADSs in the event of capital increases for cash; or

- (3) delivery of our shares which are purchased in the domestic market in Taiwan directly by the investor or through the depository 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 depository may accept deposit of those 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.

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As a result of the limited ability to deposit 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 shares on the Taiwan Stock Exchange.

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

Except for treasury shares and 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 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 shares represented by the ADSs. The voting rights attached to the 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 ADSs 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.

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 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 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 shares represented by ADSs or received as share dividends with respect to the shares and deposited into the depositary receipt facility; and

any cash dividends or distributions received from the shares represented by ADSs.

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In addition, the depositary may also convert into NT dollars incoming payments for purchases of shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the shares underlying your ADSs and become a holder of our 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 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.

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

Non-R.O.C. persons wishing to withdraw shares represented by their ADSs from our ADS program and hold our 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 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 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 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 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 shares of any R.O.C. listing company.

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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.

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 2013 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 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 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 shares, increases in interest rates and the economic performance of Taiwan.

Our shares are listed on the Taiwan Stock Exchange. The trading price of our ADSs may be affected by the trading price of our 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 shares and ADSs.

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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 price volatility with respect to shares 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 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 49.9%, 28.6%, 17.4% and 4.1%, respectively, in 2013.

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, and 28 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.

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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 2013, our company's top ten customers accounted for 56.6% 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.

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 shares 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 shares of Best Elite which we purchased through the April 25, 2012 offer. As of March 31, 2014, our cumulative ownership in Best Elite was 86.88%.

We and Alpha Wisdom Limited, or AWL, together held 94.79% of UMCJ shares as of December 31, 2009 and UMCJ then delisted from the Jasdac 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 shares 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 shares 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.

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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, or IP, 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 IP. 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 IP has become critical resources for SoCs, our portfolio includes basic design building blocks as well as more complex IP of optimized portability and cost, developed both internally and by third-party partners. With advanced technology, a broad IP 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. 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, and Xilinx. 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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Maintain Our Leading Position in Mass-Produced Semiconductor Technology and Selectively Pursue Strategic Investments in New Technologies. We believe that maintaining and enhancing our leadership in mass-produced 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 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. 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.

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.

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.

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The following table sets forth operational data of each of our manufacturing facilities as of December 31, 2013.

	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	68,000 wafers	29,000 wafers	32,000 wafers	35,000 wafers	32,500 wafers	28,000 wafers	42,800 wafers	54,802 wafers	49,100 wafers
	per month	per month	per month	per month	per month	per month	per month	per month	per month	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 1 st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30076, R.O.C.	27,898 / 34,609	6-inch wafer production	Leased (expires in December 2026)	Owned
Fab 8A, 3, 5 Li-Hsin 2 nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	44,137 / 83,699	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8C, 6 Li-Hsin 3 rd Rd.,	24,572 / 71,427	8-inch wafer	Leased (expires in	Owned

Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C. Fab 8D, 8 Li-Hsin 3 rd Rd.,	9,219 / 29,181	production	December 2033)		
Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C. Fab 8E, 17 Li-Hsin Rd.,	35,779 / 76,315	8-inch wafer	Leased (expires in	Owned	
Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C. Fab 8F, 3 Li-Hsin 6 th Rd.,	23,781 / 65,736	production	February 2016)		
Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C. Fab 8S, 16 Creation 1 st Rd.,	20,365 / 65,614	8-inch wafer	Leased (expires in	Owned	
Hsinchu Science Park, Hsinchu, Taiwan 30077, R.O.C. Fab 8N, 333, Xinghua St.,	215,621 / 100,908	production	December 2023)		
Suzhou Industrial Park, Suzhou, Jiangsu Province 215025, People's Republic of China		production	December 2052)		

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Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Fab 12A, 18, 20 Nan-Ke 2 nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	286,112 / 353,202	12-inch wafer production	Leased (expires in November 2030)	Owned
Fab 12i, 3 Pasir Ris Drive 12 Singapore 519528	83,616 / 142,342	12-inch wafer production	Leased (expires in March 2031)	Owned
United Tower, 3 Li-Hsin 2 nd 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, 7 th St., Hsinchu, Taiwan 30080, R.O.C.	10,762 / 41,318	Leased to several companies	Owned	Owned
R&D Building, 18 Nan-Ke 2 nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	42,000 / 47,396	Research and development	Leased (expires in December 2023)	Owned
Nexpower, 2, Houke S. Rd., Houli District, Taichung,	57,556 / 82,699	Solar PV modules production	Leased (expires in December 2026)	Owned

Taiwan 42152, R.O.C.				
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 October 2014)
Wavetek, 10, Chuangxin 1 st Rd., Baoshan Township, Hsinchu, Taiwan 30076, R.O.C.	-/ 6,230	6-inch wafer production	N/A	Leased (expires in December 2014)
Alliance, 148, Taihe Rd., Zhubei City, Hsinchu, Taiwan 30267, R.O.C.	-/ 1,289	LED lighting production	N/A	Leased (expires in June 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 conductivity 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.

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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. UMC's 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, 28nm Poly-SiON technology had been successfully developed and released to production, and 28nm High-k/metal gate technology is currently under development and is expected to be put into commercial production soon. Furthermore, we joined the International Business Machine 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.

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 2013, and the estimated annual full capacity of each fab, actual total annual output and capacity utilization rates in 2011, 2012 and 2013:

Fab	Years of Commencement of Operation	2013 Range of Process Technologies (in microns)	Year ended		
			December 31,		
			2011	2012	2013
			Years Ended December 31, 2011 2012 2013 (in thousands of 8-inch wafer equivalents, except percentages)		
Fab 6A	1989	0.5	303	271	252
Fab 8A	1995	0.5 to 0.25	813	815	813
Fab 8C	1998	0.35 to 0.13	359	360	347
Fab 8D	2000	0.13 to 0.09	364	371	382
Fab 8E	1998	0.5 to 0.18	469	449	418
Fab 8F	2000	0.18 to 0.13	388	389	388
Fab 8S	2000	0.18 to 0.13	307	348	335
Fab 8N ⁽¹⁾	2003	0.5 to 0.13			469
Fab 12A	2002	0.18 to 0.028	1,128	1,304	1,465
Fab 12i	2004	0.13 to 0.040	1,192	1,207	1,238
UMCJ ⁽²⁾	1996	0.35 to 0.15	240	240	
Total estimated capacity			5,563	5,754	6,107
Total output (actual)			4,370	4,533	5,026

Average capacity utilization	78.6%	78.8%	82.3%
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- (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.

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The table below sets forth a breakdown of number and percentage of wafer output by process technologies in 2011, 2012 and 2013.

Technology	Years Ended December 31,					
	2011		2012		2013	
	(in thousands of 8-inch wafer equivalents, except percentages)					
		%		%		%
40 nanometers and under	159	3.6	349	7.7	632	12.6
65 nanometers	980	22.4	1,296	28.6	1,140	22.7
90 nanometers	333	7.6	225	5.0	235	4.7
0.13 micron	1,049	24.0	799	17.6	828	16.5
0.15 micron	134	3.1	112	2.5	182	3.6
0.18 micron	510	11.7	432	9.4	614	12.2
0.25 micron	165	3.8	176	3.9	121	2.4
0.35 micron	621	14.2	742	16.4	912	18.1
0.50 micron or higher	419	9.6	402	8.9	362	7.2
Total	4,370	100.0	4,533	100.0	5,026	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 78.6% in 2011, 78.8% in 2012 and 82.3% in 2013.

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.

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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 quarterly 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.

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.

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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.

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., or Faraday Technology, 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.

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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 56.6% of our net operating revenues in 2013. Set forth below is a geographic breakdown of our operating revenues in 2012 and 2013 by the location of our customers.

Region	Years Ended December 31,	
	2012	2013
	%	%
Taiwan	36.4	32.9
Singapore	27.7	23.8
China (including Hong Kong)	5.3	9.5
Japan	2.5	3.7
USA	13.3	12.4
Others	14.8	17.7
Total	100.0	100.0

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 2013, gross wafer sales represented 91.6% 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 and 2013.

Customer Type	Years Ended December 31,	
	2012	2013
	%	%
Fabless design companies	83.6	88.6
Integrated device manufacturers	16.4	11.4
Total	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.

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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 IP 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 IP offerings, we work with several leading IP vendors from digital, memory and analog fields in the semiconductor industry, such as Faraday Technology Corp., Synopsys Inc., ARM Limited, Silicon Image Inc. Sidense Corp., and Kilopass Technology, to deliver quality IP 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 IP 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.

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.

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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.

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, 2013, we held 4,125 U.S. patents and 6,325 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.

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In 2012 and 2013, we spent NT\$9,787 million and NT\$12,493 million (US\$419 million), respectively, on research and development, which represented 8.5% and 10.1% respectively, of our net operating revenues. 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 2013 research and development expenditures, which reached approximately 10.1% 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, 2014, we employed 1,469 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.

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 Novatek shares. 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 (US\$38 million) and was recognized as gain on disposal of investment.

In 2012, we sold 18 million, 10 million, 2 million, 2 million, 5 million and 2 million common shares of Novatek Microelectronics Corp., Epistar Corp., Parade Technologies, Ltd., Sandforce, Inc., Pixart Imaging, Inc. and Simple Technology Co., Ltd. for NT\$1,728 million, NT\$671 million, NT\$549 million, NT\$498 million, NT\$448 million and NT\$360 million, respectively.

In 2013, we sold 118 million, 3 million and 6 million common shares of Industrial Bank of Taiwan Corp., Parade Technologies, Ltd. and Pixart Imaging Inc. for NT\$722 million (US\$24 million), NT\$632 million (US\$21 million) and NT\$373 million (US\$13 million), respectively.

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:

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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, UMC 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 six years since 2008;

Awarded "Taiwan Green Classics Award" by Taiwan Ministry of Economic Affairs. (2012);

Awarded "Taiwan Corporate Sustainability Award" by Taiwan Institute for Sustainable Energy. (2008-2013);

Awarded "Enterprises Environmental Award of the Republic of China" by the Environmental Protection Administration of Executive Yuan, R.O.C. (total of 14 times since 2001);

Awarded "The Best Participation of Green Procurement for Enterprises" by the Environmental Protection Administration of Executive Yuan, R.O.C. (2012 and 2013);

Awarded "National Industrial Safety & Health Award" by Council of Labor Affairs Executive Yuan. (2007, 2013);

Awarded "Workplace Safety & Health Performance Awards - Silver Award" by Ministry of Manpower. (2006-2013); and

Awarded "Excellent Industrial Safety and Health Executive Organization of Hsinchu Science Park" by The Science Park Administration. (1998-2013).

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 solution provider, and (iii) leveraging corporate resources to

cultivate a low-carbon 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 trying to reduce 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.

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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 C₃F₈ with C₄F₈ 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. Currently, we reduce carbon emissions through the following two aspects: (1) we continue to implement a greenhouse gas emissions reduction plan to assist customers in establishing a low-carbon supply chain, and (2) we continue our research and development in advanced processes to provide low power products and reduce carbon emissions at the consumer level.

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 2013, we became the first Taiwanese company that was listed on both the CDP's Climate Disclosure Leadership Index and Climate Performance Leadership Index. 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 2012 for all of our fabs in both Taiwan and Singapore.

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.

Our hazards risk management slogans are set forth below:

Uniqueness in risk management;

Maturity in property loss control; and

Continuous improvement in BCP.

We have also 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.

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.

Besides, we are fully aware of the impact posed by business interruption. 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 2011, we announced our Business Continuity Management policy, objective and management organization. In 2012, we followed the most updated standard, ISO22301 and established a Business Continuity Management System to ensure our ability to minimize any impact from incidents that may affect operation and to provide resilience to our business continuity with minimal loss. 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.

Table of Contents**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, 2013:

Company	Jurisdiction of Incorporation	Percentage of Ownership as of December 31, 2013
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.	74.69%
Everrich Energy Corp.	Taiwan, R.O.C.	100.00%
Everrich Energy Investment (HK) Limited	China	100.00%
Everrich (Shandong) Energy Co., Ltd.	China	100.00%
Unistars Corp.	Taiwan, R.O.C.	78.02%
Topcell Solar International Co., Ltd.	Taiwan, R.O.C.	91.82%
Smart Energy Enterprises Limited	China	100.00%
Smart Energy Shandong Corporation	China	100.00%
Wavetek Microelectronics Investment (HK) Limited	China	74.69%
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	74.69%
Wavetek Microelectronics Corporation (USA)	U.S.A.	74.69%
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%
UMC Group JAPAN	Japan	100.00%
UMC Korea Co., Ltd.	Korea	100.00%
Allance Optotek Corp.	Taiwan, R.O.C.	74.51%
Light House Global Incorp.	Samoa	74.51%
Alliance Optotek Dongguan Co., Ltd.	China	74.51%
Omni Global Limited	Samoa	100.00%
United Microtechnology Corporation	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, 2013 have been translated into U.S. dollar amounts using US\$1.00 = NT\$29.83, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2013. 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 78.6%, 78.8% and 82.3% for the years ended December 31, 2011, 2012 and 2013, respectively. We believe that our operating results in 2012 and 2013 continue to reflect the ongoing uncertainty in the global economy, conservative corporate information technology spending and low visibility with respect to end market demand.

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, primarily due to nominal price erosion.

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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 and 2013, approximately 65.7% and 66.8%, 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 78.6%, 78.8% and 82.3% for the years ended December 31, 2011, 2012 and 2013, 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 started 40-nanometer production in the first half of 2009. 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. 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.

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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 2012 and 2013. 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 was binding on us, to buy back up to a fixed amount of our shares on the Taiwan Stock Exchange at the price range set forth in the plans. In 2011, 2012 and 2013, we purchased an aggregate of nil, nil and 200 million, respectively, of our shares under these plans. On March 13, 2013, our board of directors resolved to purchase up to 200 million 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 employees and nil shares have been transferred to our employees at the end of such period.

Table of Contents***Changes in Financial Reporting Standards – transition to 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. As disclosed in our audited consolidated financial statements, these consolidated financial statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Previously, 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 beginning in 2013 and our interim quarterly earnings releases beginning in the first quarter of 2013. 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. We have adjusted our consolidated financial information as of and for the year ended December 31, 2012 in accordance with IFRSs and therefore financial information set forth in this annual report as of and for the year ended December 31, 2012 may differ from information previously published.

IFRSs differs in certain significant respects from R.O.C. GAAP. For a discussion of the related major differences between IFRSs and R.O.C. GAAP, the impacts of the transition to IFRSs and information concerning the use of exceptions permitted or required by IFRS 1, please see Note 14 to our audited consolidated financial statements included elsewhere in this annual report.

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.

The 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 ordinary 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.

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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.

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.

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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.

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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6(16) to our audited consolidated financial statements included elsewhere in this annual report.

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 to sell and its value in use. The fair value less costs to sell 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.

Table of Contents*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.

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 differing interpretations of tax regulations 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(21) 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.

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A. Operating Results

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 and NT\$37,242 million (US\$1,248 million) in 2012 and 2013, 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, or FVTPL, according to IAS 39;

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

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 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 four or five years following each such capital increase. This tax exemption resulted in tax savings of approximately NT\$55 million and nil in 2012 and 2013, respectively. Our tax rate was 17% in 2013, 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, including tax credits applicable against corporate income tax that range from 30% to 50% of the amount of certain research and development and employee training expenses and 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 and NT\$38 million (US\$1 million) in 2012 and 2013, respectively.

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.

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As a result, if we do not distribute all of our annual retained earnings generated beginning January 1, 1998 as either 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 and 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 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 and NT\$2,257 million (US\$76 million) of income tax expenses in 2012 and 2013, respectively. Our effective income tax rate in 2013 was 15.74%.

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
	%	%
Net operating revenues	100.0	100.0
Operating costs	(83.3)	(81.0)
Gross profit	16.7	19.0
Operating expenses		
Sales and marketing	(2.4)	(2.6)
General and administrative	(2.7)	(2.9)
Research and development	(8.5)	(10.1)
Subtotal	(13.6)	(15.6)
Net other operating income and expenses	(2.4)	(0.1)
Operating income	0.7	3.3
Non-operating income and expenses	4.7	8.3
Income from continuing operations before income tax	5.4	11.6
Income tax expense	(1.8)	(1.8)
Net income	3.6	9.8
Total other comprehensive income (loss), net of tax	(5.5)	0.1
Total comprehensive income (loss)	(1.9)	9.9

Net income attributable to:		
Stockholders of the parent	5.3	10.2
Non-controlling interests	(1.7)	(0.4)
Total comprehensive income (loss) attributable to:		
Stockholders of the parent	(0.2)	10.3
Non-controlling interests	(1.7)	(0.4)

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 (US\$4,151 million) in 2013 primarily due to the increase in shipments.

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Operating costs. Operating costs increased by 4.0% from NT\$96,365 million in 2012 to NT\$100,249 million (US\$3,361 million) in 2013 primarily due to the increase in shipments.

Gross profit and gross margin. Gross profit increased from NT\$19,310 million in 2012 to NT\$23,563 million (US\$790 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 (US\$135 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 (US\$651 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 (US\$109 million) in 2013. The increase in sales and marketing expenses was mainly due to an increase in mask expenses and IP royalty expenses as a result of an increase in IP 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 (US\$123 million) in 2013 primarily as a result of an increase 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 (US\$419 million) in 2013. The increase in research and development expenses resulted primarily from an increase in research expenses for advanced technologies and 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 (US\$4 million) in 2013. The decrease in net other operating expenses is resulted primarily from a decrease 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.

Non-operating income and expenses. Non-operating income increased by 88.4% from NT\$5,473 million in 2012 to NT\$10,309 million (US\$346 million) in 2013, mainly due to a bargain purchase gain of NT\$7,154 million (US\$240 million) in 2013 and a decrease in gain on disposal of investments from NT\$4,830 million in 2012 to NT\$2,224 million (US\$75 million) in 2013.

Other comprehensive income (loss), net of tax. Our other comprehensive income was NT\$198 million (US\$7 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 (US\$9 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 (US\$26 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 (US\$423 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 (US\$429 million) in 2013 compared to a comprehensive loss of NT\$281 million in 2012.

Table of Contents**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 and NT\$32,911 million (US\$1,103 million) in 2012 and 2013, 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. Cash inflows significantly exceed operating income, reflecting the significant non-cash depreciation expense. We generated cash flows from operations of NT\$40,398 million and NT\$43,472 million (US\$1,457 million) in 2012 and 2013, 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\$5 million and US\$71 million principal amount of these bonds in the open market transactions for the years ended December 31, 2012 and 2013, respectively.

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, 2013, NT\$10,000 million aggregate principal amount of these bonds were outstanding.

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, 2013, NT\$10,000 million aggregate principal amount of these bonds were outstanding.

As of December 31, 2013, we had NT\$50,831 million (US\$1,704 million) of cash and cash equivalents and NT\$633 million (US\$21 million) of FVTPL, 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%; and 0.48% to 0.56% in 2012 and

2013, respectively. The terms of these agreements were typically less than two weeks. As of December 31, 2012 and 2013, we held repurchase agreements in the amount of NT\$4,585 million and NT\$5,669 million (US\$190 million), respectively.

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

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At our 2013 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 shares issued or convertible is proposed to be no more than 10% of our total shares issued (i.e., no more than 1,295,180,554 shares). According to Item 6, Article 43-6 of the R.O.C. Security and Exchange Act, any private placement of our 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 shares will expire on June 10, 2014. Considering market conditions, our board of directors has resolved to terminate any plans for a private placement of our shares under the 2013 general meeting authorization.

Operating Activities

Cash generated by operating activities increased from NT\$40,398 million in 2012 to NT\$43,472 million (US\$1,457 million) in 2013, primarily due to an increase in cash collected from our customers.

Investing Activities

Net cash used in our investing activities decreased from NT\$49,123 million in 2012 to NT\$31,516 million (US\$1,057 million) in 2013, primarily because the cash we used to purchase equipment at our fabs decreased from NT\$52,186 million in 2012 to NT\$32,911 million (US\$1,103 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 (US\$75 million) in 2013.

Financing Activities

Net cash used in our financing activities was NT\$3,924 million (US\$132 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 (US\$157 million) in 2013 and increase in redemption of bonds from NT\$139 million in 2012 to NT\$2,153 million (US\$72 million) in 2013, as well as our acquisition of treasury stock of NT\$2,245 million (US\$75 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 (US\$170 million) in 2013.

We had NT\$4,644 million (US\$156 million) outstanding short-term loans as of December 31, 2013. We had total availability under existing short-term lines of credit of NT\$18,587 million (US\$623 million) as of December 31, 2013.

We had bonds payable of NT\$33,606 million (US\$1,127 million) in the aggregate as of December 31, 2013.

As of December 31, 2013, our outstanding long-term debts primarily consisted of NT\$503 million (US\$17 million) secured long-term bank loans due in 2014, NT\$2,462 million (US\$83 million) unsecured and NT\$760 million (US\$25 million) secured long-term bank loans due in 2015, NT\$2,000 million (US\$67 million) unsecured and NT\$3,114 million (US\$104 million) secured long-term bank loans due in 2016, NT\$1,900 million (US\$64 million) unsecured and NT\$232 million (US\$8 million) secured long-term bank loans due in 2017, and NT\$300 million (US\$10 million) unsecured and NT\$87 million (US\$3 million) secured long-term bank loans due in 2018. The interest rates of our long-term bank loans range from 1.23% to 2.51%.

As of December 31, 2013, the current portion of bonds due within one year was NT\$13,627 million (US\$457 million), and the current portion of long-term bank loans due within one year was NT\$2,918 million (US\$98 million).

Table of Contents*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, 2013, these construction contracts amounted to NT\$6,038 million (US\$202 million) with an unpaid portion of the contracts, which would be accrued, of approximately NT\$2,100 million (US\$70 million). In 2012 and 2013, we spent approximately NT\$52,186 million and NT\$32,911 million (US\$1,103 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.

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 2014. 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 and NT\$12,493 million (US\$419 million) in 2012 and 2013, respectively, in research and development, which represented 8.5% and 10.1%, 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, 2014, we employed 1,469 professionals in our research and development division.

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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.

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, 2013.

	Payments Due by Period				After 5-Years
	Total	Less than 1 Year	1-3 Years	4-5 Years	
	(in NT\$ millions)				
Long-term debt ⁽¹⁾					
Unsecured bonds	33,965	3,709	10,256	15,000	5,000
Long-term loans	11,358	2,918	7,369	1,071	
Operating lease obligations ⁽²⁾	3,569	411	706	497	1,955
Purchase obligations ⁽³⁾	174	134	40		
Other long-term obligations ⁽⁴⁾	4,572	4,235	296		41

Total contractual cash obligations	53,638	11,407	18,667	16,568	6,996
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- (1) Assuming the exchangeable bonds, convertible bonds and 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, 2013.
- (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.

Table of Contents**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, 2014. 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	53	Chairman and Director	22
Shih-Wei Sun	56	Vice-Chairman and Director (Representative of Silicon Integrated Systems Corp.)	19
Po-Wen Yen	57	Chief Executive Officer and Director (Representative of Hsun Chieh Investment Co.)	27
Wen-Yang Chen	61	Director (Representative of UMC Science and Culture Foundation) and Chief Operating Officer	34
Ting-Yu Lin	53	Director	8
Paul S.C. Hsu (1)	78	Independent Director	10
Chung-Laung Liu (1)	80	Independent Director	8
Chun-Yen Chang (1)	77	Independent Director	8
Cheng-Li Huang (1)	65	Independent Director	5
Chitung Liu	48	Chief Financial Officer	13

(1) 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 and Crystalwise Technology Inc. Mr. Hung received a bachelor's degree in accounting from Tam Kang University in 1982.

Shih-Wei Sun is a director and the Vice-Chairman of our company. Dr. Sun is a representative of Silicon Integrated Systems Corp. Dr. Sun joined us in 1995 and has been responsible for the operation of our Fabs 6A, 8A, 8D and 12A, along with Central Research & Development. Prior to joining us, Dr. Sun worked for Motorola in the Advanced Products Research and Development Laboratory for ten years. Dr. Sun is also the Chairman of UMC Science and Culture Foundation. Dr. Sun holds a Ph.D. degree in electronics materials from Northwestern University in 1986.

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.

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.

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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 Chair Professor & University Professor of Yuan-Ze 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, 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 Richtek 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.

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. 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 2013 were approximately NT\$15 million. The remuneration was out of our 2013 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 2013 were approximately NT\$128 million, which include NT\$31 million as bonus. Certain of our directors who also served as executive officers held stock options to purchase 8.8 million shares as of March 31, 2014.

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.

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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, listing companies of our size shall set up the compensation 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 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 introduce the mechanism of our remuneration committee in the annual ordinary stockholders meeting held on June 15, 2011.

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, 2014, we had 17,685 employees, which includes 9,689 engineers, 7,183 technicians and 813 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,		
	2011(1)	2012	2013
Employees			
Engineers	7,581	8,640	9,698

Technicians	5,456	6,215	7,232
Administrative Staff	462	769	854
Total	13,499	15,624	17,784

(1) The number of employees in 2011 includes only employees in UMC Taiwan and our Singapore branch. 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 shares for employees' subscription.

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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 April 16, 2014, our board of directors proposed an employee bonus in cash in the amount of NT\$1,163 million (US\$39 million) in relation to retained earnings in 2013.

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, 2014, each of our directors and executive officers held 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 March 31, 2014, none of our directors or executive officers held, for their own account, 0.1% or more of our outstanding shares. As of April 13, 2014, our most recent record date, Hsun Chieh Investment Co. held approximately 441 million of our shares, representing approximately 3.48% of our issued shares. Silicon Integrated Systems Corp. held approximately 315 million of our shares, representing approximately 2.48% of our issued shares. Stan Hung held approximately 14 million of our shares, representing approximately 0.11% of our issued shares. Ting-Yu Lin held approximately 13 million of our shares, representing approximately 0.1% of our issued shares.

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 23 million stock options with exercise price of 22.37 that we granted in April 2005, the 54 million stock options with exercise price of 29.47 that we granted in August 2005, the 52 million stock options with exercise price of 26.89 that we granted in September 2005, and the 39 million stock options with exercise price of 23.17 that we granted in January 2006, expired on April 28, 2011, August 15, 2011, September 28, 2011 and January 3, 2012, respectively.

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 shares issuable upon exercise of option held by our directors and executive officers as of March 31, 2014 was 20.6 million. The units granted to each of our directors and executive officers as a percentage of our total shares as of March 31, 2014 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 shares as of (i) April 13, 2014, 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 shares and (2) all directors and executive officers as a group. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules.

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Name of Beneficial Owner	As of April 14, 2012	As of April 13, 2013	As of April 13, 2014	
	Percentage of shares beneficially owned	Percentage of shares beneficially owned	Percentage of shares beneficially owned	Number of shares beneficially owned
Hsun Chieh Investment Co., Ltd. (1)	3.4%	3.4%	3.48%	441,371,000
Silicon Integrated Systems Corp.	2.4%	2.4%	2.48%	315,380,242
Directors and executive officers as a group	6.26%	6.27%	6.39%	810,469,915

(1) 36.5% owned by United Microelectronics Corp. as of March 31, 2014.

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 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.

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, 2013.

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\$256 million and NT\$156 million (US\$5 million) of our net operating revenues in 2012 and 2013, 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.

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As for our policy on dividend distributions, see Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions . On June 15, 2011, our stockholders approved a cash dividend of NT\$1.12 per share for an aggregate of NT\$14,033,575,265. On July 8, 2011, our board of directors resolved to adjust the cash dividend ratio to NT\$1.11164840 per share, because the outstanding common shares had increased accordingly as a result of the exercise of employee stock options. 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 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 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 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 shares.

In addition, the Board of Directors held on April 16, 2014 resolved a cash distribution of approximate to NT\$0.5 per share, among which approximate to NT\$0.49 per share is from additional paid-in capital while the remaining is from earnings.

The following table sets forth the cash dividends per share and stock dividends per share as a percentage of shares outstanding paid during each of the years indicated in respect of 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 Shares Issued as Stock Dividend	Number of Outstanding 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			12,694,649,915

- (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 shares. The amount of shares distributed to each stockholder is calculated by multiplying the dividend declared by the number of shares held by the given stockholder, divided by the par value of NT\$10 per share. Fractional 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.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price Information for Our Shares

Our shares have been listed on the Taiwan Stock Exchange since July 1985. There is no public market outside Taiwan for our 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 shares. The closing price for our shares on the Taiwan Stock Exchange on April 16, 2014 was NT\$12.85 per share.

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	High NT\$	Low NT\$	Average Daily Trading Volume (in thousands of shares)
2008	20.30	6.80	37,521.00
2009	17.20	7.10	85,869.55
2010	18.60	12.95	53,660.37
2011	18.10	10.45	44,048.44
2012	15.65	10.10	39,247.79
First Quarter	15.65	12.60	43,434.55
Second Quarter	15.55	11.80	37,797.20
Third Quarter	13.40	11.65	32,337.63
Fourth Quarter	12.10	10.10	43,721.73
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
October	13.10	12.30	54,954.40
November	12.45	11.90	31,923.71
December	12.40	12.05	24,040.93
2014 (through April 16)	13.20	12.00	48,958.13
First Quarter	13.05	12.00	50,562.17
January	12.95	12.25	58,277.69
February	12.35	12.00	32,275.08
March	13.05	12.40	58,495.56
Second Quarter (through April 16)	13.20	12.85	40,792.07
April (through April 16)	13.20	12.85	40,792.07

Source: Taiwan Stock Exchange.

- (1) Information has been adjusted to give effect to 562,958,816 Shares and 114,616,567 Shares issued as stock dividend and employee bonus, respectively, in August 2008.

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 16, 2014 was US\$2.10 per ADS. Each of our ADSs represents the right to receive five shares.

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	High	Low	Average Daily Trading Volume (in thousands of shares)
	NT\$	NT\$	
2008	3.71	1.51	5,780,890
2009	3.88	1.65	5,106,249
2010	4.22	2.55	3,932,515
2011	3.46	1.79	3,454,527
2012	2.72	1.75	2,733,811
First Quarter	2.72	2.14	3,363,260
Second Quarter	2.72	1.95	3,401,801
Third Quarter	2.24	1.98	2,305,720
Fourth Quarter	2.10	1.75	1,860,593
2013	2.15	1.77	2,458,650
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
October	2.15	2.04	1,027,289
November	2.03	1.94	1,113,917
December	2.04	1.95	1,059,428
2014 (through April 16)	2.19	1.97	1,067,197
First Quarter	2.15	1.97	995,294
January	2.15	2.00	1,331,179
February	2.01	1.97	667,903
March	2.10	2.00	995,619
Second Quarter (through April 16)	2.19	2.08	1,432,702
April (through April 16)	2.19	2.08	1,432,702

Sources: Bloomberg

As of March 31, 2014, there were a total of 168,250,585 ADSs listed on the NYSE. With certain limited exceptions, holders of shares that are not R.O.C. persons are required to hold these shares through a brokerage or custodial account in the R.O.C. As of March 31, 2014, 841,252,925 ordinary 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, 2014, 168,053,261 ADSs representing these 840,266,305 shares were held of record by Cede & Co., and 197,324 ADSs were held by U.S. registered stockholders. We have no further information as to shares held or beneficially owned by U.S. persons.

B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Stockholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

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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, 2014, 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 total 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, a person may serve as our director in his or her personal capacity or as the representative of another legal entity. A legal entity that owns our 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, 2014, 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 .

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, the outcome of which may conflict with his interests, shall explain the essential contents of such personal interest in the meeting of

the board of directors and then abstain from joining the discussion and voting on such matter. 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.

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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.

Shares

As of December 31, 2013, our authorized share capital was NT\$260 billion, divided into 26 billion shares, of which 12,694,649,915 shares were issued and 12,694,649,915 shares were outstanding (including 2,568,250 shares of capital collected in advance). All shares presently issued are fully paid and in registered form, and existing stockholders are not subject to any capital calls. We had US\$358 million convertible bonds outstanding as of March 31, 2014. As of March 31, 2014, we had neither warrant nor option on our 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. In September 2004, December 2005, October 2007 and May 2009, we obtained approval by relevant R.O.C. authorities to grant up to 150 million, 350 million, 500 million and 500 million stock options, respectively, 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 options granted and outstanding and the month in which they were granted:

	January 2006			
Number of Options Granted	39			
Number of Options Outstanding as of March 31, 2014	0			
Shares available to option holders as of March 31, 2014	0			

	May 2006	August 2006	December 2007	June 2009
Number of Options Granted	42	28	500	300
Number of Options Outstanding as of March 31, 2014	0	0	0	79
Shares available to option holders as of March 31, 2014	0	0	0	79

Note: The employee stock options granted prior to August 7, 2007, the effective date of capital reduction, were adjusted in accordance with capital reduction rate. Each option unit entitles an optionee to subscribe for about 0.7 share of our common stock. The exercise price of the options was also adjusted according to the capital reduction rate. Each stock option unit granted after August 7, 2007 remains to be subscribed for one share of our common stock.

New Shares and Preemptive Rights

New shares may only be issued with the prior approval of our board of directors. If our issuance of any new 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 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 shares in which existing stockholders may have preemptive rights. Unless the percentage of the 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 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 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 shares.

Transfer of 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 shares in book-entry form instead of by means of issuing physical share certificates. We have issued our shares in uncertificated/scripless form since 2007. Therefore, the transfer of our shares is carried out on the book-entry system. The settlement of trading of our shares is normally carried out on the book-entry system maintained by the Taiwan Depository 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.

Table of Contents**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 paid-in share capital who have held these 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 shares represented at a stockholders meeting at which holders of at least two-thirds of our issued and outstanding 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 shares represented at a stockholders meeting at which holders of at least a majority of our issued and outstanding shares are present. However, if we are the controlling company and hold no less than 90% of our subordinate company's outstanding shares, our merger with the subordinate company can be approved by a board resolution adopted by majority consent at a meeting with 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 stockholders 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 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 total issued and outstanding shares represented at a stockholders meeting. The quorum for a stockholders meeting to discuss the ordinary resolutions is a majority of the total issued and outstanding 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. 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 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 R.O.C. FSC has issued another administrative order on November 8, 2013 to require more listed companies to adopt an e-voting system for stockholders' meeting. According to the new order, the listed companies in the R.O.C. with NT\$5 billion or more paid-in share capital and with 10,000 or more stockholders as of the first date of the close period applicable to the last stockholders' meeting shall adopt an e-voting system for stockholders' meeting as well. 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.

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According to the R.O.C. Company Act newly amended on January 4, 2012, a stockholder of a public company who holds shares for others, such as a depository, 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 depository 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 shares underlying their ADSs on an individual basis.

Dividends and Distributions

We are not allowed under R.O.C. law to pay dividends on our treasury shares. We may distribute dividends on our issued and outstanding 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 shares or a combination of cash and 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 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 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 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.

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Acquisition of Our 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 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 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 shares to our employees;

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

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

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. 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. From March 15, 2013 to May 6, 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.

On March 14, 2012, our board of directors approved the cancellation of 157,934,400 treasury 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 shares, which were purchased from February 3, 2010 to April 2, 2010.

We may not pledge or hypothecate any purchased shares. In addition, we may not exercise any stockholders' rights attached to such 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 shares during the period in which we purchase our shares.

In addition to the share purchase restriction, the Company Act provides that our subsidiaries may not acquire our shares or the shares of our majority-owned subsidiaries if the majority of the outstanding voting shares 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.

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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 shares for a period of one year or longer may request in writing that the audit committee institute 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 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 shares or any respective spouses or minor children and/or nominees of any of them sells shares within six months after acquisition of such shares, or repurchases the 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.

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 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 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 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.

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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 shares are required to report any changes in their shareholding to us on a monthly basis. In addition, the number of 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 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 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 Machine 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.

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

We entered into a technology license agreement with International Business Machine 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 Machine Corporation.

We entered into a membership participation agreement with IBM to participate in its 10nm CMOS process technology development project.

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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.

Major Construction Agreements

We entered into various major facility construction agreements with companies such as Excel Air Condition Co., Ltd. and Gwo Jieh Fire Protection Co., Ltd. for the phase 5 facilities in our Fab12A in the Tainan Science Park. These agreements are effective from April 1, 2013 to April 1, 2015, and the total contractual amount exceeds NT\$0.14 billion.

Major Long-term Loan Agreements

We entered into a long-term secured loan agreement effective from November 28, 2008 through November 28, 2018 with the Bank of Taiwan for up to NT\$4.8 billion. We pledged the equipment at our semiconductor facilities in Tainan Science Park as collateral. On April 1, 2013, we repaid the loan in full and the loan agreement expired accordingly.

We also 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.

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.

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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 shares 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. 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.

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.

Foreign Investment Approval

Foreign investors (both institutional and individual) who wish to make direct investments in the 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 Foreigners' Investment and the Statute for Overseas Chinese' 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.

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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 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.

Depository 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 depository receipts evidencing depository 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 depository receipts evidencing depository 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 depository receipts by way of private placements outside the R.O.C.

A holder of depository shares wishing to withdraw common shares underlying depository 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 shares of a listed R.O.C. company or certain other manners of investment by a qualified PRC person.

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No deposits of 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 shares or purchase through the depositary in the domestic market or the surrender of shares under the possession of investors and then delivery of such 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.

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 shares to a holder of ADSs or shares that is not a resident of the R.O.C. An individual holder will be considered as not a resident of the R.O.C. 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, except if the individual holder has both R.O.C. and non-R.O.C. nationalities and has a registered address in the R.O.C. An entity holder will be considered as not a resident of the R.O.C. if it is organized under the laws of a jurisdiction other than Taiwan and has no fixed place of business or other permanent establishment or business agent in the R.O.C. Prospective purchasers of ADSs or shares should consult their own tax advisors concerning the tax consequences of owning ADSs or shares in the R.O.C. and any other relevant taxing jurisdiction to which they are subject.

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Dividends

Dividends, whether in cash or 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 shares represented by ADSs are subject to R.O.C. withholding tax at the time of distribution. The rate of withholding for non-resident individuals and non-resident entities is currently 20% of the amount of the distribution in the case of cash dividends or of the par value of the shares distributed in the case of stock dividends. Under current practice adopted by tax authorities, a 20% withholding rate is applied to a non-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, the amount of such tax will be used by us to offset a non-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 reserve.

Capital Gains

According to the R.O.C. Income Tax Act as amended on July 10, 2013, starting from January 1, 2013, any capital gain generated from the sale of securities by any individual shall be subject to capital gain tax. The capital gain generated from sale of 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 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 shares on the Emerging Stock Market within a year; (ii) sells shares, which had been obtained before the initial public offering of such shares (IPO), on the Taiwan Stock Exchange or Gre-Tai Securities Market (unless such IPO is completed before December 31, 2012 or the shares were acquired (x) during the pre-IPO underwriting process and (y) in the volume of no more than 10,000 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 shares so sold have been held for one year or longer. For disposal of shares obtained before the IPO, if the individual holder continuously holds such shares for at least three (3) years after IPO, only one-fourth (1/4) of the amount of actual capital gain generated from the sale of shares (after deduction of any losses incurred by the seller from trading of shares within the year) is subject to 15% income tax.

Further, effective from January 1, 2015, if an R.O.C. resident sells 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 the capital gain and shall be subject to the capital tax at the rate of 20%; provided, however, that such R.O.C. resident 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 two paragraphs.

It is unclear whether a non-ROC 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 withdraw the ADSs and request the depository to sell the underlying common shares in the R.O.C. ***[Note: MOF so far has yet issued any ruling in this regard. However, in the absence of the explicit exemption and referring to the current ruling with respect to the collective account for the foreign employees, we are unable to rule out this possibility.]***

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 Statute and may further be subject to income tax. If the above entity has held shares for more than three (3) years, 50% of capital gain may be exempted from AMT. In

addition, transfers of ADSs by non-R.O.C. resident holders are not regarded as sales of R.O.C. securities and, as a result, any gains derived therefrom are currently not subject to R.O.C. income tax.

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Securities Transaction Tax

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

Preemptive Rights

Distribution of statutory preemptive rights for shares 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 by a non-resident holder may be subject to the R.O.C. securities transaction tax, currently at the rate of 0.3% of the gross amount received. 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. entity holders and non-R.O.C. individual holders. 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 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 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 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 and Thailand 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 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.

Tax Reform

In order to increase Taiwan's competitiveness, an amendment to the R.O.C. Income Tax law was enacted on January 1, 1998, to integrate the corporate income tax and the stockholder dividend tax with the aim of eliminating the double taxation effect for resident stockholders of Taiwanese corporations.

Under this amendment, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 that are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the company declares dividends out of those retained earnings, up to a maximum amount of 10% of the declared dividends will be credited against the 20% withholding tax imposed on the non-resident holders of its shares.

U.S. Federal Income Tax Considerations for U.S. Persons

The following is a summary of certain U.S. federal income tax consequences for beneficial owners of our shares or ADSs, that hold the shares or ADSs as capital assets and that are U.S. holders that are not citizens of the R.O.C., do not have a permanent establishment in the R.O.C. and are not physically present in the R.O.C. for 183 days or more within a calendar year. You are a U.S. holder if you are, for U.S. federal income tax purposes, any of the following:

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an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source;

a trust that is subject to the primary supervision of a court within the United States and that has one or more U.S. persons with the authority to control all substantial decisions of the trust; or

a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-U.S. tax laws (or other U.S. federal tax consequences, such as U.S. federal estate or gift tax consequences). In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

a dealer in securities or currencies;

a trader in securities if you elect to use a mark-to-market method of accounting for your securities holdings;

a financial institution or an insurance company;

a tax-exempt organization;

a regulated investment company;

a real estate investment trust;

a person liable for alternative minimum tax;

a person holding shares or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle;

a partnership or other pass-through entity for U.S. federal income tax purposes;

a person owning, actually or constructively, 10% or more of our voting stock; or

a U.S. holder whose functional currency is not the U.S. dollar.

We cannot assure you that a later change in law will not alter significantly the tax considerations that we describe in this summary.

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If a partnership holds our shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares or ADSs, you should consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the ownership and disposition of the shares or ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

In general, for U.S. federal income tax purposes, a U.S. person who is the beneficial owner of an ADS will be treated as the owner of the shares underlying its ADS. Accordingly, deposits or withdrawals of shares by U.S. holders for ADSs generally will not be subject to U.S. federal income tax.

Taxation of Dividends

Except as discussed below with respect to the passive foreign investment company rules, the amount of distributions (including net amounts withheld in respect of R.O.C. withholding taxes) you receive on your shares or ADSs (other than certain pro rata distributions of shares to all stockholders) will generally be treated as dividend income to you if the distributions are made from our current and accumulated earnings and profits as calculated according to U.S. federal income tax principles. In determining the net amounts withheld in respect of R.O.C. taxes, any reduction in the amount withheld on account of an R.O.C. credit in respect of the 10% retained earnings tax imposed on us is not considered a withholding tax and will not be treated as distributed to you or creditable by you against your U.S. federal income tax. Such income (including withheld taxes) will be includible in your gross income as ordinary income on the day you actually or constructively receive it, which in the case of an ADS will be the date actually or constructively received by the depository. The amount of any distribution of property other than cash will be the fair market value of such property on the date it is distributed. You will not be entitled to claim a dividend received deduction with respect to distributions you receive from us.

With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs (which are listed on the NYSE), but not our shares, are readily tradable on an established securities market in the United States. Thus, we do not believe that dividends we pay on our shares that are not backed by ADSs currently meet the conditions required for these reduced tax rates. Moreover, there can be no assurance that our ADSs will continue to be readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d) (4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Non-corporate U.S. holders will also not be eligible for the reduced rates of taxation on dividends if we are a passive foreign investment company in the taxable year in which such dividends are paid or in the preceding taxable year. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

The amount of any dividend paid in NT dollars will equal the U.S. dollar value of the NT dollars you receive (calculated by reference to the exchange rate in effect on the date you actually or constructively receive the dividend, which in the case of an ADS will be the date actually or constructively received by the depository), regardless of

whether the NT dollars are actually converted into U.S. dollars. If the NT dollars received as a dividend are converted into U.S. dollars on the date they are actually or constructively received, you generally will not be required to recognize foreign currency gain or loss with respect of the dividend income. If the NT dollars received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a basis in the NT dollars equal to their U.S. dollar value on the date of receipt. Any gain or loss you realize if you subsequently sell or otherwise dispose of the NT dollars will be ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

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Subject to certain limitations under the Code, you may be entitled to a credit or deduction against your U.S. federal income taxes for the net amount of any R.O.C. taxes that are withheld from dividend distributions made to you. The election to receive a credit or deduction must be made annually, and applies to all foreign taxes for the applicable tax year. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay with respect to shares or ADS will generally be considered passive category income from sources outside the United States. Furthermore, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on shares or ADSs if you (1) have held the shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or (2) are obligated to make payments related to the dividends. The rules governing the foreign tax credit are complex. We therefore urge you to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution you receive exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in your adjusted basis in the shares or ADSs and thereby increasing the amount of gain, or decreasing the amount of loss, you will recognize on a subsequent disposition of the shares or ADSs. The balance in excess of adjusted basis, if any, will be taxable to you as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

It is possible that pro rata distributions of shares or ADSs to all stockholders may be made in a manner that is not subject to U.S. federal income tax. In the event that such distributions are tax-free, the basis of any new shares or ADSs so received will generally be determined by allocating the U.S. holder's basis in the old shares or ADSs between the old shares or ADSs and the new shares or ADSs, based on their relative fair market values on the date of distribution. For U.S. tax purposes, any such tax-free share or ADS distribution generally would not result in foreign source income to you. Consequently, you may not be able to use the foreign tax credit associated with any R.O.C. withholding tax imposed on such distributions unless you can use the credit against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes. You should consult your own tax advisors regarding all aspects of the foreign tax credit.

Taxation of Capital Gains

Except as discussed below with respect to the passive foreign investment company rules, when you sell or otherwise dispose of your shares or ADSs, you will generally recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized for the shares or ADSs and your basis in the shares or ADSs, determined in U.S. dollars. If you are an individual or other non-corporate holder, and the shares or ADSs being sold or otherwise disposed of are capital assets that you have held for more than one year, your gain recognized will be eligible for reduced rates of taxation. Your ability to deduct capital losses is subject to limitations. Any gain or loss you recognize will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any R.O.C. tax imposed on the disposition of shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

If you pay any R.O.C. securities transaction tax, such tax is not treated as an income tax for U.S. federal income tax purposes, and therefore will not be a creditable foreign tax for U.S. federal income tax purposes. However, subject to limitations under the Code, such tax may be deductible. You are urged to consult your tax advisors regarding the U.S. federal income tax consequences of these taxes.

Passive Foreign Investment Company

Based on the current and projected composition of our income and valuation of our assets, including goodwill, we do not believe that we are currently (or that we were in 2013) a passive foreign investment company, or PFIC, and we do not expect to become one in the future, although there can be no assurance in this regard.

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In general, a company is considered a PFIC for any taxable year if either:

at least 75% of its gross income is passive income, which generally includes income derived from certain dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person), annuities or property transactions; or

at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. If we own at least 25% by value of another company's stock, we will be treated, for purposes of the PFIC rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

In addition, the determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our shares, a decrease in the price of our shares may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold shares or ADSs, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold shares or ADSs, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from a sale or other disposition (including a pledge) of shares or ADSs. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for shares or ADSs will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for shares or ADSs;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If you hold shares or ADSs in any year in which we are a PFIC, you are required to file Internal Revenue Service Form 8621.

If we are a PFIC for any taxable year and any of our non-U.S. subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

Under certain circumstances, a U.S. holder, in lieu of being subject to the excess distribution rules discussed above, may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. Under this method, any difference between the stock's fair market value and its adjusted basis at the end of the year is accounted for by either an inclusion in income or, subject to limitations, a deduction from income, as described below. Under current U.S. Treasury Department guidance, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the NYSE, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be regularly traded for purposes of the mark-to-market election. You should also note that only the ADSs and not the shares are listed on the NYSE. Our shares are listed on the Taiwan Stock Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the shares will be regularly traded for purposes of the mark-to-market election.

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If you make an effective mark-to-market election, you will include in income each year that we are a PFIC as ordinary income the excess of the fair market value of your shares or ADSs at the end of the year over your adjusted tax basis in the shares or ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the shares or ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC any gain you recognize upon the sale or other disposition of your shares or ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

Your adjusted tax basis in shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the shares or ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable under your particular circumstances.

Alternatively, a U.S. holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the PFIC as a qualified electing fund under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You should consult your own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, unless you are an exempt recipient such as a corporation, information reporting will apply to dividends in respect of the shares or ADSs and to the proceeds from the sale, exchange or redemption of your shares or ADSs that are paid to you within the United States (and in some cases, outside of the United States). Additionally, if you fail to provide your taxpayer identification number, or fail either to report in full dividend and interest income or to make the necessary certifications of other exempt status, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided you furnish the required information to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the Securities and Exchange Commission. As allowed by the Securities and Exchange Commission, in Item 19 of this annual report, we incorporate by reference certain information we filed with the Securities and Exchange Commission. This means that we can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is considered to be part of this annual report.

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You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the Securities and Exchange Commission's regional offices in New York, New York and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the Securities and Exchange Commission's Public Reference Room.

The Securities and Exchange Commission also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. Our annual report and some of the other information submitted by us to the Securities and Exchange Commission may be accessed through this web site.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various types of market risks, including changes in interest rates and foreign currency exchange rates, in the normal course of business.

We use financial instruments, including variable rate debt and swaps and foreign exchange spot transactions, to manage risks associated with our interest rate and foreign currency exposures through a controlled program of risk management in accordance with established policies. These policies are reviewed and approved by our board of directors and stockholders' meeting. Our treasury operations are subject to internal audit on a regular basis. We do not hold or issue derivative financial instruments for speculatively purposes.

Since export sales are primarily conducted in U.S. dollars, we had U.S. dollar-denominated accounts receivable of US\$548 million as of December 31, 2013. As of the same date, we also had Japanese Yen-denominated accounts receivable of ¥1,744 million attributable to our Japanese operations and Euro-denominated accounts receivable of 1 million attributable to our Europe operations. We had U.S. dollar- and Japanese Yen-denominated accounts payables of US\$163 million and ¥1,285 million, respectively, as of December 31, 2013.

Our primary market risk exposures relate to interest rate movements on borrowings and exchange rate movements on foreign currency-denominated accounts receivable, capital expenditures relating to equipment used in manufacturing processes (including photo etching and chemical vapor deposition) and purchased primarily from Japan and the United States.

The following table provides information as of December 31, 2013 on our market risk sensitive financial instruments.

As of December 31, 2013
Book Value Fair Value
(in NT\$ millions)

Time Deposits: Non-Trading Purpose	38,260	38,260
Short-term Loans: Non-Trading Purpose	4,644	4,644
Bonds: Non-Trading Purpose	33,606	33,415
Long-term Loans: Non-Trading Purpose	11,354	11,354

Interest Rate Risk

Our major market risk exposure is changing interest rates. Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations. We primarily enter into debt obligations to support general corporate purposes including capital expenditures and working capital needs.

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The tables below provide information of UMC as of December 31, 2013 about our financial instruments that are sensitive to changes in interest rates, including debt obligations and certain assets. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. The information is presented in the currencies in which the instruments are denominated.

	Expected Maturity Dates As of December 31, 2013					2018 and thereunder	Total	Fair Value
	2014	2015	2016	2017				
(in millions, except percentages)								
Time Deposits:								
Fixed Rate (US\$)	569						569	569
Average Interest Rate	0.54%						0.54%	0.54%
Fixed Rate (¥ JPY)	2,000						2,000	2,000
Average Interest Rate	0.175%						0.175%	0.175%
Fixed Rate ()	10						10	10
Average Interest Rate	0.34%						0.34%	0.34%
Fixed Rate (¥ CNH)	52						52	52
Average Interest Rate	2.51%						2.51%	2.51%
Fixed Rate (NT\$)	9,900						9,900	9,900
Average Interest Rate	0.68%						0.68%	0.68%
Short-term Loans:								
Variable Rate (US\$)	80						80	80
Average Interest Rate	0.64%						0.64%	0.64%
Unsecured Long-term Loans:								
Variable Rate (NT\$)	1,231	1,422	3,015	902	92		6,662	6,662
Average Interest Rate	1.343%	1.343%	1.343%	1.343%	1.343%		1.343%	1.343%
Secured Long-term Loans:								
Variable Rate (NT\$)								
Average Interest Rate								
Bonds:								
Unsecured (NT\$)				7,500			7,500	7,544
Fixed Rate				1.43%			1.43%	1.43%
Unsecured (NT\$)					2,500		2,500	2,498
Fixed Rate					1.63%		1.63%	1.63%
Unsecured (NT\$)					7,500		7,500	7,513
Fixed Rate					1.35%		1.35%	1.35%
Unsecured (NT\$)					2,500		2,500	2,498
Fixed Rate					1.50%		1.50%	1.50%
Unsecured (US\$)	124						124	122
Fixed Rate	0%						0%	0%
Unsecured (US\$)	357						357	348
Fixed Rate	0%						0%	0%
Interest Rate Derivatives								
Interest Rate Swaps:								
Variable to Fixed (denomination)								
Average pay rate								

Average receive rate

Foreign Currency Risk

Although the majority of our transactions are in NT dollars, some transactions are based in other currencies. The primary currencies to which we are exposed are the U.S. dollar and the Japanese Yen. We have in the past, and may in the future, enter into short-term, foreign currency forward contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities, and firm commitments for operating expenses and capital expenditures denominated in U.S. dollars and other foreign currencies. The purpose of entering into these hedges is to minimize the impact of foreign currency fluctuations on the results of operations. We use the policy of natural hedging to reduce our foreign exchange exposure arising out of changes in the rates of exchange among the Japanese Yen, the U.S. dollar and other foreign currencies. As a general matter, our natural hedging strategy relies on matching revenues and costs for the same currency or offsetting losses in one currency with gains in another.

Table of Contents**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****A. Debt Securities**

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

**D. American Depositary Shares
Depositary Fees and Charges**

Under the terms of the deposit agreement for our ADSs, an ADS holder may have to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to US\$0.05 per ADS issued
Cancellation of ADSs	Up to US\$0.05 per ADS canceled
Distribution of cash dividends or other cash distributions	Up to US\$0.05 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	Up to US\$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held

In addition, an ADS holder shall be responsible for the following charges:

taxes (including applicable interest and penalties) and other governmental charges;

such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;

such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of ADS holders and beneficial owners of ADSs;

the expenses and charges incurred by the depositary in the conversion of foreign currency;

such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs;

the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities; and

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

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Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date. The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company, or DTC, the depository generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository.

In the event of refusal to pay the depository fees, the depository may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository fees from any distribution to be made to the ADS holder.

The fees and charges ADS holders may be required to pay may vary over time and may be changed by us and by the depository. ADS holders will receive prior notice of such changes.

Depository Payments

In 2013, we received the following payments from JPMorgan Chase & Co., the depository for our ADR program through December 31, 2013.

Service	Fees
Reimbursement of listing fees	
Reimbursement of U.S. SEC filing fees	
Reimbursement of accounting supporting fees for FASB and Public Company Accounting Oversight Board	
Reimbursement of annual ordinary stockholders meeting expenses	
Reimbursement of fees in connection with annual financial and Sarbanes-Oxley Act of 2002 audit	US\$ 1,146,348.00
Contribution to our company's investor relations efforts	US\$ 2,240.00
Others	US\$ 105,489.26
Total	US\$ 1,254,077.26

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None of these events occurred in any of 2011, 2012 and 2013.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2013, an evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2013.

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Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, for our company. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management's assessment of and conclusion on the effectiveness of internal controls over financial reporting did not include the internal controls of Best Elite International Limited, which was acquired on February 1, 2013 and included in our 2013 consolidated financial statements. Best Elite International Limited constituted 6.94% and 8.79% of our total and net assets, respectively, as of December 31, 2013 and 5.36% and 8.33% of our revenues and net income, respectively, for the year then ended.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), or the COSO criteria. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2013 based on the COSO criteria. Our independent registered public accounting firm, Ernst & Young has issued an attestation report with unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2013, which is included immediately following this report.

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Attestation Report of the Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of United Microelectronics Corporation:

We have audited United Microelectronics Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United Microelectronics Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of United Microelectronics Corporation and subsidiaries as of January 1, 2012, December 31, 2012 and December 31, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2013 of United Microelectronics Corporation and subsidiaries and our report dated April 18, 2014 expressed an unqualified opinion thereon.

Ernst & Young

Taipei, Taiwan

Republic of China

April 18, 2014

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In 2013, we adopted IFRSs for the first time to prepare our financial statements, and retrospectively adjusted our financial statements for the year ended December 31, 2012. We updated relevant controls in its financial statement process and reserves evaluation process to ensure the effectiveness of internal control over financial reporting. We have performed appropriate tests to ensure the effectiveness of internal control over financial reporting, and did not find any significant issue.

ITEM 16.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Paul S.C. Hsu and Cheng-Li Huang, two of our independent directors, qualify as audit committee financial experts as defined in Item 16A of Form 20-F and are independent in accordance with the applicable requirements of Rule 10A-3 of the Securities Exchange Act of 1934 requirement.

The U.S. Securities and Exchange Commission has indicated that the designation of Mr. Hsu and Mr. Huang as the audit committee financial experts does not: (i) make Mr. Hsu or Mr. Huang an expert for any purpose, including without limitation for purposes of Section 11 of the Securities Act of 1933, as amended, as a result of this designation; (ii) impose any duties, obligations or liability on Mr. Hsu or Mr. Huang that are greater than those imposed on him as a member of the audit committee and our board of directors in the absence of such designation; or (iii) affect the duties, obligations or liability of any other member of the audit committee or our board of directors.

ITEM 16B. CODE OF ETHICS

We amended the Code of Ethics for Directors and Officers in June 2009, and the Employee Code of Conduct in October 2011. The Employee Code of Conduct, which is applicable to all employees, replaced the code of ethics filed with the Securities and Exchange Commission in our 2003 annual report on Form 20-F. We have also created a separate code of ethics applicable to our directors and officers. A copy of each of the Code of Ethics for Directors and Officers and the Employee Code of Conduct are displayed on our website at <http://www.umc.com/english/pdf/Code of Ethics.pdf> and <http://www.umc.com/english/pdf/Code of Conduct.pdf>, respectively. Stockholders may request a hard copy of the Code of Ethics for Directors and Officers and the Employee Code of Conduct free of charge. Please contact the investor relations department of our company at ir@umc.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young, our principal external auditors, for the years indicated.

	Years ended December 31,		
	2012	2013	
	NT\$	NT\$	US\$
	(in thousands)		
Audit Fees ⁽¹⁾	70,942	61,276	2,054
Audit-related Fees ⁽²⁾	2,032	1,658	56
Tax Fees ⁽³⁾	8,189	3,105	104
All Other Fees ⁽⁴⁾	5,810		
Total	86,973	66,039	2,214

- (1) Audit fees consist of fees associated with the annual audit, review of our quarterly financial statements, statutory audits and internal control review. They also include fees billed for those services that are normally provided by the independent accountants in connection with statutory and regulatory filings.
- (2) Audit-related fees consist of fees billed for assurance and services related to the performance of the audit or review of our financial statements but not described in footnote (1) above. These services include review of regulatory checklist for the adoption of our employee stock option plan, certification of our Singapore Branch to Singapore authorities and application for corporation registration.
- (3) Tax fees include fees billed for professional services rendered by Ernst & Young, primarily in connection with our tax compliance activities.
- (4) All other fees consist of professional services rendered by Ernst & Young for IFRSs adoption.

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All audit and non-audit services performed by Ernst & Young were pre-approved by our audit committee. In certain circumstances, the audit committee delegates to one designated member to pre-approve such audit and non-audit services. Pre-approval by a designated member should be reported to the audit committee at its upcoming meeting.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Since March 2004, we have from time to time announced plans, which were not binding on us, to buy back our shares up to a certain amount on the Taiwan Stock Exchange. Set for below contains certain information regarding our share buyback programs in 2013.

Period	Total Number of Common Shares Purchased	Average Price Paid per Common Share (NT\$)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet be Purchased Under the Plans or Program
March 2013 (from March 14, 2013)	58,300,000	11.20	58,300,000	141,700,000
April 2013	123,000,000	11.20	181,300,000	18,700,000
May 2013 (ended on May 13, 2013)	18,700,000	11.23	200,000,000	

Our 15th share buy-back plan was announced on March 13, 2013 to repurchase up to 200 million shares during the period from March 14, 2013 to May 13, 2013.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a R.O.C. company listed on the New York Stock Exchange, or NYSE, we are subject to the U.S. corporate governance rules to the extent that these rules are applicable to foreign private issuers. The following summary details the significant differences between our corporate governance practices and corporate governance standards for U.S. companies (i.e. non-foreign private issuers) under the NYSE listing standards.

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The Legal Framework. In general, corporate governance principles for Taiwanese companies are set forth in the Company Act of the Republic of China, or the R.O.C. Company Act, the R.O.C. Securities Exchange Act and, to the extent they are listed on the Taiwan Stock Exchange, under listing rules of the Taiwan Stock Exchange. Corporate governance principles under provisions of R.O.C. law may differ in significant ways to corporate governance standards for U.S. companies listed on the NYSE. Committed to high standards of corporate governance, we have generally brought our corporate governance in line with U.S. regulations, including the formation of an audit committee. However, we have not adopted certain recommended NYSE corporate governance standards where such standards are contrary to R.O.C. laws or regulations or generally prevailing business practices in Taiwan.

Independent Board Members. Under the NYSE listing standards applicable to U.S. companies, independent directors must comprise a majority of the board of directors. We currently have four independent directors out of a total of nine directors on our board of directors. Our standards for determining director independence substantially comply with the NYSE listing standards, which include detailed tests for determining director independence. In addition, even though our independent directors meet in committee meetings of which they are committee members, we will not hold executive sessions of non-management directors. Such requirement is contrary to the R.O.C. Company Act.

Board Committees. Under the NYSE listing standards, companies are required to have a nominating/corporate governance committee, composed entirely of independent directors. In addition to identifying individuals qualified to become board members, the nominating/corporate committee must develop and recommend to the board a set of corporate governance principles. We do not currently have a corporate governance committee or a nominating committee. In accordance with an interpretation letter issued under the R.O.C. Company Act, the power to nominate directors shall not vest only in the directors. Any holder of the company's voting common stock may nominate directors to be voted on by stockholders. Therefore, we do not have a nominating committee because vesting such nominating rights in a body of independent directors may result in conflict with the R.O.C. Company Act. Furthermore, we do not have a corporate governance committee, as such committee is not required u