

UNITED MICROELECTRONICS CORP
Form 20-F
April 13, 2017
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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, 2016

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

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

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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.

12,624,318,715 Common Shares of Registrant issued as of December 31, 2016 (including 400,000,000 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

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

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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, 2016

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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 China and PRC refer to People's 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. The references to TIFRSs refers to the Taiwan International Financial Reporting Standards as issued by the Financial Supervisory Commission in the Republic of China, IFRSs refers to International Financial Reporting Standards as issued by the International Accounting Standards Board, or IASB, and U.S. GAAP refers to the generally accepted accounting principles in the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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, RMB¥ means Renminbi 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.
BCD	Bipolar- Complementary Metal Oxide Semiconductor (CMOS)- Double Diffused Metal Oxide Semiconductor (DMOS). An integrated circuit and is one of the most important components for power management integration circuits.
BSI-CSI	Back-Side Illuminated CMOS Image Sensor, which is recently used for mobile product image sensor with better performance and thinner chip.
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.
eFlash	Embedded Flash Nonvolatile Memory. Used for most SoC (System-on-Chip) applications and has faster speed and enhanced security.
eHV	Embedded High Voltage Device. Used for Liquid Crystal Display (LCD) driver circuit to drive LCD devices.
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.

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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.
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.

Table of Contents**PART I.****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The selected consolidated balance sheets data as of December 31, 2015 and 2016 and the selected consolidated statements of comprehensive income data for the years ended December 31, 2014, 2015 and 2016 are derived from our audited consolidated financial statements included elsewhere in this annual report. In accordance with the requirements of the Taiwan Financial Supervisory Commission, or FSC, beginning on January 1, 2013, we have adopted Taiwan-IFRSs, which is translated and published by Accounting Research and Development Foundation, or ARDF, referred to as TIFRSs for reporting our annual and interim consolidated financial statements in the R.O.C. At the same time, we have adopted IFRSs as issued by the IASB for our annual reports on Form 20-F with the U.S. SEC beginning with the year ended December 31, 2013. However, since January 1, 2013, we only prepare our interim unaudited quarterly financial statements under TIFRSs, which are furnished to the SEC on Form 6-K. The selected consolidated balance sheet data as of December 31, 2012, 2013 and 2014 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 not included 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.

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

	Years Ended December 31,					US\$
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	
(in millions, except per share and per ADS data)						
Consolidated Statements of Comprehensive Income Data						
Net operating revenues	115,675	123,812	140,012	144,830	147,870	4,563
Operating costs	(96,365)	(100,249)	(108,159)	(113,061)	(117,491)	(3,626)

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Gross profit	19,310	23,563	31,853	31,769	30,379	937
Operating expenses	(15,697)	(19,406)	(21,238)	(19,969)	(23,922)	(738)
Net other operating income and expenses	(2,791)	(125)	(539)	(964)	(263)	(8)
Operating income	822	4,032	10,076	10,836	6,194	191
Non-operating income and expenses	5,473	10,309	3,496	2,833	(1,473)	(45)
Income from continuing operations before income tax	6,295	14,341	13,572	13,669	4,721	146
Income tax expense	(2,146)	(2,257)	(3,125)	(1,028)	(553)	(17)
Net income	4,149	12,084	10,447	12,641	4,168	129
Total other comprehensive income (loss), net of tax	(6,381)	198	6,069	(1,065)	(4,024)	(124)
Total comprehensive income (loss)	(2,232)	12,282	16,516	11,576	144	5

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	Years Ended December 31,					
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	US\$
(in millions, except per share and per ADS data)						
Net income attributable to:						
Stockholders of the parent	6,094	12,609	11,109	13,254	8,621	266
Non-controlling interests	(1,945)	(525)	(662)	(613)	(4,453)	(137)
Total comprehensive income (loss) attributable to:						
Stockholders of the parent	(281)	12,796	17,035	12,251	4,629	143
Non-controlling interests	(1,951)	(514)	(519)	(675)	(4,485)	(138)
Earnings per share: ⁽¹⁾						
Basic	0.49	1.02	0.90	1.07	0.71	0.02
Diluted ⁽²⁾	0.46	0.96	0.89	1.02	0.67	0.02
Common shares used in earnings per share calculation:						
Basic	12,464	12,346	12,334	12,336	12,099	12,099
Diluted ⁽²⁾	13,289	13,150	12,719	13,171	13,350	13,350
Earnings per ADS equivalent:						
Basic	2.44	5.11	4.50	5.37	3.56	0.11
Diluted ⁽²⁾	2.32	4.82	4.44	5.10	3.33	0.10

	As of December 31,					
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	US\$
Consolidated Balance Sheets Data						
Total assets	281,214	293,914	310,648	335,354	384,227	11,859
Total liabilities	79,526	84,270	90,309	110,502	169,281	5,225
Stockholders equity	201,688	209,644	220,339	224,852	214,946	6,634
Capital stock ⁽³⁾	129,521	126,946	127,303	127,581	126,243	3,896
Dividends declared per share ⁽⁴⁾	0.50	0.40	0.50	0.55	0.55	0.02

	Years Ended December 31,					
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	US\$
Segment Data ⁽⁵⁾						
Net operating revenues						
Wafer fabrication	108,806	116,914	129,954	141,705	147,444	4,550
New business	6,869	6,898	10,058	3,125	426	13
Net income (loss) ⁽⁶⁾						
Wafer fabrication	5,856	12,675	12,311	13,570	4,219	130
New business	(5,497)	(2,244)	(2,354)	(1,731)	(1,662)	(51)

- (1) Earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the year.
- (2) Diluted securities include convertible bonds, employee stock options and employees' compensation, if any.
- (3) Changes to the number of the capital common shares are primarily caused by the share-based payment transactions and the cancellation of treasury stocks, if any.
- (4) Dividends declared per share are in connection with earnings and accumulated additional paid-in capital and would be adjusted for the outstanding common shares changed due to employee stock options exercised, treasury stock repurchased, cancelled and transferred to employees, if any.
- (5) Since 2016, certain of our previous new business operation was reclassified as part of wafer fabrication operation resulting in retrospective reclassification of segmentation data.
- (6) There are adjustments for intragroup elimination and GAAP differences between segment data and consolidated data.

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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\$32.40 to US\$1.00, which was the foreign exchange rate on December 30, 2016 as released by the Board of Governors of the Federal Reserve System. 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 7, 2017, the noon buying rate was NT\$30.56 to US\$1.00.

	Average ⁽¹⁾	High	Low	At Period- End
2012	29.56	30.28	28.96	29.05
2013	29.73	30.20	29.93	29.83
2014	30.38	31.80	29.85	31.60
2015	31.80	33.17	30.37	32.79
2016	32.22	33.74	31.05	32.40
October	31.59	31.79	31.36	31.54
November	31.75	32.01	31.41	31.92
December	32.00	32.42	31.72	32.40
2017 (through April 7)	30.45	30.56	30.33	30.56
January	31.65	31.37	31.19	31.19
February	30.85	31.17	30.61	30.64
March	30.65	31.03	30.14	30.38
April (through April 7)	30.69	31.37	30.14	30.56

Source: Federal Reserve Statistical Release, the 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.

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

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

Historically, we recognized impairment for our investments in solar energy and LED industries made through our subsidiary, namely UMC New Business Investment Corporation, or 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;

our ability to obtain equipment, raw materials, electricity, water and other required utilities on a timely and economic basis;

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outbreaks of contagious diseases, including but not limited to severe acute respiratory syndrome, avian flu, swine flu and Zika virus;

environmental events, such as fires and earthquakes, or industrial accidents; and

technological changes.

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

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

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other computers. The semiconductor industry experienced several downturns due to recent major financial crises and natural disasters. These downturns resulted in a reduced demand for our services and hence decreased our revenues and earnings. Any significant decrease in the demand for communication devices, consumer electronics, PCs or other computers may further decrease the demand for our services. In addition, if the average selling price of communication devices, consumer electronics, PCs or other computers decline significantly, we will be pressured to further reduce our selling prices, which may reduce our revenues and, therefore, reduce our margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers will experience inventory buildup and/or difficulties in selling their products and, in turn, will reduce or cancel orders for wafers from us. The timing, severity and recovery of these downturns cannot be predicted accurately or at all. When they occur, our business, profitability and price of the common shares and ADSs are likely to suffer.

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

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

The worldwide semiconductor foundry industry is highly competitive. We compete with dedicated foundry service providers such as Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as well as the foundry operation services of some integrated device manufacturers, such as IBM, Intel, Samsung Electronics, or Samsung, and Toshiba Corporation, or

Toshiba. Integrated device manufacturers principally manufacture and sell their own proprietary semiconductor products, but may also offer foundry services. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to expand and develop substantial additional foundry capacity. New entrants and consolidations in the foundry business, such as the acquisition of Chartered Semiconductor by Globalfoundries in 2009, are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. Some of our competitors have greater access to capital and substantially greater production, research and development, marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

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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, including cell libraries that our customers embed in their product designs, and industry and general economic trends.

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

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

our growth plan;

our process technology;

our research and development efforts and patent license arrangements;

market conditions;

interest rates;

exchange rate fluctuations; and

prices of equipment.

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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 2016, our top ten customers accounted for 60.2% 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. 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.

Moreover, the increasing trend in mergers and acquisitions activities in the semiconductor industry could decrease total available customer base, which could potentially result in a loss of customers.

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. 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;

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pay substantial monetary damages; and/or

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

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

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

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

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

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

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

We have provided foundry services to several of our affiliates and stockholders. 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.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence in our company may be adversely affected.

We are required to comply with the R.O.C and the U.S. securities laws and regulations in connection with internal controls. As a public company in the United States, our management is required to assess the effectiveness of our internal control over financial reporting using the criteria established in Internal Control-Integrated Framework issued

by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), or the COSO criteria, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

However, although effective internal controls can provide reasonable assurance with respect to the preparation and fair presentation of financial statements, they may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, fraud or corruption. If we fail to maintain the adequacy of our internal controls, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our common shares and ADSs.

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

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

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

Risks Relating to Manufacturing

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

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

capacity constraints due to changes in product mix or the delayed delivery of equipment critical to our production, including scanners, steppers and chemical stations;

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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.

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;

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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 2014, 2015 and 2016, we purchased a majority of our silicon wafers from four makers, Shin-Etsu Handotai Corporation, or Shin-Etsu, Siltronic AG, GlobalWafers Corporation, or GlobalWafers, 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.

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.

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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 disruptions. For example, in early 2016, we experienced a severe earthquake which adversely affected our wafer manufacturing operations at our 300mm Fab 12A in Taiwan. Although we had adopted practices in compliance with ISO 22301 business continuity standards which ensured the safety of our employees and minimized supply disruptions resulting from the earthquake and we had settled our insurance policies which partially recovered the losses resulting for this earthquake, there is no guarantee that our business continuity practices will always be effective and any future damages or business loss from severe natural disasters 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.

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, Singapore and Xiamen in Fujian Province in China. 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.

Table of Contents***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 2014, 2015 and 2016, we operated fabs in Taiwan, Singapore and China. For the years ended December 31, 2014, 2015 and 2016, we generated approximately 42.6%, 47.5% and 41.2% of our net operating revenues, respectively, from other than the countries where our fabs are located. We expect sales to customers from countries outside of Taiwan, Singapore and China will continue to represent a significant portion of our net operating revenues. The success and profitability of our international activities depend on certain factors beyond our control, such as general economic conditions, labor conditions, political stability, tax laws, import duties and foreign exchange controls of the countries in which we sell our products, and the political and economic relationships between these countries. As a result, our manufacturing services will continue to be vulnerable to disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns.

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

Political, Economic and Regulatory Risks

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

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

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

We, like many R.O.C. technology companies, have benefited from substantial tax incentives provided by the R.O.C. government. Among the incentives broadly enjoyed by R.O.C. technology companies, various tax benefits granted under Chapter 2 and Article 70-1 of the Statute for Upgrading Industries expired on December 31, 2009. Despite the

fact that we can still enjoy the tax holidays for the relevant investment plans approved by R.O.C. tax authority until 2020 under the grandfather clause of the Statute for Upgrading Industries, if more incentives are curtailed or eliminated, our net income may decrease significantly.

Table of Contents***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. Alternative minimum tax, or AMT, is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the AMT Act. For the purpose of calculating the AMT, the taxable income defined under the AMT Act includes most income that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits.

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

Compliance with laws such as the U.S. 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 SD to disclose the use of conflict materials on an annual basis on or prior to May 31 each year. We have filed the conflict mineral disclosure report every year since 2014. In order to comply with the aforementioned rules and regulations promulgated by the U.S. SEC, we will continue to verify the relevant information with our vendors and file the required report. Although we expect that we and our vendors will be able to comply with the requirements of the U.S. Conflict Minerals law and any new related regulations promulgated by the U.S. SEC, we cannot assure you that we will be able to gather all the information required to comply with such regulations. While we believe our suppliers do not rely on such conflict materials, we cannot assure you that we will continue to be able to obtain adequate supplies of materials needed in our production from supply chains outside the DRC and adjoining countries. The failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries may delay our production, increasing the risk of losing customers and business.

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

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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 Common Shares and ADSs and Our Trading Markets

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

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

- (A) distribution of share dividends or free distribution of our common shares;
- (B) exercise of the preemptive rights of ADS holders applicable to the common shares evidenced by ADSs in the event of capital increases for cash; or
- (C) delivery of our common shares which are purchased in the domestic market in Taiwan directly by the investor or through the depositary or are already in the possession of the investor to the custodian for deposit into our ADS program, subject to the following conditions: (a) the re-issuance is permitted under the deposit agreement and custody agreement, (b) the depositary may accept deposit of those common shares and issue the corresponding number of ADSs with regard to such deposit only if the total number of ADSs outstanding after the issuance does not exceed the number of ADSs previously approved by the R.O.C. FSC, plus any ADSs issued pursuant to the events described in (A) and (B) above and (c) this deposit may only be made to

the extent previously issued ADSs have been withdrawn.

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

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

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

Moreover, holders of the ADSs do not have individual rights to propose any matter for stockholders' votes at our stockholders' meetings. However, holders of at least 51% of the ADS outstanding at the relevant record date may request the depositary to submit to us one proposal per year for consideration at our annual ordinary stockholders meeting, provided that such proposal meets certain submission criteria and limitations, including the language and the length of the proposal, the time of submission, the required certification or undertakings, and the attendance at the annual ordinary stockholders' meeting. A qualified proposal so submitted by the depositary will still be subject to review by our board of directors and there is no assurance that the proposal will be accepted by our board of directors for inclusion in the agenda of our annual ordinary stockholders' meeting. Furthermore, if we determine, at our discretion, that the proposal submitted by the depositary does not qualify, we have no obligation to notify the depositary or to allow the depositary to modify such proposal.

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

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

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

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

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

U.S. dollars, in respect of:

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

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

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

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

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

Our corporate affairs are governed by our articles of incorporation and bylaws 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 common shares from our ADS program and become our stockholders, which may make ownership burdensome.

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

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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. federal income tax consequences for U.S. investors.

We do not believe that we were a passive foreign investment company, or PFIC, for 2016 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 PFIC for U.S. federal income tax purposes. Such characterization could result in adverse U.S. federal income 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. federal income 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. federal income tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of common shares and ADSs, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have raised in prior offerings. See Taxation U.S. Federal Income Tax Considerations For U.S. Persons Passive Foreign Investment Company.

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

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

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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 volatility with respect to trading prices of technology companies. Fluctuation in interest rates and other general economic conditions may also influence the market price of the ADSs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is United Microelectronics Corporation, commonly known as UMC. We were incorporated under the R.O.C. Company Law as a company limited by shares in May 1980 and our common shares were listed on the Taiwan Stock Exchange in 1985. Our principal executive office is located at No. 3 Li-Hsin Road II, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number is 886-3-578-2258. Our Internet website address is www.umc.com. The information on our website does not form part of this annual report. Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000.

We are one of the world's largest independent semiconductor foundries and a leader in semiconductor manufacturing process technologies. Our primary business is the manufacture, or fabrication, of semiconductors, sometimes called chips or integrated circuits, for others. Using our own proprietary processes and techniques, we make chips to the design specifications of our many customers. Our company maintains a diversified customer base across industries, including communication devices, 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 53.0%, 27.2%, 12.6% and 7.2%, respectively, in 2016.

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, 65/55, 45/40, 28, 14 nanometer and beyond. 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, set-top boxes and wearable devices 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 Broadcom, MediaTek, Realtek, Qualcomm and Novatek. In 2016, our company's top ten customers accounted for 60.2% 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 Technology (Suzhou) Co., Ltd., or Hejian, is a wholly owned subsidiary of Infoshine Technology Limited, or 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. As part of our global expansion strategy, we have continued to integrate and increase our ownership of Best Elite since. As of March 31, 2017, our cumulative ownership in Best Elite was approximately 96.32%. We intend to acquire the remaining outstanding shares in Best Elite for Hejian to become our wholly beneficially owned subsidiary.

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

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

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On August 29, 2014, we and Fujitsu Semiconductor Limited, or Fujitsu, announced an agreement where we invested ¥5 billion as an initial investment and received approximately 9.3% of the issued and outstanding share capital to become a minority shareholder of a newly formed subsidiary of Fujitsu named Mie Fujitsu Semiconductor Limited, or MIFS, which will operate a 300mm wafer manufacturing facility located in Kuwana, Mie, Japan. On December 16, 2015, our board has further approved the acquisition of additional newly issued shares of MIFS with an aggregate investment amount of NT\$1.36 billion, which increased our ownership interest in MIFS to approximately 15.9%. Through this relationship with us, MIFS plans to expand its business globally as a pure-play foundry company by strengthening its production and development capacity in a cost competitive manner.

On October 9, 2014, our board of directors approved an agreement with the Xiamen Municipal People's Government and Fujian Electronics & Information Group to found a new company named United Semiconductor (Xiamen) Co., Ltd., or USC, based in Xiamen, Fujian Province, China that will focus on 12-inch wafer foundry services. We anticipate that we may invest up to US\$1.35 billion in USC over the next five years, with our investment starting in 2015 that will be deployed in installments based on the progress of this company. USC will manufacture 12-inch wafers and initially offer 40 nanometer and 55 nanometer process technologies. Our participation in USC has complied and will continue to comply with R.O.C. rules and regulations and will continue to be subject to the review and approval by the relevant R.O.C. authorities. We have obtained the initial investment approval from the R.O.C. government on December 31, 2014 with US\$300 million invested by Hejian and US\$450 million by UMC. The initial groundbreaking event of USC took place in March 2015 and the grand opening ceremony took place in November 2016. USC had successfully realized commercial mass production by the end of 2016 after a pilot production stage. We expect to continue to expand our worldwide foundry presence by tapping into the high growth semiconductor market in China, and to increase our exposure to the semiconductor supply chain in China while mitigating geographical risks, which allows us to be closer to our customers in China, which, in turn, enables us to provide better services, increases our manufacturing scale and stimulates revenue growth.

On December 24, 2014, we transferred our 6-inch fabrication plant, or Fab 6A, including machinery equipment and building facilities to our subsidiary, Wavetek Microelectronics Corporation, or Wavetek, in order to further satisfy customer needs in the fast growing GaAs market and to improve the 6-inch fabrication operational efficiency among our group by fully utilizing the existing assets and resources. In April 2015, Wavetek had successfully entered into the silicon-based CMOS foundry business after it had fully acquired our 6-inch Fab 6A fixed assets and production lines. As of March 31, 2017, our shareholdings in Wavetek was approximately 78.47%, making us its largest shareholder.

On December 26, 2014, our subsidiary, Topcell Solar International Co., Ltd., or Topcell, announced its plans to merge with Motech Industries, Inc., or Motech, through a share exchange transaction. The share exchange conversion was six ordinary shares of Topcell into one newly-issued ordinary share of Motech. The merger was completed in June 2015 and Motech became the surviving company while Topcell Solar was absorbed.

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

Our Strategy

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

to be shared among the partners. The key elements of our strategy are:

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

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

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

In addition to customer diversification, we have also been actively exploring new market opportunities in consumer electronics such as Internet of Things.

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-producible semiconductor manufacturing technology is critical to attract and retain customers. Our reputation for technological excellence has attracted both established and emerging leaders in the semiconductor industries who work closely with us on technology development. In addition, we believe our superior processing expertise has enabled us to provide flexible production schedules to meet our customers' particular needs. We plan to continue enhancing capital expenditures in research and development and building internal research and development expertise, to focus on process development and to establish alliances with leading and specialty semiconductor companies to accelerate access to next-generation and specialized technologies. For example, in 2014, our 28-nanometer technology further led to over 40 tapeouts. With our continuous technology development efforts and capital investment, in 2016, revenue derived from 28-nanometer technology had significantly increased from 2015. 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.

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Moreover, we expect to strengthen our leading position and increase our market share by licensing our technologies to several corporate partners. For example, in 2014, we licensed to MIFS, which is a pure-play foundry company, our advanced 40 nanometer technology under a technology transfer and license agreement. We will continue to explore licensing opportunities based on our comprehensive technology offerings to further drive our revenue. In addition, we also entered into an agreement with the Xiamen Municipal People's Government and Fujian Electronics & Information Group in 2014 in connection with the newly established USC located in Xiamen, Fujian Province, China, which is focusing on the manufacturing of 12-inch wafers with initial offering of 40 nanometer and 55 nanometer process technologies. In April 2017, we entered into a license agreement with USC to provide 28 nanometer process technologies aimed to further strengthen the wafer manufacturing capabilities of our subsidiary company. In addition, we also recently enhanced our technology platform by collaborating with additional technology parties for the research and development of specialty technologies. For example, in May 2016, we entered an agreement with Fujian Jin Hua Integrated Circuit Co., or Fujian Jinhua, in connection with the development of DRAM related technologies. Such developed technologies are expected to be jointly owned by both parties and will not be accessible for local chip design companies. We expect the collaboration to thrive on the strength of Taiwan's semiconductor manufacturing technologies to fulfill the potential domestic demands for specialty DRAM in China. We will be in charge of technology development and currently do not intend to enter the DRAM industry or invest in Fujian Jinhua. We believe that such strategies enable us to take advantage of our established research and development capabilities while expanding our footprint globally in a cost-effective manner.

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

Maintain Scale and Capacity Capabilities to Meet Customer Requirements, with a Focus on 12-inch Wafer Facilities for Future Expansion. We believe that maintaining our foundry capacity with advanced technology and facilities is critical to the maintenance of our industry leadership. Our production capacity is currently among the largest of all semiconductor foundries in the world. We intend to increase our 12-inch wafer production capacity to meet the needs of our customers and to fully capitalize on the expected growth of our industry. We expect our future capacity expansion plans will focus on 12-inch wafer facilities in order to maintain our technology leadership. 12-inch wafers offer manufacturing advantages over 8-inch wafers due to, among other reasons, the greater number of chips on each wafer and the advantages only offered on newer 12-inch capable equipment. In addition, 12-inch wafer facilities present a more cost-effective solution in achieving an economic scale of production. We intend to carefully monitor current market conditions in order to optimize the timing of our capital spending. We also plan to continue to expand our capacity and capabilities to meet customer requirements in different markets and expand our global presence by making strategic investments in other companies. For example, in 2014, we invested in MIFS in Japan with Fujitsu Semiconductor Limited and in USC in China with the Xiamen Municipal People's Government and Fujian Electronics & Information Group that will focus on manufacturing semiconductors using 12-inch wafers. These investments enable us to achieve a greater economy of scale with respect to 300mm wafer operations for advanced node process technologies. We also licensed our advanced technologies to these invested companies in order to provide feasible technology solutions to fulfill their needs.

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Manufacturing Facilities

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

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

The following table sets forth operational data of each of our manufacturing facilities as of December 31, 2016.

	Wavetek	Fab 8A	Fab 8C	Fab 8D	Fab 8E	Fab 8F	Fab 8S	Fab 8N	Fab 12A	Fab 12i	Fab 12X
Commencement of volume production	1989	1995	1998	2000	1998	2000	2000	2003	2002	2004	2016
Estimated full capacity ⁽¹⁾⁽²⁾	35,300	69,000	29,000	28,500	35,000	33,900	28,000	62,550	77,600	49,307	3,000
	wafers	wafers	wafers	wafers	wafers	wafers	wafers	wafers	wafers	wafers	wafers
	per	per	per	per	per	per	per	per	per	per	per
	month	month	month	month	month	month	month	month	month	month	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)	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	Primary Use	Land	Building
	(Land/Building)		(Owned or Leased)	(Owned or Leased)

	(in square meters)			
Fab 8A, 3, 5 Li-Hsin 2 nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	43,137 / 83,699	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8C, 6 Li-Hsin 3 rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	24,572 / 71,427	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8D, 8 Li-Hsin 3 rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	9,219 / 29,181	8-inch wafer production	Leased (expires in December 2033)	Owned
Fab 8E, 17 Li-Hsin Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	35,779 / 76,315	8-inch wafer production	Leased (expires in February 2036)	Owned
Fab 8F, 3 Li-Hsin 6 th Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	23,781 / 65,736	8-inch wafer production	Leased (expires in February 2018)	Owned
Fab 8S, 16 Creation 1 st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30077, R.O.C.	20,365 / 65,614	8-inch wafer production	Leased (expires in December 2023)	Owned

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Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Fab 8N, 333, Xinghua St., Suzhou Industrial Park, Suzhou, Jiangsu Province 215025, PRC	215,621 / 100,908	8-inch wafer production	Leased (expires in December 2052)	Owned
Fab 12A, 18, 20 Nan-Ke 2 nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	243,250 / 633,085	12-inch wafer production	Leased (expires in November 2034)	Owned
Fab 12i, 3 Pasir Ris Drive 12 Singapore 519528	84,836 / 144,980	12-inch wafer production	Leased (expires in March 2031)	Owned
Fab 12X, No. 899 Wan Jia Chun Road, Xiang an District, Xiamen, PRC	254,698 / 355,890	12-inch wafer production	Leased (expires in January 2065)	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.,	10,762 / 41,318	Leased to several companies	Owned	Owned

Hsinchu, Taiwan 30080, R.O.C.				
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, Taiwan 42152, R.O.C.				
	57,556 / 82,699	Solar PV modules production	Leased (expires in December 2026)	Owned
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 2017)
Wavetek, 10, Chuangxin 1 st Rd., Baoshan Township, Hsinchu, Taiwan 30076, R.O.C.				
	27,898 / 34,609	6-inch wafer production	Leased (expires in August 2035)	Owned

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.

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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.

Since the third quarter of 2006, we have begun the mass production of a next-generation 65-nanometer FPGA product, which features a 65% logic capacity increase over previous generation of FPGAs with triple gate oxide and 11 copper metal layers. Our 65/55-nanometer development team is not only independently developing our technologies in-house but is also bringing up customized process technologies to match customer specific needs. Furthermore, our 45/40-nanometer process technologies, which are jointly developed by us and our strategic partners have been in production since the first half of 2009, significantly increasing the competitive advantages of our customers by providing better device performance in a smaller die size. Our 28nm process technologies with Poly-SiON and High-k/metal gate are developed for low power consumption and high performance applications, respectively. In October 2008, we were the first foundry to deliver fully functional 28nm SRAM chips, and have proven in customer silicon the High-k/metal gate solution used for this technology node. Our 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. In 2013, we successfully developed and released into production 28nm Poly-SiON and High-k/metal gate technologies. We also joined the International Business Machines Corporation, or IBM chip alliance, for advanced process development. With IBM's know-how and support, we aim to continue to improve our internally developed 14nm technology, so as to offer a 14nm competitive low-power enhanced technology for mobile computing and communication products. We have also successfully developed specialty technologies, such as 55/40/28 eFlash, 55/40/28 eHV, 55nm BSI-CIS and 55nm BCD, for SoC applications.

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 2016, and the estimated annual full capacity of each fab, actual total annual output and capacity utilization rates in 2014, 2015 and 2016:

Year Ended

December 31,

2016 Range of Years Ended December 31,

	Years of Commencement of Operation	Process Technologies (in microns)	2014 (in thousands of 8-inch wafer equivalents, except percentages)	2015	2016
Wavetek	1989	0.5	252	237	238
Fab 8A	1995	0.5 to 0.25	813	813	827
Fab 8C	1998	0.35 to 0.11	347	347	348
Fab 8D	2000	0.13 to 0.09	358	341	342
Fab 8E	1998	0.5 to 0.18	418	418	419
Fab 8F	2000	0.18 to 0.11	388	388	401
Fab 8S	2000	0.18 to 0.11	335	335	336
Fab 8N ⁽¹⁾	2003	0.5 to 0.11	547	667	750
Fab 12A	2002	0.13 to 0.028	1,576	1,784	1,990
Fab 12i	2004	0.13 to 0.040	1,289	1,287	1,313
Fab 12X	2016	0.040			19
Total estimated capacity			6,323	6,617	6,983
Total output (actual)			5,629	5,940	6,190
Average capacity utilization			89.0%	89.8%	88.6%

(1) In 2013, we obtained controlling interests in Best Elite, which owns 100% interests in Fab 8N.

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The table below sets forth a breakdown of number and percentage of wafer output by process technologies in 2014, 2015 and 2016.

	Years Ended December 31,					
	2014		2015		2016	
	(in thousands of 8-inch wafer equivalents, except percentages)					
		%		%		%
28 nanometers and under	76	1.5	269	4.5	554	9.0
40 nanometers	766	13.6	968	16.3	1,197	19.3
65 nanometers	1,138	20.2	1,037	17.5	826	13.4
90 nanometers	306	5.4	245	4.1	199	3.2
0.11/0.13 micron	875	15.6	909	15.3	816	13.2
0.15/0.18 micron	904	16.0	888	14.9	1,007	16.2
0.25/0.35 micron	1,174	20.8	1,252	21.1	1,175	19.0
0.50 micron or higher	390	6.9	372	6.3	416	6.7
Total	5,629	100.0	5,940	100.0	6,190	100.0

Capacity and Utilization

The fabs in Taiwan that we own directly are named Wavetek, Fab 8A, Fab 8C, Fab 8D, Fab 8E, Fab 8F, Fab 8S and Fab 12A. All of them are located in the Hsinchu Science Park except for Fab 12A located in the Tainan Science Park. The fab in Singapore is named Fab 12i. The fabs in China are named Fab 8N and Fab 12X, located in Suzhou and Xiamen, respectively.

Our average capacity utilization rate was 89.0% in 2014, 89.8% in 2015 and 88.6% in 2016, respectively.

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 monthly basis, with indicative pricing generally set on a quarterly basis. The actual purchase price is generally determined based on the prevailing market conditions. In the past, prices of our principal raw materials have not been volatile to a significant degree. Although we have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate, shortages could occur in various critical materials due to interruption of supply or an increase in industry demand.

The most important raw material used in our production processes is silicon wafer, which is the basic raw material from which integrated circuits are made. The principal makers for our wafers are Shin-Etsu, Siltronic AG, GlobalWafers 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. 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 Broadcom, MediaTek, Realtek, Qualcomm 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 60.2% of our net operating revenues in 2016. Set forth below is a geographic breakdown of our operating revenues in 2014, 2015 and 2016 by the location of our customers.

Region	Years Ended December 31,		
	2014 %	2015 %	2016 %
Taiwan	34.2	31.8	31.4
Singapore	12.5	12.6	18.1
China (including Hong Kong)	10.7	8.1	9.3
Japan	5.4	7.0	3.0
USA	8.9	8.8	9.3
Europe	19.6	23.4	19.8
Others	8.7	8.3	9.1
Total	100.0	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 2016, gross wafer sales represented 98.3% 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, 2014, 2015 and 2016.

Customer Type	Years Ended December 31,		
	2014	2015	2016
	<i>%</i>	<i>%</i>	<i>%</i>
Fabless design companies	90.8	87.8	92.4
Integrated device manufacturers	9.2	12.2	7.6
Total	100.0	100.0	100.0

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

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

For intellectual property offerings, we work with several leading intellectual property vendors from digital, memory and analog fields in the semiconductor industry to deliver quality intellectual property blocks that have been silicon validated using our advanced processes. Our alliances with major electronic design automation vendors provide our customers with digital/analog reference design procedures and easy-to-use design solutions. By continuously enhancing our intellectual property offerings, reference design procedures and design services through collaboration with major vendors, we aim to provide complete, accurate and user-friendly design solutions to our customers.

As a design moves into manufacturing production, we continue to provide ongoing customer support through all phases of the manufacturing process. The local account manager works with our customer service representative to ensure the quality of our services, drawing upon our marketing and customer engineering support teams as required.

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.

We also 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 and renewed ISO/IEC 27001:2013 certification in February 2015.

In addition, we have established our big data research and development center. By using advanced data analysis techniques including big data technology, mathematics and statistics, while integrating product information, research and development, production, process and engineering related data, we are able to construct a complete engineering data analysis system, which facilitates advanced process development and enables us to address production line issues and rectify manufacturing issues quickly.

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.

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

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

Competition

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

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

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, 2016, we held 4,994 U.S. patents and 6,969 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.

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

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

Research and Development

In 2014, 2015 and 2016, we spent NT\$13,664 million, NT\$12,175 million and NT\$13,532 million (US\$418 million), respectively, on research and development, which represented 9.8%, 8.4% and 9.2%, respectively, of our net operating revenues of such years. Our research and development efforts mainly focus on delivering SoC foundry solutions that consist of the world's leading process technologies, customer support services and manufacturing techniques. These resources provide our foundry customers with improved opportunities to develop SoC products that supply the global market. Our commitment to research and development can be illustrated by our 2016 research and development expenditures, which reached approximately 9.2% 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 December 31, 2016, we employed 1,825 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, 2013, certain bondholders have exercised their rights to exchange their bonds with the total principal amount of US\$77 million into common shares of Novatek. On July 22, 2013, we called back all the outstanding amount of the US\$3 million bonds exchangeable into common shares of Novatek. We recognized a gain of NT\$45 million from the redemption and classified the gain as other gains and losses. Gains arising from the exercise of exchange rights during the year ended December 31, 2013, amounted to NT\$1,137 million and was recognized as gain on disposal of investment. We redeemed all of the outstanding bonds of the US\$127.2 million zero coupon bonds exchangeable into common shares of Unimicron that we originally issued in December 2009, at their 97.53% of principal amount of each bond on December 2, 2014, which was the final maturity date.

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

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT\$ millions)
Montage Technology Group Ltd.	1	915
Epistar Corp.	11	726
Parade Technologies, Ltd.	1	460
Dexon Dynamic Investment Fund VIII	0	359

The following table sets forth the sales of our investments in 2015:

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT\$ millions)
Superalloy Industrial Co., Ltd.	5	614
Translink Capital Partners III, L.P.		307
Taiwan High Speed Rail Corp.	30	300
Mercuries Life Insurance Co., Ltd.	15	274

The following table sets forth the sales of our investments in 2016:

Investees	Number of shares sold (in millions)	Proceeds from disposal (in NT\$ millions) (in US\$ millions)	
Nien Made Enterprise Co., Ltd.	5	1,593	49
Superalloy Industrial Co., Ltd.	6	870	27
Motech Industries, Inc.	17	599	18
Easou Holdings Company Limited (formerly Yeti Group Ltd.)	14	295	9

Environmental, Safety and Health Matters

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

Environmental Protection Aspects:

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

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

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

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

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

To educate employees about environmentally sound ethics and practices.

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Safety and Health Aspects:

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

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

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

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

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

To encourage all employees to actively participate in safety and health training and promotional activities. As a member of the global community and a semiconductor industry leader, we have implemented measures to deal with environmental problems and mitigate climate change. We have introduced green concepts in our operations, including green commitment, management, procurement, production, products, recycling, office, education and marketing.

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

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 health 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 the ninth straight year since 2008;

Awarded The Channel NewsAsia Sustainability Ranking: Top 6 by Channel NewsAsia (2016);

Achieved Leadership Status (score level: A-) on CDP Global Climate List (2016);

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Awarded Taiwan Corporate Sustainability Award by Taiwan Institute for Sustainable Energy (2016);

Awarded Enterprises Environmental Award of the Republic of China by the Environmental Protection Administration of Executive Yuan, R.O.C. (2003-2016);

Awarded The Best Participation of Green Procurement for Enterprises by the Environmental Protection Administration of Executive Yuan, R.O.C. (2011-2016); and

Awarded Excellent Occupational Safety and Health Executive Organization of Hsinchu Science Park by the Science Park Administration (1998-2016).

Climate Change

Our climate change policies announced on April 22, 2010 include: (i) achieving carbon neutral status via carbon management, (ii) becoming a comprehensive low-carbon emissions solution provider, and (iii) leveraging corporate resources to cultivate a low-carbon emissions economy. In order to implement these policies, we set greenhouse gas reduction goals as to various phases. By 2015, we completed resource and energy productivity improvement plan named 369+-project which consisted of reducing the usage of electricity by 3%, the usage of pipe water by 6% and the waste generation by 9% compared with the base year 2012. Currently, we announced our latest Green 2020 goals to demonstrate our long-term commitment to sustainable environment. We will be more proactive with self-motivated action and more stringent standards. The goal is to further reduce water, energy and waste by 10% over current levels by 2020. In 2016, our initiatives resulted in the conservation of approximately 67,000Mwh of electricity, 480,000 metric tons of water and 3,600 metric tons of conserved waste. Meanwhile, we also endeavor to reduce carbon emissions through the following two measures: (1) we continue to implement a greenhouse gas emission reduction plan to assist customers in establishing a low-carbon emissions supply chain, and (2) we continue to enhance our research and development in advanced processes to provide low-power products and reduce carbon emissions at the consumer level.

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. In 2014, we and Dragon Steel Corporation executed a contract to trade 2,000,000 tons of carbon emission credits. It was the first trade of carbon emissions credits that was reviewed and recorded by Environmental Protection Administration, or EPA, indicating a significant milestone in Taiwan's carbon emissions credits trading market. Proceeds derived from this carbon trading transaction was wholly used by us to establish our UMC Eco-Echo Ecological Conservation Hope Project, a project dedicated exclusively to environmental protection, to promote environmental protection measures, and contribute towards environmental sustainability.

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 2015, we were selected as the CDP's CDLI for three years. We recorded the highest foundry's score among all participating Taiwanese semiconductor companies. Moreover, we engage third-party verifiers to ensure the quality of the data. We completed verification on greenhouse gas emission and reduction records during 2000 to 2010 for all of our fabs in Taiwan and during 2011 to 2015 for all of our fabs in both Taiwan and Singapore. We expect to complete the 2016 greenhouse gas emissions data verification by the end of

2017.

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.

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

We have also implemented proactive efforts in earthquake risk prevention. We believe our efforts contributed to our quick and exemplary recovery from two major earthquakes in Taiwan on September 21, 1999 and March 4, 2010, respectively. Our Hsinchu fabs and Fab 12A in Tainan sustained only minor impact to their operations from the earthquake without interruption to the power system or water service. Normal operations resumed shortly after the incidents. In addition, an earthquake took place on February 6, 2016 in southern Taiwan but did not have any material impact on our operations. In order to reduce potential damages that will be caused to our production facilities from earthquakes and similar incidents in the future, we continue to import the latest anti-seismic technologies, such as a seismic isolation platform for reticle stocker and furnace to facilitate the evaluation of an early earthquake warning system that will provide us with enhanced response time in the event of an earthquake. We also adopt ISO 22301 business continuity standard practices which serve to ensure the safety of our employees and minimize supply disruptions resulting from severe natural disasters, including earthquakes.

Nowadays, extreme weather has become a risk to various business operations. In order to understand the potential impact to us, a flood risk simulation project has been implemented in 2014. Since Hsinchu Science-Based Industrial Park is located in higher terrain, we believe there is no potential flood risk. However, for Fab12A in Tainan, we had conducted a physical improvement plan by installing floodgates in specific entrances to upgrade the protection level to a 500-year flood.

In addition, we are fully aware of the impact presented 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 2013, we were the first foundry in the world to receive ISO 22301 certification for its business continuity management system from the Societe Generale de Surveillance, which demonstrates our commitment to developing our disaster response abilities and our mechanisms for quick recovery. We will keep improving this system and extend the scope to our suppliers.

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.

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. For example, in early 2016, we experienced a severe earthquake which adversely affected our 300mm Fab 12A wafer manufacturing operations in Taiwan and we had settled our insurance policies which partially recovered the losses resulting from this earthquake. In addition, 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.

Table of Contents**C. Organizational Structure**

The following list shows our corporate structure as of December 31, 2016:

Company	Jurisdiction of Incorporation	Percentage of Ownership as of December 31, 2016
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%
United Microchip Corporation	Cayman Islands	100.00%
Nexpower Technology Corp.	Taiwan, R.O.C.	67.54%
Wavetek Microelectronics Corporation	Taiwan, R.O.C.	78.47%
Everrich Energy Investment (HK) Limited	China	100.00%
Everrich (Shandong) Energy Co., Ltd.	China	100.00%
Unistars Corp.	Taiwan, R.O.C.	82.76%
NPT Holding Limited	Samoa	67.54%
NLL Holding Limited	Samoa	67.54%
SocialNex Italia 1 S.R.L.	Italy	67.54%
UMC (Beijing) Limited	China	100.00%
Wavetek Microelectronics Investment (Samoa) Limited	Samoa	78.47%
Wavetek Microelectronics Corporation (USA)	U.S.A.	78.47%
Best Elite International Limited	British Virgin Islands	91.08%
Infoshine Technology Limited	British Virgin Islands	91.08%
Oakwood Associates Limited	British Virgin Islands	91.08%
Hejian Technology (Suzhou) Co., Ltd.	China	91.08%
UnitedDS Semiconductor (Shandong) Co., Ltd.	China	91.08%
United Semiconductor (Xiamen) Co., Ltd.	China	26.79%
UMC Group Japan	Japan	100.00%
UMC Korea Co., Ltd.	Korea	100.00%
Omni Global Limited	Samoa	100.00%
United Microtechnology Corporation (California)	U.S.A.	100.00%
United Microtechnology Corporation (New York)	U.S.A.	100.00%
Sino Paragon Limited	Samoa	100.00%
UMC Technology Japan Co., Ltd.	Japan	100.00%

D. Property, Plants and Equipment

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

Table of Contents**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, 2016 have been translated into U.S. dollar amounts using US\$1.00 = NT\$32.40, the foreign exchange rate on December 30, 2016 as released by the Board of Governors of the Federal Reserve System. 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 89.0%, 89.8% and 88.6% for the years ended December 31, 2014, 2015 and 2016, respectively. We believe that our operating results in 2014, 2015 and 2016 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 increased by approximately 1.1% in 2015 compared to 2014, primarily due to increased advanced node contribution and decreased by approximately 1.8% in 2016 compared to 2015, reflecting the nominal price erosion in 2016.

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.

Table of Contents*Capacity Utilization Rates*

Our operating results are characterized by relatively high fixed costs. In 2014, 2015 and 2016, approximately 67.1%, 67.1% and 67.8%, 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 89.0%, 89.8% and 88.6% for the years ended December 31, 2014, 2015 and 2016, respectively. Utilization rates were primarily affected by global macroeconomic factors. Other factors affecting utilization rates are efficiency in production facilities, product flow management, the complexity and mix of the wafers produced, overall industry conditions, the level of customer orders, mechanical failure, disruption of operations due to expansion of operations, relocation of equipment or disruption of power supply and fire or natural disaster.

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

Change in Product Mix and Technology Migration

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

Prices for wafers of a given level of technology generally decline over the processing technology life cycle. As a result, we have continuously been migrating to increasingly sophisticated technologies to maintain the same level of profitability. We began our volume production with 65-nanometer and 40-nanometer technologies in 2006 and 2009, respectively. We introduced our 28-nanometer technology to customers in 2011 and started large-scale commercial production in 2014. Our 28nm technology contributed approximately 10% and 17% of our foundry revenue in 2015 and 2016, respectively. 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.

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.

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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 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.

Other than our investments through our NBI, we have, from time to time, disposed of investments for financial, strategic or other purposes in recent years. See Item 4. Information on the Company B. Business Overview Our Investments for a description of our investments.

Treasury Share Programs

We have from time to time announced plans, none of which were binding on us, to buy back up to a fixed amount of our common shares on the Taiwan Stock Exchange at the price range set forth in the plans. On July 29, 2015, our board of directors resolved to purchase up to 200 million common shares on the Taiwan Stock Exchange at a price between NT\$7.55 and NT\$18.80 per share during the period from July 30, 2015 to September 29, 2015 to transfer to our employees as employee compensation. On May 11, 2016, our board of directors resolved to purchase up to 200 million common shares on the Taiwan Stock Exchange at a price between NT\$7.90 and NT\$18.70 per share during the period from May 12, 2016 to July 11, 2016 to transfer to our employees as employee compensation.

During 2014, 2015 and 2016, we purchased an aggregate of nil, 200 million and 200 million common shares, respectively, and transferred 5.49 million, 60.7 million and nil of such common shares that we repurchased under these plans to our employees as employee compensation in 2014, 2015 and 2016, respectively.

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.

Table of Contents*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 (IAS 39), 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.

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 underutilized capacity is expensed as incurred.

Inventories are valued at the 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.

*Bonds**Convertible bonds*

We evaluate the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, we assess if the economic characteristics and risks of the put and call options embedded in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the effective interest rate applied at that time by the market to instruments of comparable credit status. The liability component is classified as a

financial liability measured at amortized cost using the effective interest rate method before the instrument is converted or settled. For the embedded derivative that is not closely related to the host contract, it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies as an equity component. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39.

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If the convertible bondholders exercise their conversion right before maturity, we shall adjust the carrying amount of the liability component. The adjusted carrying amount of the liability component at conversion and the carrying amount of equity component are credited to common stock and additional paid-in capital premiums. No gain or loss is recognized upon bond conversion.

In addition, the liability component of convertible bonds is classified as a current liability if within 12 months the bondholders may exercise the put right. After the put right expires, the liability component of the convertible bonds should be reclassified as a non-current liability if it meets the definition of a non-current liability in all other respects.

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 actuarial gains and losses 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.

Revenue Recognition

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. The specific criteria described below must also be met before revenue is recognized.

Sales revenue

We manufacture semiconductors for creditworthy customers based on their design specifications, pursuant to manufacturing agreements and/or purchase orders at contractual prices. We ship wafers mainly under the trade term, Free Carrier (FCA), through which the title and risk of loss for the wafers are transferred to the customers upon delivery to carriers approved by the customers. Sales revenue is recognized at this point, having also fulfilled all of the following criteria pursuant to IAS 18, paragraph 14:

- a. the significant risks and rewards of ownership of the goods have been transferred to the customer;
- b. neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold have been retained;

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- c. the amount of revenue can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the entity; and
- e. the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales revenue is measured at the fair value of the consideration received or receivable, net of sales returns and discounts, which are estimated based on customer complaints, historical experience and other known factors. Sales returns and discounts are recorded in the same period in which sales are made.

Impairment of Property, Plant and Equipment

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

Income Tax

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

Deferred income tax is determined 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 recognized outside 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 different interpretations of tax regulations made by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in our respective domicile.

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Deferred tax assets are recognized for all carryforward 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(23) to our audited consolidated financial statements included elsewhere in this annual report for more details on unrecognized deferred tax assets.

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\$38,786 million, NT\$43,473 million and NT\$49,691 million (US\$1,534 million) in 2014, 2015 and 2016, 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;

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

net rental income or loss from property; and

amortization of deferred government grants related to machinery and equipment.

Non-operating Income and Expenses

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

1. Other income, which consists of:

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

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

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

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

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

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 stockholder 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.

Taxation

Based on our status as a company engaged in the semiconductor business in Taiwan, we have been granted exemptions from income taxes in Taiwan with respect to income attributable to capital increases for the purpose of purchasing equipment related to the semiconductor business for a period of five years following each such capital increase. In addition, our branch in Singapore enjoys tax exemption for income derived from tax-exempted activities under Singapore's Income Tax Act and Economic Expansion Incentive (Relief from Income Tax) Act. These tax exemptions resulted in tax savings of approximately NT\$182 million, NT\$1,642 million and NT\$1,708 million (US\$53 million) in 2014, 2015 and 2016, respectively. Our tax rate was 17% in 2016, the same rate applicable to companies outside the Hsinchu Science Park. We also benefit from other tax incentives generally available to technology companies in Taiwan, such as tax credits applicable against corporate income tax that range from 5% to 20% of the amount of investment in certain qualified equipment and 10% to 15% of qualified research and development expenditures. These tax incentives resulted in tax savings of approximately NT\$549 million, NT\$589 million and NT\$400 million (US\$12 million) in 2014, 2015 and 2016, respectively.

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In 1997, the R.O.C. Income Tax Law was amended to integrate corporate income tax and stockholder dividend tax to eliminate the double taxation effect for resident stockholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to stockholders as dividends in the following year will be assessed a 10% retained earnings tax. As a result, if we do not distribute all of our annual retained earnings generated beginning January 1, 1998 as cash and/or stock dividends in the following year, these earnings will be subject to the 10% retained earnings tax.

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

After taking into account the tax exemptions and tax incentives discussed above, we recorded NT\$3,125 million, NT\$1,028 million and NT\$553 million (US\$17 million) of income tax expenses in 2014, 2015 and 2016, respectively. Our effective income tax rate in 2016 was 11.7%.

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,		
	2014	2015	2016
	%	%	%
Net operating revenues	100.0	100.0	100.0
Operating costs	(77.2)	(78.1)	(79.5)
Gross profit	22.8	21.9	20.5
Operating expenses			
Sales and marketing	(2.9)	(2.8)	(3.1)
General and administrative	(2.5)	(2.6)	(3.9)
Research and development	(9.8)	(8.4)	(9.2)
Subtotal	(15.2)	(13.8)	(16.2)
Net other operating income and expenses	(0.4)	(0.6)	(0.1)
Operating income	7.2	7.5	4.2
Non-operating income and expenses	2.5	1.9	(1.0)
Income from continuing operations before income tax	9.7	9.4	3.2
Income tax expense	(2.2)	(0.7)	(0.4)

Net income	7.5	8.7	2.8
Total other comprehensive income (loss), net of tax	4.3	(0.7)	(2.7)
Total comprehensive income (loss)	11.8	8.0	0.1
Net income attributable to:			
Stockholders of the parent	7.9	9.2	5.8
Non-controlling interests	(0.4)	(0.5)	(3.0)
Total comprehensive income (loss) attributable to:			
Stockholders of the parent	12.2	8.5	3.1
Non-controlling interests	(0.4)	(0.5)	(3.0)

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Net operating revenues. Net operating revenues increased by 2.1% from NT\$144,830 million in 2015 to NT\$147,870 million (US\$4,563 million) in 2016, primarily due to increased demand in leading edge technologies, which resulted in a 5.2% increase in foundry wafer shipments from 5,868 thousand 8-inch equivalent wafers in 2015 to 6,172 thousand 8-inch equivalent wafers in 2016, which was partially offset by a lower average selling price in 2016, decreasing by approximately 1.8% from 2015.

Operating costs. Operating costs increased by 3.9% from NT\$113,061 million in 2015 to NT\$117,491 million (US\$3,626 million) in 2016, primarily due to the increased depreciation expense and an increase in shipments in response to capacity expansion and increased customer demands. These increases were partially offset by a compensation from insurance claims.

Gross profit and gross margin. Gross profit decreased from NT\$31,769 million in 2015 to NT\$30,379 million (US\$937 million) in 2016. Our gross margin decreased from 21.9% in 2015 to 20.5% in 2016, primarily due to the increased depreciation expense.

Operating income and operating margin. Operating income decreased from NT\$10,836 million in 2015 to NT\$6,194 million (US\$191 million) in 2016. Our operating margin decreased from 7.5% in 2015 to 4.2% in 2016. The decrease in operating margin was largely due to the increase in general and administrative expenses and research and development expenses. Operating expenses increased by 19.8% from NT\$19,969 million in 2015 to NT\$23,922 million (US\$738 million) in 2016.

Sales and marketing expenses. Our sales and marketing expenses increased by 12.9% from NT\$4,064 million in 2015 to NT\$4,589 million (US\$141 million) in 2016. The increase in sales and marketing expenses was mainly due to an increase of NT\$232 million (US\$7 million) in intellectual property royalty expenses as a result of the increased number of intellectual properties under which we were granted licenses, NT\$214 million (US\$7 million) in sample expenses and NT\$124 million (US\$4 million) in mask expenses. Our sales and marketing expenses as a percentage of our net operating revenues increased from 2.8% in 2015 to 3.1% in 2016.

General and administrative expenses. Our general and administrative expenses increased by 55.5% from NT\$3,730 million in 2015 to NT\$5,801 million (US\$179 million) in 2016, mainly as a result of the setup costs of Fab 12X in 2016. Our general and administrative expenses as a percentage of our net operating revenues increased from 2.6% in 2015 to 3.9% in 2016.

Research and development expenses. Our research and development expenses increased by 11.1% from NT\$12,175 million in 2015 to NT\$13,532 million (US\$418 million) in 2016. The increase in research and development expenses was mainly due to an increase of NT\$380 million (US\$12 million) in depreciation expenses, NT\$225 million (US\$7 million) in wafers for research and development usage, NT\$211 million (US\$7 million) in personnel expenses and NT\$190 million (US\$6 million) in maintenance expenses. Our research and development expenses as a percentage of our net operating revenues increased from 8.4% in 2015 to 9.2% in 2016.

Net other operating income and expenses. Net other operating expenses decreased by 72.7% from NT\$964 million in 2015 to NT\$263 million (US\$8 million) in 2016, mainly due to a decrease in impairment loss of property, plant, and equipment from NT\$1,021 million in 2015 to NT\$455 million (US\$14 million) in 2016 and an increase of NT\$243 million (US\$8 million) in government grants income. Net other operating expenses as a percentage of our net operating revenues were 0.6% and 0.1% in 2015 and 2016, respectively.

Non-operating income and expenses. Non-operating income and expenses decreased by 152.0% from an income of NT\$2,833 million in 2015 to a loss of NT\$1,473 million (US\$45 million) in 2016, mainly due to the increase in exchange loss from a gain of NT\$369 million in 2015 to a loss of NT\$1,502 million (US\$46 million) in 2016, an increase in the finance cost from NT\$524 million in 2015 to NT\$1,414 million (US\$44 million) in 2016, and an increase in the impairment loss of investments accounted for under the equity method from nil in 2015 to NT\$837 million (US\$26 million) in 2016.

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Other comprehensive income (loss), net of tax. Our other comprehensive loss, net of tax, increased from a loss of NT\$1,065 million in 2015 to a loss of NT\$4,024 million (US\$124 million) in 2016. We attributed this change primarily to the increase in the loss of exchange differences on translation of foreign operations from a gain of NT\$2,764 million in 2015 to a loss of NT\$1,817 million (US\$56 million) in 2016.

Net income attributable to the stockholders of the parent. Due to the factors described above, our net income decreased by 35.0% from NT\$13,254 million in 2015 to NT\$8,621 million (US\$266 million) in 2016.

Total comprehensive income attributable to the stockholders of the parent. Due to the factors described above, our comprehensive income decreased by 62.2% from NT\$12,251 million in 2015 to NT\$4,629 million (US\$143 million) in 2016.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net operating revenues. Net operating revenues increased by 3.4% from NT\$140,012 million in 2014 to NT\$144,830 million in 2015, primarily due to increased demand in leading edge technologies which resulted in a 5.2% increase in foundry wafer shipments from 5,577 thousand 8-inch equivalent wafers in 2014 to 5,868 thousand 8-inch equivalent wafers in 2015, and a higher average selling price in 2015 which increased approximately 1.1% from 2014. These increases were partially offset by a perpetual 40nm licensing fee from Fujitsu recognized in 2014.

Operating costs. Operating costs increased by 4.5% from NT\$108,159 million in 2014 to NT\$113,061 million in 2015, primarily due to the increased depreciation expense and an increase in shipments in response to capacity expansion and enhanced customer demand.

Gross profit and gross margin. Gross profit decreased from NT\$31,853 million in 2014 to NT\$31,769 million in 2015. Our gross margin decreased from 22.8% in 2014 to 21.9% in 2015, primarily due to the increased depreciation expense and a perpetual 40nm licensing fee from Fujitsu, which was recognized in 2014.

Operating income and operating margin. Operating income increased from NT\$10,076 million in 2014 to NT\$10,836 million in 2015. Our operating margin increased from 7.2% in 2014 to 7.5% in 2015. The increase in operating margin was largely due to the increase in sales revenues and decrease in research and development expenses. Operating expenses decreased by 6.0% from NT\$21,238 million in 2014 to NT\$19,969 million in 2015.

Sales and marketing expenses. Our sales and marketing expenses increased by 1.3% from NT\$4,012 million in 2014 to NT\$4,064 million in 2015. The increase in sales and marketing expenses was mainly due to an increase of NT\$110 million in sample expenses, and a NT\$72 million in intellectual property royalty expenses as a result of the increased number of intellectual properties under which we were granted licenses, which was partially offset by a decrease of NT\$96 million in conveyance and exporting expenses. Our sales and marketing expenses as a percentage of our net operating revenues decreased from 2.9% in 2014 to 2.8% in 2015.

General and administrative expenses. Our general and administrative expenses increased by 4.7% from NT\$3,562 million in 2014 to NT\$3,730 million in 2015, primarily as a result of an increase of NT\$120 million in professional fees and NT\$36 million in personnel expenses. Our general and administrative expenses as a percentage of our net operating revenues were 2.5% and 2.6% in 2014 and 2015, respectively.

Research and development expenses. Our research and development expenses decreased by 10.9% from NT\$13,664 million in 2014 to NT\$12,175 million in 2015 as a research program for advanced technologies came to a conclusion in 2014. Our research and development expenses as a percentage of our net operating revenues decreased from 9.8%

in 2014 to 8.4% in 2015.

Net other operating income and expenses. Net other operating expenses increased by 78.8% from NT\$539 million in 2014 to NT\$964 million in 2015, mainly due to an increase in impairment loss of property, plant, and equipment from NT\$597 million in 2014 to NT\$1,021 million in 2015. Net other operating expenses as a percentage of our net operating revenues increased from 0.4% in 2014 to 0.6% in 2015.

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Non-operating income and expenses. Non-operating income decreased by 19.0% from NT\$3,496 million in 2014 to NT\$2,833 million in 2015, mainly due to the increase in the impairment loss of available-for-sale financial assets from NT\$177 million in 2014 to NT\$1,239 million in 2015, partially offset by the decrease in the impairment loss of financial assets measured at cost from NT\$128 million in 2014 to NT\$7 million in 2015, and an increase in other gains from NT\$474 million in 2014 to NT\$757 million in 2015.

Other comprehensive income (loss), net of tax. Our other comprehensive income (loss), net of tax, decreased from an income of NT\$6,069 million in 2014 to a loss of NT\$1,065 million in 2015. We attributed this change primarily to the decrease in the income of exchange differences on translation of foreign operations from NT\$4,330 million in 2014 to NT\$2,764 million in 2015, the decrease in an unrealized gain (loss) on available-for-sale financial assets from a gain of NT\$1,465 million in 2014 to a loss of NT\$3,479 million in 2015, the decrease in remeasurements of defined benefit pension plans from a loss of NT\$2 million in 2014 to a loss of NT\$33 million in 2015, and the decrease in share of other comprehensive income (loss) of associate and joint ventures from an income of NT\$277 million in 2014 to a loss of NT\$316 million in 2015.

Net income attributable to the stockholders of the parent. Due to the factors described above, our net income increased by 19.3% from NT\$11,109 million in 2014 to NT\$13,254 million in 2015.

Total comprehensive income attributable to the stockholders of the parent. Due to the factors described above, our comprehensive income decreased by 28.1% from NT\$17,035 million in 2014 to NT\$12,251 million in 2015.

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.

Resource for Liquidity

We have financed our capital expenditure requirements in recent years from operating cash inflows, bank borrowings, as well as the issuance of bonds and equity-linked securities denominated in NT dollars and U.S. dollars. Operating cash inflows significantly exceed operating income, reflecting the significant non-cash depreciation expense.

As of December 31, 2016, we had NT\$57,579 million (US\$1,777 million) of cash and cash equivalents and NT\$714 million (US\$22 million) of financial assets at fair value through current profit or loss. 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 0.48% to 0.51%, 0.34% to 0.44% and 0.23% to 0.32% in 2014, 2015 and 2016, respectively. The terms of these agreements were typically less than one month. As of December 31, 2014, 2015 and 2016, we held repurchase agreements in the amount of NT\$4,526 million, NT\$4,860 million and NT\$6,188 million (US\$191 million), respectively.

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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 were used for purchasing machinery and equipment. As of December 31, 2013, no bonds had been converted into our ADSs, and we had repurchased and cancelled US\$142 million principal amount of these bonds in the open market transactions in prior years. On May 27, 2014, we redeemed US\$324 million principal amount of these bonds as requested by investors and on June 27, 2014, we further redeemed another US\$34 million principal amount of these bonds, which represented all of the remaining outstanding bonds. As of June 27, 2014, all of our currency linked zero coupon bonds due 2016 were redeemed.

In early June 2012, we issued five-year and seven-year domestic unsecured corporate bonds totaling NT\$10,000 million, with a face value of NT\$1 million per unit. The five-year domestic unsecured corporate bond was issued in the amount of NT\$7,500 million. Interest will be paid annually at 1.43%, and the principal will be repayable in June 2017 upon maturity. The seven-year domestic unsecured corporate bond was issued in the amount of NT\$2,500 million. Interest will be paid annually at 1.63%, and the principal will be repayable in June 2019 upon maturity. The proceeds of this offering are used for purchasing machinery and equipment. As of December 31, 2016, 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, 2016, NT\$10,000 million aggregate principal amount of these bonds were outstanding.

In mid-June 2014, we issued an aggregate principal amount of NT\$5,000 million of seven-year and ten-year domestic unsecured corporate bonds, with a denomination of NT\$1 million per bond. The seven-year domestic unsecured corporate bond was issued with an aggregate principal amount of NT\$2,000 million with an annual coupon bearing an interest rate of 1.7%. The ten-year domestic unsecured corporate bond was issued with an aggregate principal amount of NT\$3,000 million with an annual coupon bearing an interest rate of 1.95%. The proceeds of this offering were used for repay debts. As of December 31, 2016, NT\$5,000 million aggregate principal amount of these bonds were outstanding.

In mid-May 2015, we issued five-year US\$600 million aggregate principal amount of currency linked zero coupon convertible bonds due 2020. Each bond, at the option of the holder, were convertible into our common shares at NT\$15.9895 per share on December 31, 2016. The proceeds of this offering were used for purchasing machinery and equipment. As of December 31, 2016, no bonds had been converted or redeemed.

At our 2016 annual general meeting, our stockholders authorized our board of directors to raise capital from private placement, through issuing instruments such as common shares, depositary receipts (including but not limited to ADS), or Euro/Domestic convertible bonds (including secured or unsecured corporate bonds), based on market conditions and our needs. The amount of common shares issued or convertible is proposed to be no more than 10% of our issued and outstanding share capital (i.e., no more than 1,275,813,291 common shares. According to Item 6, Article 43-6 of the R.O.C. Security and Exchange Act, any private placement of our common shares must be conducted separately within one year after approval at the annual general meeting of stockholders. The approval to conduct a private placement of our common shares will expire on June 8, 2017.

In March 2017, we issued another five-year and seven-year domestic unsecured corporate bonds totaling NT\$8,300 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\$6,200 million. Interest will be paid annually at 1.15%, and the principal will be repayable in March 2022 upon maturity. The seven-year domestic unsecured corporate bond was issued in the amount of NT\$2,100 million. Interest will be paid annually at 1.43%, and the principal will be repayable in March 2024 upon maturity. The proceeds of this offering are used for repay debt.

Operating Activities

In 2016, net cash provided by operating activities was NT\$46,450 million (US\$1,434 million), primarily due to net income before income tax of NT\$4,721 million (US\$146 million) and the add-back of non-cash items, such as depreciation and amortization in the amount of NT\$ 51,984 million (US\$1,604 million), partially offset by the change in prepayments of NT\$9,456 million (US\$292 million).

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In 2015, net cash provided by operating activities was NT\$59,788 million, primarily due to the net income before income tax of NT\$13,669 million and the add-back of non-cash items, such as depreciation and amortization in the amount of NT\$ 45,472 million.

In 2014, net cash provided by operating activities was NT\$44,766 million, primarily due to the net income before income tax of NT\$13,572 million and the add-back of non-cash items, such as depreciation and amortization in the amount of NT\$ 40,657 million, partially offset by change in notes and accounts receivable of NT\$6,013 million.

Investing Activities

In 2016, net cash used in investing activities was NT\$80,086 million (US\$2,472 million), primarily due to cash used to purchase equipment at our fabs amounting to NT\$91,561 million (US\$2,826 million), partially offset by proceeds of NT\$9,566 million (US\$295 million) from government grants related to assets acquisition and proceeds of NT\$4,370 million (US\$135 million) from disposal of financial assets.

In 2015, net cash used in investing activities was NT\$68,481 million, primarily due to cash used to purchase equipment at our fabs of NT\$60,504 million and acquire financial assets of NT\$5,032 million.

In 2014, net cash used in investing activities was NT\$42,584 million, primarily due to cash used to purchase equipment at our fabs of NT\$43,237 million, partially offset by proceeds of NT\$4,011 million from disposal of financial assets.

Financing Activities

In 2016, net cash provided by financing activities was NT\$38,795 million (US\$1,197 million), primarily due to the increase in bank loans of NT\$32,134 million (US\$992 million) and other financial liabilities of NT\$15,979 million (US\$493 million), partially offset by NT\$6,907 million (US\$213 million) for cash dividend payment.

In 2015, net cash provided by financing activities was NT\$15,049 million, primarily due to proceeds from bonds issued of NT\$18,425 million and increase in other financial liabilities of NT\$6,108 million, partially offset by NT\$6,939 million for cash dividend payment.

In 2014, net cash used in financing activities was NT\$8,258 million, primarily due to NT\$14,137 million for bonds redemption and NT\$6,253 million for cash dividend and cash distribution from additional paid-in capital, partially offset by proceeds from bonds issued of NT\$5,000 million and increase in bank loans of NT\$6,560 million.

We had NT\$20,551 million (US\$634 million) in outstanding short-term loans as of December 31, 2016. We had total availability under existing short-term lines of credit of NT\$47,145 million (US\$1,455 million) as of December 31, 2016.

We had bonds payable of NT\$41,981 million (US\$1,296 million) in the aggregate as of December 31, 2016.

As of December 31, 2016, our outstanding long-term debts primarily consisted of NT\$2,910 million (US\$90 million) unsecured and NT\$92 million (US\$3 million) secured long-term bank loans due in 2017, NT\$973 million (US\$30 million) unsecured and NT\$1,623 million (US\$50 million) secured long-term bank loans due in 2018, NT\$1,499 million (US\$46 million) unsecured and NT\$1,602 million (US\$49 million) secured long-term bank loans due in 2019, NT\$249 million (US\$8 million) unsecured and NT\$3,961 million (US\$122 million) secured long-term bank loans due in 2020, NT\$1,000 million (US\$31 million) unsecured and NT\$3,378 million (US\$104 million)

secured long-term bank loans due in 2021, and NT\$11,967 million (US\$369 million) secured long-term bank loans due in 2022 and thereafter. The interest rates of our long-term bank loans range from 0.98% to 4.66%.

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As of December 31, 2016, the current portion of bonds due within one year was NT\$7,499 million (US\$231 million), and the current portion of long-term bank loans due within one year was NT\$3,002 million (US\$93 million).

Capital Expenditures

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. As a result, we have entered into several construction contracts for the expansion of our factory space in Taiwan and China. As of December 31, 2016, these construction contracts amounted to NT\$9,243 million (US\$285 million) and the portion of the contracts not yet recognized was approximately NT\$1,754 million (US\$54 million). In 2014, 2015 and 2016, we incurred capital expenditures of approximately NT\$43,237 million, NT\$60,504 million and NT\$91,561 million (US\$2,826 million), respectively, primarily to purchase equipment for research and development and production purposes. We will focus on our addressable markets (i.e., 40 and 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 2017. 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

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\$13,664 million, NT\$12,175 million and NT\$13,532 million (US\$418 million) in 2014,

2015 and 2016, respectively, in research and development, which represented 9.8%, 8.4% and 9.2%, 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 December 31, 2016, we employed 1,825 professionals in our research and development division.

Our current research and development activities seek to upgrade and integrate manufacturing technologies and processes, as well as to drive 14 nanometer technology in mass production with 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.

Table of Contents**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, 2016.

	Total	Payments Due by Period			After 5 Years
		Less than 1 Year	1-3 Years	4-5 Years	
		(in NT\$ millions)			
Long-term debt ⁽¹⁾					
Unsecured bonds	43,196	7,500	10,000	22,696	3,000
Long-term loans	29,254	3,002	5,697	8,588	11,967
Operating lease obligations ⁽²⁾	4,258	373	601	537	2,747
Purchase obligations ⁽³⁾	7,060	2,271	1,034	771	2,984
Other long-term obligations ⁽⁴⁾	23,904	1,054	262	16	22,572
Total contractual cash obligations	107,672	14,200	17,594	32,608	43,270

(1) Assuming the domestic bonds are paid off upon maturity.

(2) Represents our obligations to make lease payments to use machineries, equipment and land on which our fabs are located, primarily in the Hsinchu Science Park and the Tainan Science Park in Taiwan, Pasir Ris Wafer Fab Park in Singapore.

(3) Represents commitments for purchase of raw materials and construction contracts. These commitments are not recorded on our balance sheet as of December 31, 2016.

(4) Represents intellectual properties and royalties payable under our technology license agreements and the financial liability for the repurchase of other investors' investment. The amounts of payments due under these agreements

are determined based on fixed contract amounts.

G. Safe Harbor

See Forward-Looking Statements in This Annual Report May Not Be Realized.

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, 2017. 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	Year(s) with Us
Stan Hung	56	Chairman, Director and Chief Strategy Officer	25
Po-Wen Yen	60	Chief Executive Officer and Director (Representative of Hsun Chieh Investment Co.)	30
Jason S. Wang	54	Director (Representative of Silicon Integrated Systems Corp.) and Senior Vice President	9
Shan-Chieh Chien	59	Director (Representative of UMC Science and Culture Foundation) and Senior Vice President	28
Ting-Yu Lin	55	Director	11
Chung-Laung Liu ⁽¹⁾	83	Independent Director	11
Cheng-Li Huang ⁽¹⁾	68	Independent Director	8
Wenyi Chu ⁽¹⁾	50	Independent Director	2
Chitung Liu	51	Chief Financial Officer	16

(1) Member of the Audit Committee.

Stan Hung is a director, Chief Strategy Officer and the Chairman of our company. Mr. Hung was our Chief Financial Officer and 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. Ltd., UMC New Business Investment Corporation, Faraday Technology Corporation, and a Director of Triknight Capital Corporation and Altek Corporation. Mr. Hung received a bachelor's degree in accounting from Tam Kang University in 1982.

Po-Wen Yen is a director of our company and our Chief Executive Officer. Prior to becoming our Chief Executive Officer, Mr. Yen was our senior vice president responsible for 12-inch operations. Mr. Yen is a representative of Hsun Chieh Investment Co. Mr. Yen joined us in 1986 and was responsible for the operation of Fabs 8A and 8C. He also served as the vice president for UMC-SG, our 300mm operation in Singapore. He is also a director of Fortune Venture Capital Corporation, TLC Capital Co., Ltd., Epistar Corporation 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.

Jason S. Wang is a director of our company and our senior vice president. Mr. Wang is a representative of Silicon Integrated Systems Corp. and also serves on the board of directors of UMC GROUP (USA) since 2004. Mr. Wang joined UMC as Vice President of Corporate Marketing in 2008, and from 2009 to 2014, served as President of UMC

GROUP (USA) responsible for business operation efficiency enhancement and UMC North America strategic business development. Mr. Wang is also a director of Fortune Venture Capital Corporation and TLC Capital Co., Ltd. Mr. Wang did his undergraduate study in Business Administration at San Jose State University.

Shan-Chieh Chien is a director of our company and our senior vice president. Mr. Chien is a representative of UMC Science and Culture Foundation and he is also a director of UMC New Business Investment Corp. and Asia Pacific Microsystems, Inc. Mr. Chien received a bachelor's degree in chemical engineering from National Taiwan University.

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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.

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 Andes Technology Corporation, an independent director of Microelectronics Technology Inc., Powerchip Semiconductor Corp., Far EasTone Telecommunications., and United BioPharma Inc., 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.

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 received a Ph.D. degree in accounting from University of Warwick in 1999.

Wenyi Chu is an independent director of our company. Professor Chu is a professor of business administration at National Taiwan University. Professor Chu was the chairwoman of Graduate Institute of Business Administration and Department of Business Administration in National Taiwan University from 2012 to 2014. Professor Chu received a Ph.D. degree in Strategy and International Management from London Business School, United Kingdom in 1997.

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 Novatek Microelectronic 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 2016 were approximately NT\$34.4 million (US\$1.1 million). The remuneration was out of our 2016 earnings distribution plan, and the distribution percentage for directors is 0.4%. 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 2016 were approximately NT\$205.8 million (US\$6.4 million), which include NT\$46.4 million (US\$1.4 million) as bonus. Certain of our directors who also served as executive officers held stock options, however, all stock options expired on June 18, 2015.

C. Board Practices

All of our directors were elected in June 2015 for a term of three years except for Mr. Shan-Chieh Chien as he was reassigned as a juristic-person director by the UMC Science and Culture Foundation in March 2016 and will serve 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.

Audit Committee

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 9, 2015, our board of directors appointed Chung-Laung Liu, Chun-Yen Chang, Cheng-Li Huang and Wenyi Chu to be the members of the audit committee. Professor Chun-Yen Chang resigned as a director on January 1, 2017. 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.

Table of Contents**Remuneration Committee**

The R.O.C. Securities and Exchange Act, as amended on November 24, 2010, further introduced the mechanism of a Remuneration Committee, which requires all the publicly listed companies in the R.O.C., including our company, to adopt a remuneration committee. On March 18, 2011, R.O.C. FSC promulgated the Regulations Governing the Establishment and Exercise of Powers by Compensation Committees of Public Companies, according to which, public listed companies of our size shall set up the remuneration committee no later than September 30, 2011 and the remuneration committee shall be composed of no less than three members commissioned by the board of directors. In addition, for a company with independent directors, such as us, at least one of the remuneration committee members shall be the independent director of such company. We established a remuneration committee in accordance with Article 14-6 of the R.O.C. Securities and Exchange Act on April 27, 2011. We amended our articles of incorporation to implement the mechanism of our remuneration committee during the annual ordinary stockholders meeting held on June 15, 2011. After the re-election of directors in the stockholders meeting on June 9, 2015, our board of directors appointed Chung-Laung Liu, Chun-Yen Chang, Cheng-Li Huang and Wenyi Chu to be the members of the remuneration committee. Professor Chun-Yen Chang resigned as a director on January 1, 2017.

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/Corp_gov_difference.asp.

D. Employees

As of December 31, 2016, we had 19,539 employees, which included 11,596 engineers, 7,123 technicians and 820 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,		
	2014	2015	2016
Employees			
Engineers	10,272	10,750	11,596
Technicians	7,558	6,796	7,123
Administrative Staff	793	843	820
Total	18,623	18,389	19,539

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

Our employees participate in our profit distribution pursuant to our articles of incorporation. Employees are entitled to receive additional bonuses based on a certain percentage of our allocable surplus income. On February 22, 2017, our board of directors proposed an employee bonus in cash in the amount of NT\$930.6 million (US\$28.7 million) in relation to retained earnings in 2016.

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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, 2017, each of our directors and executive officers held common shares and/or ADSs of United Microelectronics, either directly for their own account or indirectly as the representative of another legal entity on our board of directors, except for Chung-Laung Liu, Cheng-Li Huang and Wenyi Chu, our independent directors. As of April 10, 2017, our most recent record date, Hsun Chieh Investment Co. held approximately 441 million of our common shares, representing approximately 3.5% of our issued and outstanding share capital. Silicon Integrated Systems Corp. held approximately 315 million of our common shares, representing approximately 2.5% of our issued and outstanding share capital. Chairman Mr. Hung held approximately 16 million of our common shares, representing approximately 0.13% of our issued and outstanding share capital. Ting-Yu Lin held approximately 13 million of our common shares, representing approximately 0.1% of our issued and outstanding share capital.

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 six years from the date of its issuance. The 300 million stock options with an exercise price of NT\$10.4 that we granted in June 2009 expired on June 18, 2015. All stock options we previously granted had expired.

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 common shares issuable upon exercise of option held by our directors and executive officers expired on June 18, 2015.

ITEM 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our common shares as of (i) April 10, 2017, our most recent record date and (ii) as of certain record dates in each of the preceding three years, for (1) the stockholders known by us to beneficially own more than 2% of our common shares and (2) all directors and executive officers as a group. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules.

Name of Beneficial Owner	As of April 11, 2015	As of April 9, 2016	As of April 10, 2017	
	Number of common shares beneficially owned	Number of common shares beneficially owned	Number of common shares beneficially owned	Number of common shares beneficially owned
Hsun Chieh Investment Co., Ltd. ⁽¹⁾	3.47%	3.46%	3.50%	441,371,000
Silicon Integrated Systems Corp.	2.48%	2.47%	2.50%	315,380,424
Directors and executive officers as a group	6.28%	6.28%	6.33%	799,484,393

(1) 36.49% owned by United Microelectronics Corporation as of March 31, 2017.

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

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

B. Related Party Transactions

From time to time we have engaged in a variety of transactions with our affiliates. The sales and purchase prices with related parties are determined through mutual agreement in reference to market conditions.

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, 2016.

Name	Ownership %
Silicon Integrated Systems Corp.	19.70
Faraday Technology Corp.	13.94

We provide foundry services to this fabless design company and the sales price was determined through mutual agreement in reference to market conditions. We derived NT\$117 million, NT\$1,140 million and NT\$1,963 million (US\$61 million) of our net operating revenues in 2014, 2015 and 2016, respectively, from the provision of our foundry services. For more information, please refer to Note 7 to our audited consolidated financial statements included in this annual report.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION**A. Consolidated Statements and Other Financial Information**

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

We are not currently involved in material litigation or other proceedings that may have, or have had in the recent past, significant effects on our financial position or profitability.

As for our policy on dividend distributions, see Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions . On June 11, 2014 our stockholders approved a cash distribution of NT\$0.5 per common share for an aggregate of NT\$6,253,157,145, among which NT\$0.49 per common share was from additional paid-in capital while the remaining was from earnings. On June 9, 2015, our stockholders approved a cash

distribution of NT\$0.55 per common share for an aggregate of NT\$6,939,321,835. On June 24, 2015, our board of directors resolved to adjust the cash dividend ratio to NT\$0.54969673 per common share because the number of outstanding common shares had changed as a result of the exercise of employee stock options and our repurchase of treasury common shares. On June 8, 2016, our stockholders approved a cash distribution of NT\$0.55 per common share for an aggregate of NT\$6,906,973,103. On June 15, 2016, our board of directors resolved to adjust the cash dividend ratio to NT\$0.56501906 per common share because the number of outstanding common shares had changed as a result of our repurchase and cancellation of treasury common shares. On February 22, 2017, our board of directors proposed dividends of NT\$6,112,159,358 (approximately NT\$0.5 per common share) which are expected to be approved at our annual general stockholders meeting on June 8, 2017.

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

	Cash Dividend per Share NT\$	Stock Dividend per Share NT\$	Total Number of Common Shares Issued as Stock Dividend	Number of Outstanding Common Shares at Year End
1997		3.0	868,629,276	4,117,758,265
1998		2.9	1,199,052,940	5,480,221,725
1999		1.5	834,140,790	6,638,054,462
2000		2.0	1,809,853,716	11,439,016,900
2001		1.5	1,715,104,035	13,169,235,416
2002		1.5	1,968,018,212	15,238,578,646
2003		0.4	607,925,145	15,941,901,463
2004		0.8	1,288,558,185	17,550,800,859
2005	0.1029	1.029	1,758,736,435	18,856,632,324
2006	0.409141420	0.10228530	179,031,672	19,131,192,690
2007	0.7			13,214,494,883
2008	0.75	0.45	562,958,816	12,987,771,315
2009				12,987,771,315
2010	0.5			12,987,912,315
2011	1.11164840			13,084,341,565
2012	0.49980232			12,951,805,540
2013	0.40639654			12,692,081,665
2014	0.5			12,725,207,790
2015	0.54969673			12,758,132,915
2016	0.56501906			12,624,318,715

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

B. Significant Changes

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

Table of Contents**ITEM 9. THE OFFER AND LISTING****A. Offer and Listing Details**

Market Price Information for Our Common Shares Our common shares have been listed on the Taiwan Stock Exchange since July 1985. There is no public market outside Taiwan for our common shares. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for our common shares. The closing price for our common shares on the Taiwan Stock Exchange on April 12, 2017 was NT\$12.00 per share.

	High NT\$	Low NT\$	Average Daily Trading Volume (in thousands of shares)
2012	15.65	10.10	39,247.79
2013	12.40	10.90	41,684.47
2014	16.50	12.00	55,017.35
First Quarter	13.05	12.00	50,562.17
Second Quarter	15.10	12.80	53,799.21
Third Quarter	16.50	12.60	62,688.43
Fourth Quarter	14.85	12.05	52,503.20
2015	16.05	10.05	49,605.91
First Quarter	16.05	14.70	66,976.26
Second Quarter	15.80	12.85	50,339.63
Third Quarter	13.30	10.05	48,135.67
Fourth Quarter	12.60	10.90	35,647.23
2016	13.45	11.05	29,448.00
First Quarter	13.45	11.05	35,802.67
Second Quarter	13.15	11.25	33,939.22
Third Quarter	12.95	11.40	30,259.64
Fourth Quarter	11.75	11.20	18,721.40
October	11.75	11.50	19,449.28
November	11.75	11.25	20,588.55
December	11.40	11.20	16,192.55
2017 (through April 12)	12.75	11.30	34,130.11
First Quarter	12.75	11.30	35,239.54
January	11.80	11.35	20,350.11
February	12.75	11.30	42,001.55
March	12.45	12.10	40,305.41
Second Quarter (through April 12)	12.25	12.00	23,590.50
April (through April 12)	12.25	12.00	23,590.50

Source: Taiwan Stock Exchange.

Table of Contents**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 12, 2017 was US\$1.95 per ADS. Each of our ADSs represents the right to receive five common shares.

	High US\$	Low US\$	Average Daily Trading Volume (in ADSs)
2012	2.72	1.75	2,733,811
2013	2.43	1.77	1,862,883
2014	2.58	1.95	1,043,726
2015	2.54	1.61	1,054,206
First Quarter	2.54	2.22	885,775
Second Quarter	2.51	2.01	1,058,081
Third Quarter	2.09	1.61	1,128,180
Fourth Quarter	1.99	1.66	1,136,951
2016	2.14	1.66	916,311
First Quarter	2.14	1.66	1,011,631
Second Quarter	2.13	1.75	840,578
Third Quarter	2.09	1.82	925,959
Fourth Quarter	1.92	1.75	840,578
October	1.90	1.83	980,834
November	1.92	1.79	683,914
December	1.85	1.75	856,986
2017 (through April 12)	2.04	1.76	1,619,569
First Quarter	2.04	1.76	1,657,901
January	1.88	1.76	1,694,424
February	2.04	1.82	1,520,521
March	2.01	1.93	1,739,629
Second Quarter (through April 12)	1.96	1.93	1,322,493
April (through April 12)	1.96	1.93	1,322,493

Sources: Thomson One

As of March 31, 2017, there were a total of 150,797,509 ADSs listed on the NYSE. With certain limited exceptions, holders of common shares that are not R.O.C. persons are required to hold these common shares through a brokerage or custodial account in the R.O.C. As of March 31, 2017, 753,987,545 common shares were registered in the name of a nominee of JPMorgan Chase & Co., the depositary under the deposit agreement. JPMorgan Chase & Co. has advised us that, as of March 31, 2017, 150,775,267 ADSs representing these 753,876,335 common shares were held of record by Cede & Co., and 22,242 ADSs were held by U.S. registered stockholders. We have no further information as to common shares held or beneficially owned by U.S. persons.

B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Stockholders

Not applicable.

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E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

Objects and Purpose

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

Directors

The R.O.C. Company Act and our articles of incorporation provide that our board of directors is elected by stockholders and is responsible for the management of our business. As of March 31, 2017, our board of directors consisted of eight directors, out of which three are independent directors. In the annual ordinary stockholders meeting held on June 11, 2007, we amended our articles of incorporation to abolish the managing director mechanism. In the annual ordinary stockholders meeting held on June 13, 2008, we amended our articles of incorporation to introduce the mechanism of an Audit Committee. The Chairman presides at all meetings of our board of directors, and also has the authority to represent our company. The term of office for our directors is three years, and our directors are elected by our stockholders by means of cumulative voting. The amendment to our articles of incorporation on June 11, 2007 also adopts a nomination system which provides that holders of one percent or more of the issued and outstanding shares of our company would be entitled to submit a roster of candidates to be considered for nomination to our company's board of directors at a stockholders meeting involving the election of directors. Pursuant to the R.O.C. Company Act, entity that owns our common shares may be elected as a director, in which case a natural person must be designated to act as the legal entity's representative. A legal entity that is our stockholder may designate its representative to be elected as our director on its behalf. In the event several representatives are designated by the

same legal entity, any or all of them may be elected. A director who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of such legal entity, and the replacement director may serve the remainder of the term of office of the replaced director. As of March 31, 2017, three of our eight directors are representatives of other legal entities, as shown in Item 6. Directors, Senior Management and Employees A. Directors and Senior Management .

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According to the R.O.C. Company Act and the rules promulgated under the R.O.C. Securities and Exchange Act, a director who has a personal interest in a matter to be discussed at the meeting of the board of directors, shall explain the essential contents of such personal interest in the meeting of the board of directors. In case that such personal interest may impair the interests of us, such director shall abstain from joining the discussion and voting on such matter. In case that such director is the representative designated by a legal entity stockholder to be elected as our director and such legal entity stockholder has personal interest in the matter to be discussed at the meeting of the board of directors, the rules provided in the preceding two sentences shall also apply. Our articles of incorporation, as amended on June 13, 2008, provide that our board of directors is authorized, by taking into account of the extent of his/her/its involvement of our operation activities and the value of his/her/its contribution, to determine the compensation for each director at a comparable rate adopted by other companies of the same industry regardless of the profit received by our company. In addition, according to our articles of incorporation, we may distribute 0.1% of the balance of our earnings after deduction of payment of all taxes and dues, deduction of any past losses, allocation of 10% of our net income as a legal reserve, and allocation of special reserve according to applicable laws and regulations or the order of the competent authority, if any, as remuneration to directors. However, the R.O.C. Company Act has been amended in May 2015, which changed the distribution mechanism of director remuneration. Please refer to **Dividends and Distributions** in this item below for more details. Our articles of incorporation do not impose a mandatory retirement age limit for our directors. Furthermore, our articles of incorporation do not impose a shareholding qualification for each director, while the laws and regulations require the aggregate shareholding of all directors, excluding independent directors, to meet certain thresholds considering the paid-in capital and the numbers of the independent directors. According to our current internal Loan Procedures, we shall not extend any loan to our directors.

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

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

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

Common Shares

As of December 31, 2016, our authorized share capital was NT\$260 billion, divided into 26 billion common shares, of which 12,624,318,715 common shares were issued and outstanding. All common shares presently issued are fully paid

and in registered form, and existing stockholders are not subject to any capital calls. We do not have any outstanding warrants or option to purchase our common shares.

Employee Stock Option

According to our Employee Stock Options Plan, options may be granted to our full-time regular employees, including those of our domestic and overseas subsidiaries. Since 2004 to 2009, we obtained approvals by relevant R.O.C. authorities to grant up to an aggregate of 1,500 million stock options to acquire our common shares under our Employee Stock Option Plan. According to the plan, an option holder may exercise an increasing portion of his or her options in time starting two years after the grant of the options. According to the vesting schedule, 50%, 75% and 100% of such option holder's options shall vest two, three and four years after the grant of the options, respectively. All employee stock options expired on June 18, 2015.

Table of Contents**New Common Shares and Preemptive Rights**

New common shares may only be issued with the prior approval of our board of directors. If our issuance of any new common shares will result in any change in our authorized share capital, we are required under R.O.C. law to amend our articles of incorporation and obtain approval of our stockholders in a stockholders meeting. We must also obtain the approval of, or submit a registration with, the R.O.C. FSC and the Science Park Administration. According to the R.O.C. Company Act, when a company issues capital stock for cash, 10% to 15% of the issue must be offered to its employees. In addition, if a listed company intends to offer new common shares for cash, at least 10% of the issue must also be offered to the public. This percentage can be increased by a resolution passed at a stockholders meeting, which will reduce the number of new common shares in which existing stockholders may have preemptive rights. Unless the percentage of the common shares offered to the public is increased by a resolution, existing stockholders of the company have a preemptive right to acquire the remaining 75% to 80% of the issue in proportion to their existing shareholdings. According to the Corporate Merger and Acquisition Act of the R.O.C., as effective on February 8, 2002 and amended on May 5, 2004 and July 8, 2015 which took effect on January 8, 2016, if new common shares issued by our company are solely for the purpose of merger, acquisition, share swap or spin-off, the above-mentioned restrictions, including the employee stock ownership plan, the preemptive rights of the existing stockholders and the publicity requirement of a listed company, to such issuance of new common shares may not be applied.

Stockholders

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

Transfer of Common Shares

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

Stockholders Meetings

We are required to hold an annual ordinary stockholders meeting once every calendar year within six months from the end of each fiscal year. Our board of directors may convene an extraordinary meeting whenever the directors deem necessary, and they must do so if requested in writing by stockholders holding no less than 3% of our issued common shares who have held these common shares for more than a year. At least 15 days advance written notice must be given of every extraordinary stockholders meeting and at least 30 days advance written notice must be given of every annual ordinary stockholders meeting. Unless otherwise required by law or by our articles of incorporation, voting for an ordinary resolution requires an affirmative vote of a simple majority of those present. A distribution of cash dividends would be an example of an ordinary resolution. The R.O.C. Company Act and, in the case of certain merger and acquisition deals, the Corporate Merger and Acquisition 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, share

swap, 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, except all of the business or assets of any other company which would have a significant impact on our operations, removing directors or the distribution of dividend in stock form, a special resolution shall be adopted by the holders of the majority of our common shares represented at a stockholders' meeting at which holders of at least two-thirds of our issued and outstanding common shares are present; provided that, in the case of a public company, such as our company, such resolution may be adopted by the holders of at least two-thirds of the common shares represented at a stockholders' meeting at which holders of at least a majority of our issued and outstanding common shares are present; provided, further, that in the case of merger, spin-off, transfer of all or essential part of business or asset, or share swap which meets the specific criteria provided under the Corporate Merger and Acquisition Act, such as short-form merger/spin-off/share swap or whale-minnow merger/spin-off/share-swap (as defined therein), such corporate action can be approved by a board resolution adopted by majority consent at a meeting with at least two-thirds of our directors present without stockholders' approval. Notwithstanding the foregoing, in the event such transaction will result in our delisting, the approval from holders of at least two-thirds of our issued and outstanding common shares is required.

Table of Contents**Voting Rights**

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

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

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

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

According to the R.O.C. Company Act amended on January 4, 2012, a stockholder of a public company who holds common 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 common 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 common shares. We may distribute dividends on our issued and outstanding common shares if we have earnings. Before distributing a dividend to stockholders, among other things, we must recover any past losses, pay all outstanding taxes and set aside a legal reserve equivalent to 10% of our net income until our legal reserve equals our paid-in capital, and a special reserve, if any.

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

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Previously, the employee bonus and directors' remuneration were categorized as profit sharing items and were calculated and distributed based on earnings after tax basis. However, according to Articles 235 and 235-1 of the Company Act, both amended and added on May 20, 2015, employee bonus and directors' remuneration shall no longer be a profit sharing item but shall be calculated based on earnings before tax and distributed as expenses. Our articles of incorporation currently in effect, as amended and approved by the shareholders in the 2016 annual general meeting provide that where we make profits before tax for the annual financial year, subject to a board resolution adopted by majority consent at a meeting with at least two-thirds of our directors present, we shall appropriate (i) no less than 5% of such annual profits before tax as employee bonus, and (ii) a maximum of 0.1% as directors' remunerations. The employees eligible for the distribution include our employees and employees of our subsidiaries and the form of employee bonus may be made in stock or cash. The qualification of such employees is to be determined by our board of directors. Notwithstanding the foregoing, if we have accumulated losses of the previous years, we shall set aside the amount of such accumulated losses prior to the allocation of the employee bonus and the above directors' remuneration. For the purpose of calculation of the above employee bonus and the directors' remunerations, such annual profits before tax shall be without giving effect of the deduction and distribution of such employee bonus and the directors' remunerations.

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. Our articles of incorporation also specify that the amount distributable as dividend shall be the sum of (x) the balance of our earnings deducted by (i) payment of all taxes and dues, (ii) deduction of any past losses, (iii) allocation of 10% of our net income as a statutory reserve (which may be exempted if the accumulated amount of legal reserve has amounted to our paid-in capital); and (iv) special reserve, if any, plus (y) the retained earnings of previous years. In the annual ordinary stockholders' meeting held in June 2005, our stockholders approved a change of the percentage of stock dividend issued to our stockholders, if any, to no more than 80% and cash dividend, if any, to no less than 20%.

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

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

Acquisition of Our Common Shares by Us

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

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

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

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

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

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We have from time to time announced plans, none of which was binding on us, to buy back up to a fixed amount of our common shares on the Taiwan Stock Exchange at the price range set forth in the plans disclosed in Item 16E. Purchase Of Equity Securities By The Issuer And Affiliated Purchasers. We may not spend more than the aggregate amount of the retained earnings, the premium from issuing stock and the realized portion of the capital reserve to purchase our common shares. Historically, we have cancelled some of the repurchased common shares and transferred some of the repurchased common shares to our employees as employee compensation. In 2010, 2013 and 2015, we purchased an aggregate of 300 million, 200 million and 200 million, respectively, of our common shares under these plans. From February 3, 2010 to April 2, 2010, we purchased 300 million of our common shares on the Taiwan Stock Exchange at an average price of NT\$16.15 per share to transfer to our employees as employee compensation. From March 14, 2013 to May 13, 2013, we purchased 200 million of our common shares on the Taiwan Stock Exchange at an average price of NT\$11.23 per share to transfer to our employees as employee compensation. From July 30, 2015 to September 29, 2015, we purchased 200 million of our common shares on the Taiwan Stock Exchange at an average price of NT\$11.02 per share to transfer to our employees as employee compensation.

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

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

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

Liquidation Rights

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

Rights to Bring Stockholders Suits

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

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

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

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

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

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

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

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Other Rights of Stockholders

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

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

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

Financial Statements

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

Transfer Restrictions

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

C. Material Contracts

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

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

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

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

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

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 nontransferable 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.

Other Patent License Agreements in 2015

We signed a Patent Cross License Agreement with Avago Technologies General IP Pte. Ltd., or Avago, effective from January 1, 2014 to December 31, 2018, which provides for the license of semiconductive device under certain licensed patents. Under this agreement, Avago grants to us and our subsidiaries a non-exclusive and non-transferable license for making, selling, importing or otherwise disposing of our and our subsidiaries licensed products. In exchange, we agree to pay Avago certain royalty fees under this agreement.

In addition, we signed a Patent License Agreement with NXP B.V., effective from September 30, 2015 to September 29, 2020, under which, both NXP B.V. and we agree to grant to the other party a license under its patents and patent applications. We also agree to pay NXP B.V. certain royalty under this agreement.

12-inch Fab Semiconductor Manufacture Technology License Agreements, dated as of December 1, 2015 and April 5, 2017, between Us and USC

In order to facilitate USC to build up its semiconductor manufacture technology and capability, we licensed 28 nm and 40/55 nm semiconductor manufacture technology approved by the relevant R.O.C. authorities to USC. The 40/55 nm license is effective from December 1, 2015 to December 31, 2019, while the 28 nm license is effective from April 1, 2017 to March 31, 2022. USC will pay us certain royalty under these agreements.

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DRAM Technology Cooperation Agreement, dated May 13, 2016, between Us and Fujian Jinhua

We entered into a technology cooperation agreement with Fujian Jinhua on May 13, 2016 to jointly develop DRAM related technologies. Under the agreement, Fujian Jinhua will provide us with related equipment for our research and development, as well as service fees subject to the progress of the technology development. We will develop DRAM related technologies for Fujian Jinhua and deliver such development results to Fujian Jinhua before May 12, 2021. These developed technologies will be jointly owned by both parties.

Major Long-term Supply and Marketing Agreements

We have entered into long-term distribution, sales, service and marketing agreements with the following companies: UMC Group (USA), an agreement effective from January 1, 2013 through December 3, 2018; United Microelectronics (Europe) B.V., an agreement effective from January 1, 2013 through December 3, 2017; UMC Group Japan Co., Ltd., an agreement effective from February 8, 2013 through December 31, 2017; UMC Korea Co. Ltd., an agreement effective from January 1, 2015 through December 31, 2015; and Hejian, an agreement effective from January 1, 2015 through December 31, 2016.

Major Construction Agreements

We entered into construction agreements in connections with the USC facility with several companies such as China Construction Second Engineering Bureau Ltd., Suzhou Xiang Sheng Trading Co., Ltd., and Wholtech Group (Shanghai) Trading co. Ltd., for the construction of the Fab 12X in Xiamen, Fujian Province, China. These agreements are effective from January 1, 2016 to December 31, 2016, and the total contractual amount exceeds US\$45 million. We also entered into various facility construction agreements in connection with phase 5 of our Fab12A in Taiwan Science Park, including agreements for piping, and various material supply systems, with companies such as Wholtech System Hitech Ltd., Princeton Precision Industries Co., Hueng Luei Process Industry Co., Ltd. and Nova Technology Corp.. These agreements are effective from January 2016 to December 2016, and the total contractual amount exceeds NT\$1.7 billion.

D. Exchange Controls

Foreign Investment and Exchange Controls in Taiwan

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

General

Historically, foreign investments in the securities market of Taiwan were restricted. However, commencing in 1983, the Taiwan government has from time to time enacted legislation and adopted regulations to make foreign investment in the Taiwan securities market possible. Initially, only overseas investment trust funds of authorized securities investment trust enterprises established in Taiwan were permitted to invest in the Taiwan securities market. Since January 1, 1991, qualified foreign institutional investors are allowed to make investments in the Taiwan public securities market. Since March 1, 1996, non-resident foreign institutional and individual investors, called general foreign investors, are permitted to make direct investments in the Taiwan public securities market. On September 30, 2003, the Executive Yuan amended the Regulations Governing Investment in Securities by Overseas Chinese and

Foreign Nationals, or the Investment Regulations, under which the Qualified Foreign Institutional Investors, or QFII, designations have been abolished and the restrictions on foreign portfolio investors have been revised. According to the Investment Regulations, Foreign Institutional Investor, or FINI, means an entity which is incorporated under the laws of countries other than the R.O.C. or the branch of a foreign entity that is established within the territory of the R.O.C., and Foreign Individual Investor, or FIDI, means an overseas Chinese or a foreign natural person. In addition, the Investment Regulations also lifted some restrictions and simplified procedures of investment application.

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

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Foreign Ownership Limitations

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

Foreign Investors

Each FINI who wishes to invest directly in the R.O.C. securities market is required to register with the Taiwan Stock Exchange and obtain an investment identification number if the FINI is a non-resident and has no sub-investment accounts in the R.O.C. Each FIDI who wishes to invest directly in the R.O.C. securities market is also required to register with the Taiwan Stock Exchange and obtain an investment identification number. The R.O.C. FSC has lifted the limitation on the amount of investment in the R.O.C. securities market for a non-resident FIDI Except for some restrictions imposed by specific laws and regulations, the individual and aggregate foreign ownership of the issued share capital in a Taiwan Stock Exchange-listed company or a Taipei Exchange-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.

Foreign Investment Approval

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

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

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

Exchange Controls

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

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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.

Depositary Receipts

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

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

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

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

- (A) stock dividends;
- (B) free distributions of common shares;
- (C) due to the exercise by a holder of his or her preemptive rights in the event of capital increases for cash; or
- (D) permitted under the deposit agreement and the custody agreement, due to the direct purchase of common shares or purchase through the depositary in the domestic market or the surrender of common shares under the possession of investors and then delivery of such common shares to the custodian for deposit in the depositary receipt facility, provided that the total number of depositary receipts outstanding after an issuance cannot exceed the number of issued depositary shares previously approved by the R.O.C. FSC in connection with the offering plus any depositary shares issued pursuant to the events described in (A), (B) and (C) 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 Taipei Exchange, provided that the investor designates a local securities firm or financial institution as agent to open an NT dollar bank account in advance.

E. Taxation

R.O.C. Tax Considerations

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

Dividends

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

Table of Contents***Capital Gains***

The R.O.C. Income Tax Act was amended and promulgated on December 2, 2015 and took effect from January 1, 2016. According to the newly amended R.O.C. Income Tax Act, the provisions regarding the capital gain from securities transaction were deleted. Accordingly, under the R.O.C. law, gains realized on R.O.C. securities transactions are primarily exempt from income tax.

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

Securities Transaction Tax

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

Preemptive Rights

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

Estate Taxation and Gift Tax

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

Tax Treaties

The Republic of China does not have an income tax treaty with the United States. On the other hand, the Republic of China has income tax treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Swaziland, the Netherlands, the United Kingdom, Gambia, Senegal, Sweden, Belgium, Denmark, Israel, Paraguay, Hungary, France, India, Slovakia, Switzerland, Germany, Thailand, Kiribati, Luxembourg, Italy, Japan, Canada, Poland and Austria which may limit the rate of Republic of China withholding tax on dividends paid with respect to common shares in Taiwan companies. It is unclear whether a non-R.O.C. holder of ADSs will be

considered to own common shares for the purposes of such treaties. Accordingly, a holder of ADSs who is otherwise entitled to the benefit of a treaty should consult its own tax advisors concerning eligibility for benefits under the treaty with respect to the ADSs.

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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 we declare dividends out of those retained earnings, up to a maximum amount of half of the amount of such tax of the declared dividends will be credited against the 20% withholding tax imposed on the non-R.O.C. resident holders of our ADRs or common shares from January 1, 2015 onwards.

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 common shares or ADSs, that hold the common 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:

an individual citizen or resident of the United States;

a corporation (or other entity or arrangement 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 Medicare tax on net investment income or 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;

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a regulated investment company;

a real estate investment trust;

a person liable for alternative minimum tax;

a person holding common 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.

If a partnership holds our common 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 common 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 common 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 common shares underlying its ADS. Accordingly, deposits or withdrawals of common 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 common shares or ADSs (other than certain pro rata distributions of common 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 (including individuals), 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 common shares (or ADSs backed by such common 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 common shares, are readily tradable on an established securities market in the United States. Thus, subject to the discussion below with respect to the passive foreign investment company rules, we believe that dividends we pay on our ADSs will meet the conditions required for these reduced tax rates. Since we do not expect that our common shares will be listed on an established securities market in the United States, we do not believe that dividends we pay on our common 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 PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

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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.

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 common 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 common shares or ADSs if you (1) have held the common 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 common 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 common 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 common 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 common shares or ADSs so received will generally be determined by allocating the U.S. holder's basis in the old common shares or ADSs between the old common shares or ADSs and the new common shares or ADSs, based on their relative fair market values on the date of distribution. For U.S. federal income 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. federal income 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.

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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 common 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 common shares or ADSs and your basis in the common shares or ADSs, determined in U.S. dollars. If you are an individual or other non-corporate holder, and the common 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 for foreign tax credit limitation purposes. Consequently, you may not be able to use the foreign tax credit arising from any R.O.C. tax imposed on the disposition of common 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 composition of our income and valuation of our assets, including goodwill, we do not believe that we are currently (or that we were in 2016) 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.

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 common shares, a decrease in the price of our common shares may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold common 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 common 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 common 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 common 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 common shares or ADSs;

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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 common 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 common 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 common shares are listed on the NYSE. Our common 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 common shares will be regularly traded for purposes of the mark-to-market election.

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 common shares or ADSs at the end of the year over your adjusted tax basis in the common shares or ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the common 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 common 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 common 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 common 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 common 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 common shares or ADSs if we are considered a PFIC in any taxable year.

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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 common shares or ADSs and to the proceeds from the sale, exchange or redemption of your common 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.

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.

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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\$576 million as of December 31, 2016. As of the same date, we also had Japanese Yen-denominated accounts receivable of ¥5,019 million attributable to our Japanese operations and Renminbi-denominated accounts receivable of RMB¥835 million attributable to our China operations. We had U.S. dollar- and Japanese Yen-denominated accounts payables of US\$123 million and ¥1,594 million, respectively, as of December 31, 2016.

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 Europe, Japan and the United States.

The following table provides information as of December 31, 2016 on our market risk sensitive financial instruments.

	As of December 31, 2016	
	Carrying Amount	Fair Amount
	(in NT\$ millions)	
Time Deposits: Non-Trading Purpose	33,870	33,870
Short-term Loans: Non-Trading Purpose	20,551	20,551
Bonds: Non-Trading Purpose	41,981	42,835
Long-term Loans: Non-Trading Purpose	29,249	29,249

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.

The tables below provide information of UMC as of December 31, 2016 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, 2016	
	2017	2018	2019	2020	2021	and
	thereunder				Total	Fair Value
	(in millions, except percentages)					
Time Deposits:						
Fixed Rate (US\$)	786				786	786

Average Interest Rate	0.97%	0.97%	0.97%
Fixed Rate (¥ JPY)			
Average Interest Rate			
Fixed Rate (RMB¥)	105.35	105.35	105.35
Average Interest Rate	1.69%	1.69%	1.69%
Fixed Rate (NT\$)	7532	7532	7532
Average Interest Rate	0.22%	0.22%	0.22%
Short-term Loans:			
Variable Rate (US\$)	557	557	557
Average Interest Rate	1.41%	1.41%	1.41%
Variable Rate ((RMB¥)	174	174	174

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	Expected Maturity Dates					As of December 31, 2016	
	2017	2018	2019	2020	2021 and thereunder	Total	Fair Value
	(in millions, except percentages)						
Average Interest Rate	4.24%					4.24%	4.24%
Variable Rate ()	14.78					14.78	14.78
Average Interest Rate	0.61%					0.61%	0.61%
Variable Rate (¥ JPY)	4,152					4,152	4,152
Average Interest Rate	0.61%					0.61%	0.61%
Unsecured Long-term Loans:							
Variable Rate (NT\$)	2,772	474	1,000		1,000	5,246	5,246
Average Interest Rate	1.17%	1.17%	1.17%		1.17%	1.17%	1.17%
Fixed Rate (NT\$)	138.5	499	499	249		1,385	1,385
Average Interest Rate	2.01%	2.01%	2.01%	2.01%		2.01%	2.01%
Secured Long-term Loans:							
Variable Rate (NT\$)							
Average Interest Rate							
Variable Rate (RMB¥)		62	62	155	31	310	310
Average Interest Rate		4.31%	4.31%	4.31%	4.31%	4.31%	4.31%
Variable Rate (US\$)		40	40	100	470	650	650
Average Interest Rate		4.31%	4.31%	4.31%	4.31%	4.31%	4.31%
Bonds:							
Unsecured (NT\$)	7500					7500	7500
Fixed Rate	1.43%					1.43%	1.43%
Unsecured (NT\$)			2500			2500	2500
Fixed Rate			1.63%			1.63%	1.63%
Unsecured (NT\$)		7500				7500	7500
Fixed Rate		1.35%				1.35%	1.35%
Unsecured (NT\$)				2500		2500	2500
Fixed Rate				1.50%		1.50%	1.50%
Unsecured (NT\$)					2000	2000	2000
Fixed Rate					1.70%	1.70%	1.70%
Unsecured (NT\$)					3000	3000	3000
Fixed Rate					1.95%	1.95%	1.95%
Unsecured (US\$)							
Fixed Rate							

Foreign Currency Risk

Although the majority of our transactions are in NT dollars, some transactions are based in other currencies. The primary foreign currency to which we are exposed is the U.S. dollar. 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 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.

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As of December 31, 2016, we had US\$285 million outstanding in foreign currency forward contracts to sell U.S. dollars against NT dollars, respectively.

	Expected Maturity Dates			As of December 31, 2016	
	2017	2018	2019	2020 and thereunder	Fair Value
Foreign Currency Forward Contracts:					
Sell US\$ against NT\$ Contract Amount		US\$285			US\$285 NT\$(60)
Average Contractual Exchange Rate	US\$ 1=NT\$32.043				US\$ 1=NT\$32.043

Except for the market risks mentioned above, we believe that we did not have any other material market risks as of December 31, 2016.

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
Depository 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 depository:

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 depository 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 depository in the conversion of foreign currency;

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

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

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

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 2016, we received the following payments from JPMorgan Chase & Co., the depository for our ADR program through December 31, 2016.

Service	Fees (US\$)
Reimbursement of listing fees	98,272.30
Reimbursement of U.S. SEC filing fees	3,661.00
Reimbursement of accounting supporting fees for FASB and Public Company Accounting Oversight Board	1,680.00
Reimbursement of annual ordinary stockholders' meeting expenses	
Reimbursement of fees in connection with annual financial and Sarbanes-Oxley Act of 2002 audit	308,694.62
Contribution to our company's investor relations efforts	49,604.38
Others	
Total	461,912.30

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None of these events occurred in any of 2014, 2015 and 2016.

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

None.

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ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2016, 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, 2016.

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.

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, 2016 using the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 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, 2016 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, 2016, which is included immediately following this report.

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' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). United Microelectronics Corporation and subsidiaries' 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.

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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, 2016, 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 December 31, 2015 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016 of United Microelectronics Corporation and subsidiaries and our report dated April 13, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Taipei, Taiwan

Republic of China

April 13, 2017

ITEM 16.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Cheng-Li Huang and Wenyi Chu, 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 Dr. Huang and Dr. Chu as the audit committee financial experts does not: (i) make Dr. Huang or Dr. Chu 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 Dr. Huang or Dr. Chu that are greater than those imposed on them 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.

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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,		
	2015	2016	
	NT\$	NT\$	US\$
	(in thousands)		
Audit Fees ⁽¹⁾	63,451	56,336	1,739
Audit-related Fees ⁽²⁾	6,992	1,024	32
Tax Fees ⁽³⁾	4,487	4,467	138
Total	74,930	61,827	1,909

- (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.

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 common shares up to a certain amount on the Taiwan Stock Exchange. On July 29, 2015, we announced our 16th share buy-back plan since our board of directors resolved to purchase up to 200 million shares on the Taiwan Stock Exchange at a price between NT\$7.55 and NT\$18.80 per share during the period from July 30, 2015 to September 29, 2015. On May 11, 2016, we announced our 17th share buy-back plan since our board of directors resolved to purchase up to 200 million shares on the Taiwan Stock Exchange at a price between NT\$7.90 and NT\$18.70 per share during the period from May 12, 2016 to July 11, 2016. The table below sets forth the repurchases we made in the periods indicated.

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Month	Total Number of Common Shares Purchased	Average Price per 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
July 2015 (from July 30, 2015)	6,000,000	11.20	6,000,000	194,000,000
August 2015	127,000,000	10.92	133,000,000	67,000,000
September 2015 (till September 15, 2015)	67,000,000	11.17	200,000,000	
May 2016 (from May 12, 2016)	119,000,000	11.73	119,000,000	81,000,000
June 2016 (till June 13, 2016)	81,000,000	12.33	200,000,000	

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.

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 three independent directors out of a total of eight 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 under R.O.C. requirements. Our board of directors is responsible for regularly reviewing our corporate governance standards and practices.

Under the NYSE listing standards, companies are required to have a compensation committee, composed entirely of independent directors. Under the R.O.C. Company Act, however, companies incorporated in the R.O.C. are not required to have a compensation committee with the same standards as the NYSE listing standards, but publicly listed companies in the R.O.C. must have a remuneration committee in accordance with the applicable laws and rules in the R.O.C. Since 2011, we have established a remuneration committee composed of all the independent directors and convened meetings accordance with the applicable laws and rules in the R.O.C. The remuneration committee is responsible for determining the form and amount of compensation for each of our directors and executive officers under our articles of incorporation and the remuneration committee charter. In addition to the compensation approved at the stockholders' meeting, in the event we have net income in any fiscal year, we will distribute 0.1% of our earnings after payment of all income taxes, deduction of any past losses and allocation of 10% of our net income for legal reserves, as remuneration to our directors pursuant to our articles of incorporation.

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Equity Compensation Plans. The NYSE listing standards also require that a company's stockholders must approve equity compensation plans. Under the corresponding requirements in the R.O.C. Company Act and the R.O.C. Securities Exchange Act, stockholders' approval is required for the distribution of employee bonuses in the form of stock, while the board of directors has authority, subject to the approval of the R.O.C. Securities and Futures Bureau, to approve employee stock option plans and to grant options to employees pursuant to such plans and also has authority to approve share buy-back programs for the purpose of selling common shares so purchased to employees and the sale of such common shares to employees pursuant to such programs. We intend to follow only the R.O.C. requirements.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following is a list of the audited consolidated financial statements and report of independent registered public accounting firm included in this annual report beginning on page F-1.

	Page
<u>Consolidated Financial Statements of United Microelectronics Corporation and Subsidiaries</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
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ITEM 19. EXHIBITS

Exhibit Number	Description of Exhibits
1.1	Articles of Incorporation of the Company as last amended on June 15, 2011 ⁽¹⁾
2.1	Form of Amendment No. 1 to Deposit Agreement among the Company, and Holders and Beneficial Owners of American Depositary Shares issued thereunder, including the form of American Depositary

Shares ⁽²⁾

- 2.2 Form of Amendment No. 2 to Deposit Agreement among the Company, and Holders and Beneficial Owners of American Depositary Shares issued thereunder, including the form of American Depositary Shares ⁽³⁾
- 4.1 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Ko-Kuan Section, No. 20-22, Hsinchu, Taiwan, R.O.C., the site of Fab 6A (in Chinese with English summary translation) ⁽⁴⁾

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Exhibit Number	Description of Exhibits
4.2	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, third section of first phase, Hsinchu, Taiwan, R.O.C., the site of Fab 8A and United Tower (in Chinese with English summary translation) ⁽⁵⁾
4.3	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, third section of first phase, Hsinchu, Taiwan, R.O.C., the site of Fab 8C (in Chinese with English summary translation) ⁽⁶⁾
4.4	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, third section of first phase, Hsinchu, Taiwan, R.O.C., the site of Fab 8D (in Chinese with English summary translation) ⁽⁷⁾
4.5	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, third section of second phase, Hsinchu, Taiwan, R.O.C., the site of Fab 8E (in Chinese with English summary translation) ⁽⁸⁾
4.6	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Gin-Shan section, Hsinchu, Taiwan, R.O.C., the site of Fab 8F (in Chinese with English summary translation) ⁽⁹⁾
4.7	Lease Agreement with Southern Taiwan Science Park Administration in relation to government-owned land located at Tainan Science Park, Tainan, Taiwan, R.O.C., the site of Fab 12A (in Chinese with English summary translation) ⁽¹⁰⁾
4.8	Merger Agreement, entered into as of February 26, 2004, between United Microelectronics Corporation and SiS Microelectronics Corporation (English Translation) ⁽¹¹⁾
4.9	Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Ko-Kuan section, Hsinchu, Taiwan, R.O.C., the site of Fab 8S (in Chinese with English summary translation) ⁽¹²⁾
4.10	Lease Agreement with JTC Corporation in relation to land located at Pasir Ris Wafer Fab Park, Singapore, the site of Fab12i (summary) ⁽¹³⁾
4.11	Merger Agreement, entered into as of April 29, 2009, among United Microelectronics Corporation, Infoshine Technology Limited and Best Elite International Limited ⁽¹⁴⁾
*8.1	List of Significant Subsidiaries of United Microelectronics Corporation
11.1	Code of Ethics for Directors and Officers ⁽¹⁵⁾
11.2	Employee Code of Conduct ⁽¹⁶⁾
*12.1	Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*12.2	Certification of our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Table of Contents**Exhibit
Number****Description of Exhibits**

- *13.1 Certification of our Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *13.2 Certification of our Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *15.1 Consent of Independent Registered Public Accounting Firm

* Filed herewith.

- (1) Incorporated by reference to Exhibit 1.1 to Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2013 (File No. 001-15128) filed with the Commission on April 18, 2014.
- (2) Incorporated by reference to Exhibit (a) to the Registrant's Registration Statement on Form F-6 (File No. 333-13796) filed with the Commission on March 2, 2006.
- (3) Incorporated by reference to Exhibit (a) (iii) to the Registrant's Registration Statement on Form F-6 (File No. 333-98591) filed with the Commission on March 19, 2007.
- (4) Incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-15128) filed with the Commission on May 9, 2007.
- (5) Incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (6) Incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (7) Incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (8) Incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (9) Incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (10) Incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on F-1 (File No. 333-12444) filed with the Commission on August 28, 2000, as amended.
- (11) Incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 1-15128) filed with the Commission on June 17, 2004.
- (12) Incorporated by reference to Exhibit 4.9 to Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-15128) filed with the Commission on May 9, 2007.
- (13) Incorporated by reference to Exhibit 4.10 to Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-15128) filed with the Commission on May 9, 2007.
- (14) Incorporated by reference to Exhibit 99.1 to the Form 6-K furnished to the Commission on May 8, 2009.
- (15) Incorporated by reference to Exhibit 99.1 to the Form 6-K furnished to the Commission on May 25, 2005.
- (16) Incorporated by reference to Exhibit 99.2 to the Form 6-K furnished to the Commission on March 26, 2006.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

UNITED MICROELECTRONICS CORPORATION

By: /s/ CHITUNG LIU
Name: Chitung Liu
Title: Chief Financial Officer
Date: April 13, 2017

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United Microelectronics Corporation and Subsidiaries
Consolidated Financial Statements for years ended December 31, 2014, 2015 and 2016
Together with Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of United Microelectronics Corporation

We have audited the accompanying consolidated balance sheets of United Microelectronics Corporation and subsidiaries (the Company) as of December 31, 2015 and 2016, the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Microelectronics Corporation and subsidiaries at December 31, 2015 and December 31, 2016, and the consolidated results of their operations and their cash flows for each of the three years ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Microelectronics Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 13, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Taipei, Taiwan

Republic of China

April 13, 2017

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2015 and 2016

(Expressed in Thousands, Except for Par Value)

	Notes	As of December 31,		
		2015	2016	
		NT\$	NT\$	US\$
Assets				
Current assets				
Cash and cash equivalents	4, 6(1)	53,290,433	57,578,981	1,777,129
Financial assets at fair value through profit or loss, current	4, 5, 6(2), 11(7)	664,918	714,169	22,042
Notes receivable	4	58,588	8,029	248
Accounts receivable, net	4, 6(3)	19,059,774	22,901,461	706,835
Accounts receivable-related parties, net	4, 7	213,460	136,910	4,226
Other receivables	4	632,885	918,652	28,353
Current tax assets	4	24,335	38,022	1,174
Inventories, net	4, 5, 6(4)	17,641,385	16,997,815	524,624
Other current assets		3,230,743	11,175,555	344,925
Total current assets		94,816,521	110,469,594	3,409,556
Non-current assets				
Financial assets at fair value through profit or loss, noncurrent	4, 5, 6(2), 11(7)	81,933	214,735	6,628
Available-for-sale financial assets, noncurrent	4, 5, 6(5), 7, 11(7)	23,800,686	20,415,541	630,109
Financial assets measured at cost, noncurrent	4, 6(6)	3,888,309	2,760,615	85,204
Investments accounted for under the equity method	4, 6(7)	10,339,035	8,905,915	274,874
Property, plant and equipment	4, 5, 6(8), 8	186,433,395	224,983,404	6,943,932
Intangible assets	4, 6(9), 7	4,504,088	4,088,303	126,182
Deferred tax assets	4, 5, 6(23)	2,323,242	5,022,395	155,012
Prepayment for equipment		2,333,981	1,178,736	36,381
Refundable deposits	8	2,638,788	2,203,658	68,014
Other noncurrent assets		4,194,315	3,983,819	122,957
Total non-current assets		240,537,772	273,757,121	8,449,293
Total assets		335,354,293	384,226,715	11,858,849

Liabilities and Equity

Current liabilities				
Short-term loans	6(10)	5,505,049	20,550,801	634,284
Financial liabilities at fair value through profit or loss, current	4, 5, 6(11), 11(7)	999	60,855	1,878
Notes and accounts payable		5,954,249	6,854,849	211,569
Other payables		12,522,765	12,400,450	382,730
Payables on equipment		14,657,626	15,036,892	464,102
Current tax liabilities	4	3,236,577	3,995,145	123,307
Current portion of long-term liabilities	4, 6(12), 6(13), 8	6,601,721	10,500,929	324,103
Other current liabilities	6(15)	1,007,103	3,389,800	104,623
Total current liabilities		49,486,089	72,789,721	2,246,596
Non-current liabilities				
Bonds payable	4, 6(12)	41,636,670	34,481,505	1,064,244
Long-term loans	6(13), 8	5,887,737	26,247,187	810,098
Deferred tax liabilities	4, 5, 6(23)	2,386,100	2,397,796	74,006
Net defined benefit liabilities, noncurrent	4, 5, 6(14)	3,890,801	3,968,894	122,497
Guarantee deposits		509,708	491,089	15,157
Other noncurrent liabilities	4, 6(15), 9(5)	6,704,541	28,904,149	892,104
Total non-current liabilities		61,015,557	96,490,620	2,978,106
Total liabilities		110,501,646	169,280,341	5,224,702
Commitments and contingencies	9			
Equity attributable to the parent company				
Capital	4, 6(16), 6(17)			
Common stock - NT\$10 par value		127,581,329	126,243,187	3,896,395
Authorized: 26,000,000 thousand shares				
Issued: 12,758,133 thousand shares as of December 31, 2015				
Issued: 12,624,319 thousand shares as of December 31, 2016				
Additional paid-in capital	4, 6(12), 6(16), 6(17)			
Premiums		37,253,121	36,862,383	1,137,728
Treasury stock transactions		2,151,275	2,491,626	76,902
Transactions with noncontrolling interests		697,630	699,976	21,604
Stock options - conversion right		1,572,121	1,572,121	48,522
Other		501,486		
Retained earnings	6(16)			
Legal reserve		7,725,978	9,070,841	279,964
Unappropriated earnings		47,620,502	43,528,660	1,343,477
Other components of equity	4			
Exchange differences on translation of foreign operations		1,989,302	81,553	2,517
Unrealized gain or loss on available-for-sale financial assets		7,151,151	5,127,682	158,262
Treasury stock	4, 6(16)	(11,418,313)	(12,893,384)	(397,944)

Total equity attributable to the parent company		222,825,582	212,784,645	6,567,427
Non-controlling interests	6(16)	2,027,065	2,161,729	66,720
Total equity		224,852,647	214,946,374	6,634,147
Total liabilities and equity		335,354,293	384,226,715	11,858,849

The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2014, 2015 and 2016

(Expressed in Thousands, Except for Earnings per Share)

	Notes	For the years ended December 31,			
		2014 NT\$	2015 NT\$	2016 NT\$	US\$
Net operating revenues	4, 6(18) 7, 12	140,012,076	144,830,421	147,870,124	4,563,892
Operating costs	4, 6(4), 6(14), 6(17), 6(19), 12	(108,159,398)	(113,061,894)	(117,490,694)	(3,626,256)
Gross profit		31,852,678	31,768,527	30,379,430	937,636
Operating expenses	4, 6(14), 6(17), 6(19), 7, 12				
Sales and marketing expenses		(4,011,478)	(4,064,053)	(4,589,563)	(141,653)
General and administrative expenses		(3,562,029)	(3,730,259)	(5,800,810)	(179,037)
Research and development expenses		(13,663,874)	(12,174,824)	(13,532,356)	(417,665)
Subtotal		(21,237,381)	(19,969,136)	(23,922,729)	(738,355)
Net other operating income and expenses	4, 6(8), 6(15), 6(20), 12	(538,965)	(963,734)	(263,125)	(8,121)
Operating income		10,076,332	10,835,657	6,193,576	191,160
Non-operating income and expenses					
Other income	4, 6(21)	1,202,449	1,048,942	899,983	27,777
Other gains and losses	4, 6(21), 6(25), 7, 12	2,669,133	1,933,859	859,400	26,525
Finance costs	6(8), 6(21)	(746,065)	(523,865)	(1,414,303)	(43,651)
Share of profit or loss of associates and joint ventures	4, 6(7), 12	37,179	4,694	(315,666)	(9,743)
Exchange gain, net	4, 11	333,275	369,311		
Exchange loss, net	4, 11			(1,501,904)	(46,355)
Subtotal		3,495,971	2,832,941	(1,472,490)	(45,447)
		13,572,303	13,668,598	4,721,086	145,713

Income from continuing operations before income tax					
Income tax expense	4, 5, 6(23), 12	(3,125,115)	(1,027,500)	(552,524)	(17,053)
Net income		10,447,188	12,641,098	4,168,562	128,660
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit pension plans	6(14)	(2,607)	(40,200)	(75,893)	(2,342)
Share of remeasurements of defined benefit plans of associates and joint ventures			(1,831)	2,459	75
Income tax effect	4, 5, 6(23)	521	6,809	12,899	398
Subtotal		(2,086)	(35,222)	(60,535)	(1,869)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		4,289,391	2,784,800	(1,815,947)	(56,048)
Unrealized gain (loss) on available-for-sale financial assets		1,652,163	(3,760,207)	(1,969,636)	(60,791)
Share of other comprehensive income (loss) of associates and joint ventures	4, 6(7)	312,088	(276,327)	(331,615)	(10,235)
Income tax effect	4, 5, 6(23)	(182,264)	222,327	153,662	4,743
Subtotal		6,071,378	(1,029,407)	(3,963,536)	(122,331)
Total other comprehensive income (loss), net of tax		6,069,292	(1,064,629)	(4,024,071)	(124,200)
Total comprehensive income		16,516,480	11,576,469	144,491	4,460
Net income attributable to:					
Stockholders of the parent		11,108,940	13,254,071	8,621,147	266,085
Non-controlling interests		(661,752)	(612,973)	(4,452,585)	(137,425)
		10,447,188	12,641,098	4,168,562	128,660
Total comprehensive income attributable to:					
Stockholders of the parent		17,035,241	12,251,556	4,629,394	142,883
Non-controlling interests		(518,761)	(675,087)	(4,484,903)	(138,423)

		16,516,480	11,576,469	144,491	4,460
Earnings per share (NTD)	4, 6(24)				
Earnings per share-basic		0.90	1.07	0.71	0.02
Earnings per share-diluted		0.89	1.02	0.67	0.02

The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2014

(Expressed in Thousands)

Capital	Equity Attributable to the Parent Company									
	Common Stock NT\$	Collected in Advance NT\$	Additional Paid-in Capital NT\$	Legal Reserve NT\$	Retained Earnings Unappropriated NT\$	Other Components of Equity Exchange Differences on Translation of Foreign Operations NT\$	Unrealized Gain or Loss on Available- for-Sale Financial Assets NT\$	Treasury Stock NT\$	Total NT\$	Non- controlling Interests NT\$
	26,920,817	25,682	45,787,456	5,248,824	33,054,952	(5,243,972)	9,423,321	(9,893,082)	205,323,998	4,319,98
				1,263,020	(1,263,020)					
					(125,063)				(125,063)	
			(6,128,094)						(6,128,094)	
					11,108,940				11,108,940	(661,75
					(2,086)	4,364,946	1,563,441		5,926,301	142,99
					11,106,854	4,364,946	1,563,441		17,035,241	(518,76
	331,261	25,288	32,889					61,637	451,075	

		48,756						48,756	
		(1,237)						(1,237)	
		93,147	(113,153)					(20,006)	59,788
		90,408				(185,843)		(95,435)	
									(11,211)
27,252,078	50,970	39,923,325	6,511,844	42,660,570	(879,026)	10,986,762	(10,017,288)	216,489,235	3,849,799

The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2015

(Expressed in Thousands)

Capital	Equity Attributable to the Parent Company								
	Common Stock	Collected in Advance	Additional Paid-in Capital	Retained Earnings	Other Components of Equity	Unrealized Gain or Loss on Available-for-Sale Financial Assets	Treasury Stock	Total	Non-controlling Interest
NT\$	NT\$	NT\$	Legal Reserve NT\$	Unappropriated Earnings NT\$	Exchange Differences on Translation of Foreign Operations NT\$	NT\$	NT\$	NT\$	NT\$
7,252,078	50,970	39,923,325	6,511,844	42,660,570	(879,026)	10,986,762	(10,017,288)	216,489,235	3,849,7
			1,214,134	(1,214,134)				(6,939,322)	
				13,254,071				13,254,071	(612,9
				(35,222)	2,868,328	(3,835,611)		(1,002,505)	(62,1
				13,218,849	2,868,328	(3,835,611)		12,251,566	(675,0
329,251	(50,970)	254,974					681,445	1,214,700	
		1,572,121						1,572,121	

						(2,203,442)	(2,203,442)	
	(2,946)						(2,946)	
	357,393		(105,461)				251,932	(1,047,2
	78,528					120,972	199,500	
								(100,4
	(7,762)						(7,762)	
7,581,329	42,175,633	7,725,978	47,620,502	1,989,302	7,151,151	(11,418,313)	222,825,582	2,027,0

The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2016

(Expressed in Thousands)

Capital	Equity Attributable to the Parent Company							Total	Non-controlling Interests
	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Components of Equity	Treasury Stock				
NT\$	NT\$	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Gain or Loss on Available-for-Sale Financial Assets	Treasury Stock	NT\$	NT\$	
127,581,329	42,175,633	7,725,978	47,620,502	1,989,302	7,151,151	(11,418,313)	222,825,582	2,027,065	
		1,344,863	(1,344,863)						
			(6,906,973)				(6,906,973)		
			8,621,147				8,621,147	(4,452,585)	
			(60,535)	(1,907,749)	(2,023,469)		(3,991,753)	(32,318)	
			8,560,612	(1,907,749)	(2,023,469)		4,629,394	(4,484,903)	
						(2,395,793)	(2,395,793)		
(1,338,142)	(164,220)					1,502,362			

1,050		1,050
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1,567	(572,454)		(570,887)	567,073
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113,833		(581,640)	(467,807)
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(501,757)	(3,828,164)		(4,329,921)	4,052,494
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126,243,187	41,626,106	9,070,841	43,528,660	81,553	5,127,682	(12,893,384)	212,784,645	2,161,729
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The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014, 2015 and 2016

(Expressed in Thousands)

	For the years ended December 31,			
	2014 NT\$	2015 NT\$	2016 NT\$	US\$
Cash flows from operating activities:				
Net income before tax	13,572,303	13,668,598	4,721,086	145,713
Adjustments to reconcile net income before tax to net cash provided by operating activities:				
Depreciation	38,785,576	43,473,008	49,691,035	1,533,674
Amortization	1,871,778	1,999,101	2,292,566	70,758
Bad debt expenses (reversal)	104,841	(183,957)	125	4
Net loss (gain) of financial assets and liabilities at fair value through profit or loss	(54,228)	94,453	(150,770)	(4,653)
Interest expense	687,178	470,310	1,249,583	38,567
Interest income	(495,730)	(356,084)	(293,790)	(9,068)
Dividend income	(706,719)	(692,858)	(606,193)	(18,710)
Share-based payment	24,382	838		
Share of loss (profit) of associates and joint ventures	(37,179)	(4,694)	315,666	9,743
Gain on disposal of property, plant and equipment	(81,811)	(97,366)	(73,014)	(2,254)
Gain on disposal of non-current assets held for sale		(41,203)		
Gain on disposal of investments	(2,445,259)	(2,517,137)	(2,097,818)	(64,747)
Impairment loss on financial assets	304,517	1,245,491	785,345	24,239
Impairment loss on non-financial assets	596,678	1,021,010	1,292,229	39,884
Gain on repurchases of bonds	(13,944)			
Exchange loss (gain) on financial assets and liabilities	361,191	(125,836)	1,308,669	40,391
Exchange loss on long-term liabilities	119,846			
Amortization of deferred government grants	(41,090)	(34,405)	(118,757)	(3,665)
Income and expense adjustments	38,980,027	44,250,671	53,594,876	1,654,163
Changes in operating assets and liabilities:				
Financial assets and liabilities at fair value through profit or loss	(23,235)	(36,262)	(100)	(3)
Notes receivable and accounts receivable	(6,013,039)	3,429,797	(3,690,072)	(113,891)
Other receivables	(18,507)	(22,615)	(366,675)	(11,317)
Inventories	(1,893,932)	(1,917,966)	517,760	15,980
Prepayments	(861,497)	(696,632)	(9,455,729)	(291,843)
Other current assets	(985,505)	2,116,853	815,618	25,173
Notes and accounts payable	(711,229)	(498,776)	933,164	28,801

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Other payables	2,032,810	1,079,596	370,635	11,439
Other current liabilities	158,440	(181,193)	1,397,687	43,138
Net defined benefit liabilities	25,098	25,112	2,200	68
Other noncurrent liabilities	(25,206)	277,722	(149,637)	(4,618)
Cash generated from operations	44,236,528	61,494,905	48,690,813	1,502,803
Interest received	494,148	368,617	303,631	9,371
Dividend received	888,281	917,040	794,484	24,521
Interest paid	(565,845)	(648,938)	(1,016,329)	(31,368)
Income tax paid	(286,888)	(2,343,390)	(2,322,102)	(71,670)
Net cash provided by operating activities	44,766,224	59,788,234	46,450,497	1,433,657
Cash flows from investing activities:				
Acquisition of financial assets at fair value through profit or loss	(180,966)	(136,264)	(246,624)	(7,612)
Proceeds from disposal of financial assets at fair value through profit or loss	22,292		167,580	5,172
Acquisition of available-for-sale financial assets	(1,941,739)	(4,800,576)	(322,177)	(9,944)
Proceeds from disposal of available-for-sale financial assets	3,311,317	1,964,457	3,626,315	111,924
Acquisition of financial assets measured at cost	(489,035)	(95,310)	(81,517)	(2,516)
Proceeds from disposal of financial assets measured at cost	677,339	57,584	575,860	17,774
Acquisition of investments accounted for under the equity method	(182,184)	(2,474,851)	(840,000)	(25,926)
Proceeds from disposal of investments accounted for under the equity method	74,394			
Proceeds from capital reduction and liquidation of investments	131,172	559,830	221,646	6,841
Acquisition of subsidiaries (net of cash acquired)		414,958		
Disposal of subsidiaries	(15,617)	(834,955)		
Acquisition of property, plant and equipment	(43,237,007)	(60,504,149)	(91,560,639)	(2,825,945)
Proceeds from disposal of property, plant and equipment	338,196	148,316	77,607	2,395
Proceeds from disposal of non-current assets held for sale		641,866		
Increase in refundable deposits	(94,112)	(1,818,998)	(826,845)	(25,520)
Decrease in refundable deposits	231,107	316,180	1,138,869	35,150
Acquisition of intangible assets	(1,153,356)	(1,088,313)	(1,554,251)	(47,971)
Cash inflow from combination		1,583		
Government grants related to assets acquisition	22,028	254,645	9,566,327	295,257
Increase in other noncurrent assets	(340,611)	(1,116,501)	(572,209)	(17,661)
Decrease in other noncurrent assets	242,996	29,349	544,186	16,796
Net cash used in investing activities	(42,583,786)	(68,481,149)	(80,085,872)	(2,471,786)

The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014, 2015 and 2016

(Expressed in Thousands)

	For the years ended December 31,			
	2014 NT\$	2015 NT\$	2016 NT\$	US\$
Cash flows from financing activities:				
Increase in short-term loans	9,879,359	14,965,506	48,085,068	1,484,107
Decrease in short-term loans	(5,744,551)	(14,900,862)	(32,955,646)	(1,017,150)
Proceeds from bonds issued	5,000,000	18,424,800		
Bonds issuance costs	(5,090)	(83,880)		
Redemption of bonds	(14,137,308)			
Proceeds from long-term loans	6,284,000	4,952,870	24,628,607	760,142
Repayments of long-term loans	(3,858,996)	(5,337,929)	(7,624,030)	(235,310)
Increase in guarantee deposits	133,172	50,061	9,290	287
Decrease in guarantee deposits	(26,026)	(10,064)	(19,524)	(603)
Increase in other financial liabilities		6,107,635	15,979,088	493,182
Cash dividends and cash paid from additional paid-in capital	(6,253,150)	(6,939,016)	(6,906,726)	(213,170)
Exercise of employee stock options	370,811	289,413		
Treasury stock acquired		(2,203,442)	(2,395,793)	(73,944)
Treasury stock sold to employees	61,653	681,614		
Acquisition of non-controlling interests		(932,367)	(5,028)	(155)
Changes in non-controlling interests	38,261	(15,102)	183	6
Net cash provided by (used in) financing activities	(8,257,865)	15,049,237	38,795,489	1,197,392
Effect of exchange rate changes on cash and cash equivalents	1,457,172	721,688	(871,566)	(26,900)
Net increase (decrease) in cash and cash equivalents	(4,618,255)	7,078,010	4,288,548	132,363
Cash and cash equivalents at beginning of year	50,830,678	46,212,423	53,290,433	1,644,766
Cash and cash equivalents at end of year	46,212,423	53,290,433	57,578,981	1,777,129
Reconciliation of the balances of cash and cash equivalents at end of year:				
Cash and cash equivalents balances on the consolidated balance sheets	45,701,335	53,290,433	57,578,981	1,777,129
	511,088			

Cash and cash equivalents included in non-current
assets held for sale

Cash and cash equivalents at end of year	46,212,423	53,290,433	57,578,981	1,777,129
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The accompanying notes are an integral part of the consolidated financial statements.

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UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

United Microelectronics Corporation (UMC) was incorporated in Republic of China (R.O.C.) in May 1980 and commenced operations in April 1982. UMC is a full service semiconductor wafer foundry, and provides a variety of services to satisfy customer needs. UMC's ordinary shares were publicly listed on the Taiwan Stock Exchange (TWSE) in July 1985 and its American Depositary Shares (ADSs) were listed on the New York Stock Exchange (NYSE) in September 2000.

The address of its registered office and principal place of business is No. 3, Li-Hsin Road II, Hsinchu Science Park, Hsinchu City, Taiwan. The principal operating activities of UMC and its subsidiaries (collectively as the Company) are described in Notes 4(3) and 12.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company were approved and authorized for issue by the audit committee of the Board of Directors on April 12, 2017.

3. NEW ACCOUNTING PRONOUNCEMENT UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

- a. The Company has not adopted the following new, revised or amended IFRSs that have been issued by the International Accounting Standards Board (IASB) but not yet effective:

No.	The projects of Standards or Interpretations	Effective for annual periods beginning on or after
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Subject to IASB's announcement
IFRS 15	Revenue from Contracts with Customers with its Amendment - Clarifications to IFRS 15	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses - Amendments to IAS 12	January 1, 2017

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No.	The projects of Standards or Interpretations	Effective for annual periods beginning on or after
IAS 7	Disclosure Initiative - Amendments to IAS 7	January 1, 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	January 1, 2018
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	January 1, 2018
IAS 40	Transfers of Investment Property - Amendments to IAS 40 <i>Improvements to International Financial Reporting Standards (2014 - 2016 cycle)</i>	January 1, 2018
IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendments to IFRS 1	January 1, 2018
IFRS 12	Disclosure of Interests in Other Entities - Amendments to IFRS 12	January 1, 2017
IAS 28	Investments in Associates and Joint Ventures - Amendments to IAS 28	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

- b. The potential effects of adopting the standards or interpretations issued by IASB on the Company's financial statements in future periods are summarized as below:

IFRS 10 Consolidated Financial Statements (IFRS 10) and IAS 28 Investments in Associates and Joint Ventures (IAS 28) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)

The amendments address the inconsistency between the requirements in IFRS 10 and IAS 28, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 Business Combinations (IFRS 3) between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed. The amendment is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents**IFRS 15 Revenue from Contracts with Customers with its Amendment Clarifications to IFRS 15 Revenue from Contracts with Customers (IFRS 15)**

The core principle of IFRS 15 is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue, information related to performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The amendment in 2016 clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. The standard will apply to annual periods beginning on or after January 1, 2018, and early adoption is permitted. When IFRS 15 is effective, the Company may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. Management developed an adoption plan and according to its plan, management has been analyzing accounting for its revenue streams using sample contracts for standard and nonstandard terms for the new standard. According to its plan, the Company is currently in the process of evaluating the effects of adopting IFRS 15, including the selection of the adoption method, the identification of differences, if any, from the application of IAS 18 and the impact of such differences, if any, on its consolidated financial statements.

IFRS 9 Financial Instruments (IFRS 9)

IASB has issued the final completed version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and all previous versions of IFRS 9. The final completed version of IFRS 9 requires the followings: (1) Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is requirement that own credit risk adjustments are not recognized in profit or loss, (2) Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition, and (3) Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact that the new standard may have on its consolidated financial statements.

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IFRS 16 Leases

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact that the new standard may have on its consolidated financial statements.

IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses (Amendment)

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after January 1, 2017 and is not expected to have a material impact on the Company's consolidated financial statements.

IAS 7 Statement of Cash Flows - Disclosure Initiative (Amendment)

The amendment relates to changes in liabilities arising from financing activities and requires a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendment is effective for annual periods beginning on or after January 1, 2017 and is expected to increase the disclosures in the consolidated financial statements.

Table of Contents**IFRS 2 Share-based Payment - Classification and Measurement of Share-based Payment Transactions (Amendment)**

The amendment clarifies that (1) vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendment is effective for annual periods beginning on or after January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendment)

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

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IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact that the new standard may have on its consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The Company's consolidated financial statements were prepared in accordance with IFRSs, including International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations, as issued by IASB.

(2) Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

(3) General Description of Reporting Entity

a. Principles of consolidation

Subsidiaries are fully consolidated from the date of acquisition (the date on which the Company obtains control), and continue to be consolidated until the date that such control ceases. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Total comprehensive income of subsidiaries is attributed to the stockholders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control over a subsidiary, the Company derecognizes the assets and liabilities of the subsidiary, as well as any non-controlling interests previously recorded by the Company. A gain or loss is recognized in profit or loss and is calculated as the difference between: (a) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and (b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Any gain or loss previously recognized in the other comprehensive income would be reclassified to profit or loss or transferred directly to retained earnings if required by other IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment.

b. The consolidated entities as of December 31, 2015 and 2016 were as follows:

Investor	Subsidiary	Business nature	Percentage of ownership (%)	
			as of December 31, 2015	2016
UMC	UMC GROUP (USA)	IC Sales	100.00	100.00
UMC	UNITED MICROELECTRONICS (EUROPE) B.V.	Marketing support activities	100.00	100.00
UMC	UMC CAPITAL CORP.	Investment holding	100.00	100.00
UMC	GREEN EARTH LIMITED (GE)	Investment holding	100.00	100.00
UMC	TLC CAPITAL CO., LTD. (TLC)	Venture capital	100.00	100.00
UMC	UMC NEW BUSINESS INVESTMENT CORP. (NBI)	Investment holding	100.00	100.00
UMC	UMC INVESTMENT (SAMOA) LIMITED	Investment holding	100.00	100.00
UMC	FORTUNE VENTURE CAPITAL CORP. (FORTUNE)	Consulting and planning for venture capital	100.00	100.00
UMC	UMC GROUP JAPAN	IC Sales	100.00	100.00

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Investor	Subsidiary	Business nature	Percentage of ownership (%)	
			2015	2016
UMC	UMC KOREA CO., LTD.	Marketing support activities	100.00	100.00
UMC	OMNI GLOBAL LIMITED (OMNI)	Investment holding	100.00	100.00
UMC	SINO PARAGON LIMITED	Investment holding		100.00
UMC	BEST ELITE INTERNATIONAL LIMITED (BE)	Investment holding	91.06	91.08
UMC, FORTUNE and UNITRUTH INVESTMENT CORP. (UNITRUTH)	WAVETEK MICROELECTRONICS CORPORATION (WAVETEK)	Sales and manufacturing of integrated circuits	78.47	78.47
UMC, FORTUNE, UNITRUTH and TLC	NEXPOWER TECHNOLOGY CORP. (NEXPOWER)	Sales and manufacturing of solar power batteries	67.54	67.54
FORTUNE	UNITRUTH	Investment holding	100.00	100.00
UMC CAPITAL CORP.	UMC CAPITAL (USA)	Investment holding	100.00	100.00
UMC CAPITAL CORP.	ECP VITA PTE. LTD.	Insurance	100.00	
TLC	SOARING CAPITAL CORP.	Investment holding	100.00	100.00
SOARING CAPITAL CORP.	UNITRUTH ADVISOR (SHANGHAI) CO., LTD.	Investment holding and advisory	100.00	100.00
GE	UNITED MICROCHIP CORPORATION	Investment holding	100.00	100.00
UMC INVESTMENT (SAMOA) LIMITED	UMC (BEIJING) LIMITED	Marketing support activities	100.00	100.00
NBI	TERA ENERGY DEVELOPMENT CO., LTD. (TERA ENERGY)	Energy technical services	100.00	100.00
NBI	UNISTARS CORP.	High brightness LED packages	82.76	82.76
TERA ENERGY	EVERRICH ENERGY INVESTMENT (HK) LIMITED (EVERRICH-HK)	Investment holding	100.00	100.00

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Investor	Subsidiary	Business nature	Percentage of ownership (%)	
			2015	2016
EVERRICH-HK	EVERRICH (SHANDONG) ENERGY CO., LTD.	Solar engineering integrated design services	100.00	100.00
OMNI	UNITED MICROTECHNOLOGY CORPORATION (NEW YORK)	Research and development	100.00	100.00
OMNI	UNITED MICROTECHNOLOGY CORPORATION (CALIFORNIA)	Research and development	100.00	100.00
OMNI	ECP VITA PTE. LTD.	Insurance		100.00
OMNI	UMC TECHNOLOGY JAPAN CO., LTD.	Semiconductor manufacturing technology development and consulting services		100.00
WAVETEK	WAVETEK MICROELECTRONICS INVESTMENT (SAMOA) LIMITED (WAVETEK-SAMOA)	Investment holding	100.00	100.00
WAVETEK-SAMOA	WAVETEK MICROELECTRONICS CORPORATION (USA)	Sales and marketing service	100.00	100.00
NEXPOWER	NPT HOLDING LIMITED	Investment holding	100.00	100.00
NEXPOWER	SOCIALNEX ITALIA 1 S.R.L.	Photovoltaic power plant	100.00	100.00
NPT HOLDING LIMITED	NLL HOLDING LIMITED	Investment holding	100.00	100.00
BE	INFOSHINE TECHNOLOGY LIMITED (INFOSHINE)	Investment holding	100.00	100.00
INFOSHINE	OAKWOOD ASSOCIATES LIMITED (OAKWOOD)	Investment holding	100.00	100.00
OAKWOOD	HEJIAN TECHNOLOGY (SUZHOU) CO., LTD. (HEJIAN)	Sales and manufacturing of integrated circuits	100.00	100.00
HEJIAN	UNITEDDDS SEMICONDUCTOR (SHANDONG) CO., LTD.	Integrated circuits design services	100.00	100.00
HEJIAN	UNITED SEMICONDUCTOR (XIAMEN) CO., LTD. (USC) (Note A)	Sales and manufacturing of integrated circuits	33.33	29.41

Note A: As described in Note 9(5), the Company acquired control of USC's Board of Directors.

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(4) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at the acquisition date fair value. For the components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, the acquirer measures at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts held by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39, either in profit or loss or other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred and non-controlling interests, the difference is recognized as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating unit (CGU) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or groups of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes and cannot be larger than an operating segment before aggregation.

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Where goodwill forms part of a CGU and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed and the portion of the CGU retained.

(5) Foreign Currency Transactions

The Company's consolidated financial statements are presented in New Taiwan Dollars (NTD), which is also the parent company's functional currency. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rates of exchange at the reporting date. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- a. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- b. Foreign currency derivatives within the scope of IAS 39 are accounted for based on the accounting policy for financial instruments.
- c. Exchange differences arising on a monetary item that is part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of such investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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(6) Translation of Foreign Currency Financial Statements

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

On partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. On partial disposal of an associate or a joint venture that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(7) Convenience Translation into U.S. Dollars

Translations of amount from NTD into U.S. dollars (USD) for the reader's convenience were calculated at the rate of USD1.00 to NTD32.40 on December 30, 2016 released by Board of Governors of the Federal Reserve System. No representation is made that the NTD amounts could have been, or could be, converted into USD at this rate.

(8) Current and Non-Current Distinction

An asset is classified as current when:

- a. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

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- b. the Company holds the asset primarily for the purpose of trading;
- c. the Company expects to realize the asset within twelve months after the reporting period; or
- d. the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- a. the Company expects to settle the liability in normal operating cycle;
- b. the Company holds the liability primarily for the purpose of trading;
- c. the liability is due to be settled within twelve months after the reporting period; or
- d. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(9) **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates, including time deposits with original maturities of three months or less and repurchase agreements collateralized by government bonds and corporate bonds.

(10) **Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company determines the classification of its financial assets at initial recognition. In accordance with IAS 39, financial assets of the Company 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.

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Purchase or sale of financial assets and liabilities are recognized using trade date accounting. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Financial Assets

a. Classification and subsequent measurement

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are comprised of financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets acquired for the purpose of selling or repurchasing in the near term, and derivative financial instruments that are not designated as hedging instruments in hedge accounting are classified as financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss.

ii. Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Available-for-sale financial investments are subsequently measured at fair value. Other than impairment losses which are recognized in profit or loss, subsequent measurement of available-for-sale equity instrument financial assets are recognized in other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss. If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on the balance sheet.

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iii. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has positive intention and ability to hold them to maturity.

After initial measurement, held-to-maturity financial assets are measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs. The EIR method amortization and impairment, if any, is recognized in profit or loss.

iv. Notes, accounts and other receivables

Notes and accounts receivable are creditors' rights as a result of sales of goods or services. Other receivables are any receivable not classified as notes and accounts receivable. Notes, accounts and other receivables are initially measured and recognized at their fair values and subsequently measured at amortized cost using the EIR method, less impairment. If the effect of discounting is immaterial, the short term notes, accounts and other receivables are measured at their nominal amount.

b. Derecognition of financial assets

A financial asset is derecognized when:

- i. the contractual rights to receive cash flows from the asset have expired;
- ii. the Company has transferred assets and substantially all the risks and rewards of the asset have been transferred; or
- iii. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or to be received including any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the Company allocates the previous carrying amount of the larger financial asset between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated that had been recognized in other comprehensive income, is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

c. Impairment policy

The carrying amount of a financial asset is reduced as a result of impairment, except for accounts receivable for which the carrying amount is reduced through use of an allowance account. When an account receivable is deemed to be uncollectible, it is written off from the allowance account.

i. Notes, accounts and other receivables

The Company first assesses at each reporting date whether objective evidence of impairment exists for notes, accounts and other receivables that are individually significant. If there is objective evidence that an impairment loss has occurred, the amount of impairment loss is assessed individually. For notes, accounts and other receivables other than those mentioned above, the Company groups those assets with similar credit risk characteristics and collectively assess them for impairment. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized through profit or loss. The reversal shall not result in a carrying amount of notes, accounts and other receivables that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

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ii. Other financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the individual financial asset or a group of financial assets.

For the financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. For equity investments classified as available-for-sale, objective evidence of an impairment would include a significant or prolonged decline in the fair value of the investment below its cost. When there is objective evidence of an impairment for available-for-sale equity securities, the full amount of the losses previously recognized in other comprehensive income is reclassified to profit or loss. Impairment losses recognized on equity investments cannot be reversed through profit or loss. Any subsequent increases in their fair value after impairment are recognized in other comprehensive income.

Financial Liabilities

a. Classification and subsequent measurement

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

i. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on the subsequent measurement, including interest paid, are recognized in profit or loss.

ii. Financial liabilities carried at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the EIR method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR method amortization process.

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Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

b. **Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(11) **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 underutilized capacity is expensed as incurred. Inventories are valued at the 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.

(12) **Investments Accounted For Under the Equity Method**

The Company's investments in associates and joint ventures are accounted for using the equity method other than those that meet the criteria to be classified as non-current assets held for sale.

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An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the Company that has joint control of the arrangement has rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement where 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.

Any difference between the acquisition cost and the Company's share of the net fair value of the identifiable assets and liabilities of associates and joint ventures is accounted for as follows:

- a. Any excess of the acquisition cost over the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill and is included in the carrying amount of the investment. Amortization of goodwill is not permitted.
- b. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture over the acquisition cost, after reassessing the fair value, is recognized as a gain in profit or loss on the acquisition date.

Under the equity method, the investments in associates and joint ventures are carried on the balance sheet at cost plus post acquisition changes in the Company's share of profit or loss and other comprehensive income of associates and joint ventures. The Company's share of changes in associates' and joint ventures' profit or loss and other comprehensive income are recognized directly in profit or loss and other comprehensive income, respectively. Distributions received from an associate or a joint venture reduce the carrying amount of the investment. Any unrealized gains and losses resulting from transactions between the Company and the associate or the joint venture are eliminated to the extent of the Company's interest in the associate or the joint venture.

Financial statements of associates and joint ventures are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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Upon an associate's issuance of new shares, if the Company takes up more shares than its original proportionate holding while maintaining its significant influence over that associate, such increase would be accounted for as an acquisition of an additional equity interest in the associate. Upon an associate's issuance of new shares, if the Company does not take up proportionate shares and reduces its stockholding percentage while maintaining its significant influence over that associate, the Company will treat the transaction as deemed disposal and reclassify to profit or loss the proportion of the gain or loss previously recognized in other comprehensive income relating to that reduction in ownership interest where appropriate.

The Company ceases to use the equity method upon loss of significant influence over an associate. Any difference between the carrying amount of the investment in an associate upon loss of significant influence and the fair value of the retained investment plus proceeds from disposal will be recognized in profit or loss. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

The Company determines at each reporting date whether there is any objective evidence that the investments in associates and joint ventures are impaired. An impairment loss, being the difference between the recoverable amount of the associate and joint venture and its carrying amount, is recognized in profit or loss in the statement of comprehensive income and forms part of the carrying amount of the investments.

(13) Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any, and any borrowing costs incurred for long-term construction projects are capitalized if the recognition criteria are met. Significant renewals, improvements and major inspections meeting the recognition criteria are treated as capital expenditures, and the carrying amounts of those replaced parts are derecognized. Maintenance and repairs are recognized in profit or loss as incurred. Any gain or loss arising from derecognition of the assets is recognized in other operating income and expenses.

Depreciation is calculated on a straight-line basis over the estimated useful lives. A significant part of an item of property, plant and equipment which has a different useful life from the remainder of the item is depreciated separately.

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The depreciation methods, useful lives and residual values for the assets are reviewed at each fiscal year end, and the differences resulted from the previous estimation are recorded as changes in accounting estimates.

Except for land, which is not depreciated, the estimated useful lives of the assets are as follows:

Buildings	20~56 years
Machinery and equipment	3~11 years
Transportation equipment	5~7 years
Furniture and fixtures	1~9 years
Leasehold improvement	The shorter of lease terms or useful lives

(14) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets which fail to meet the recognition criteria are not capitalized and the expenditures are reflected in profit or loss in the period incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over the useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each fiscal year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and is treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in other operating income and expenses.

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Accounting policies of the Company's intangible assets are summarized as follows:

- a. Goodwill arising from business combination is not amortized, and is tested for impairment annually or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. If an event occurs or circumstances change which indicates that the goodwill is impaired, an impairment loss is recognized. Goodwill impairment losses cannot be reversed once recognized.
- b. Software is amortized over 1~6 years on a straight-line basis.
- c. Patent and technology license fee: Upon signing of contract and obtaining the right to intellectual property, any portion attributable to non-cancellable and mutually agreed future fixed license fees for patent and technology is discounted and recognized as an intangible asset and related liability. The cost of the intangible asset is not revalued once determined on initial recognition, and is depreciated over the useful life (5~10 years) on a straight-line basis. Interest expenses from the related liability are recognized and calculated based on the EIR method. Based on the timing of payments, the liability is classified as current and non-current.
- d. Others are mainly the intellectual property license fees, amortized over the shorter of the contract term or estimated useful life (3 years) of the related technology on a straight-line basis.

(15) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset in the scope of IAS 36

Impairment of Assets (IAS 36) may be impaired. If any indication exists, the Company completes impairment testing for the 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 a CGU is the higher of its fair value less costs of disposal and its value in use. If circumstances indicate that previously recognized impairment losses may no longer exist or may have decreased at each reporting date, the Company re-assesses the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

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A CGU, or group of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time every year, irrespective of whether there is any indication of impairment. Where the carrying amount of a CGU (including the carrying amount of goodwill) exceeds its recoverable amount, the CGU is considered impaired. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods.

The recognition or reversal of impairment losses is classified as other operating income and expenses.

(16) **Bonds**

Convertible bonds

UMC evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, UMC assesses if the economic characteristics and risks of the put and call options embedded in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the effective interest rate applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost using the EIR method before the instrument is converted or settled. For the embedded derivative that is not closely related to the host contract, it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies as an equity component. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39.

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If the convertible bondholders exercise their conversion right before maturity, UMC shall adjust the carrying amount of the liability component. The adjusted carrying amount of the liability component at conversion and the carrying amount of equity component are credited to common stock and additional paid-in capital - premiums. No gain or loss is recognized upon bond conversion.

In addition, the liability component of convertible bonds is classified as a current liability if within 12 months the bondholders may exercise the put right. After the put right expires, the liability component of the convertible bonds should be reclassified as a non-current liability if it meets the definition of a non-current liability in all other respects.

(17) 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 the Company. Therefore, fund assets are not to be included in the Company's consolidated financial statements. Pension benefits for employees of the overseas branch and subsidiaries are provided in accordance with the local regulations.

The Labor Pension Act of the R.O.C. (the Act), which adopts a defined contribution plan, became effective on July 1, 2005. Employees eligible for the Labor Standards Law, a defined benefit plan, were allowed to elect either the pension calculation under the Act or continue to be subject to the pension calculation under the Labor Standards Law. Those employees that elected to be subject to the Act will have their seniority achieved under the Labor Standards Law retained upon election of the Act, and the Company will make monthly contributions and recognize an expense of no less than 6% of these employees' monthly wages to the employees' individual pension accounts. Overseas subsidiaries and branches make contributions to the respective benefit plans based on the specific percentage requirement of local regulations. A 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. The Company recognizes all actuarial gains and losses in the periods which they occur in other comprehensive income, which then are immediately recognized in retained earnings.

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(18) Government Grants

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the Company recognizes the government grants when there is reasonable assurance that such grants will be received and the conditions attaching to them will be complied with.

A government grant related to assets is recognized as deferred income and recognized in profit or loss on a straight-line basis over the useful lives of the assets. A government grant related to expenses is recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grant is intended to compensate. A government grant that compensates for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs is recognized in profit or loss when it becomes receivable.

(19) Treasury Stock

UMC's own equity instruments repurchased (treasury shares) are recognized at repurchase cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(20) Share-Based Payment Transactions

The cost of equity-settled transactions between the Company and its employees 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 the Company's best estimate of the quantity of equity instruments that will ultimately vest. The charge to profit or loss for a period represents the movement in cumulative expense recognized between the beginning and the end of that period.

No expense will be recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it fully vests on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award substitutes for the cancelled award and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(21) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The specific criteria described below must also be met before revenue is recognized.

Sales revenue

The Company manufactures semiconductors for creditworthy customers based on their design specifications, pursuant to manufacturing agreements and/or purchase orders at contractual prices. The Company ships wafers mainly under the trade term, Free Carrier (FCA), through which the title and risk of loss for the wafers are transferred to the customers upon delivery to carriers approved by the customers. Sales revenue is recognized at this point, having also fulfilled all of the following criteria pursuant to IAS 18, paragraph 14:

- a. the significant risks and rewards of ownership of the goods have been transferred to the customer;
- b. neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold have been retained;
- c. the amount of revenue can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the entity; and

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e. the costs incurred or to be incurred in respect of the transaction can be measured reliably. Sales revenue is measured at the fair value of the consideration received or receivable, net of sales returns and discounts, which are estimated based on customer complaints, historical experience and other known factors. Sales returns and discounts are recorded in the same period in which sales are made.

Interest income

For financial assets measured at amortized cost (including held-to-maturity financial assets) and financial assets at fair value through profit or loss, interest income is recorded using the effective interest rate and recognized in profit or loss.

Dividends

Revenue is recognized when the Company's right to receive the dividends is established, which is generally when stockholders approve the dividend.

(22) 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

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.

Undistributed earnings, calculated based on Business Entity Accounting Act are subject to a 10% tax in accordance with the Income Tax Law of the R.O.C. Accordingly, the undistributed tax impact of 10% is provided in the period the income is earned, assuming that no earnings are distributed. Any reduction in the liability will be recognized when the income is distributed upon the stockholders' approval in the subsequent year. Tax on undistributed earnings may be offset by the Company's available tax credits carried forward, where applicable. As such, the incremental tax accrued on undistributed earnings may be offset by a corresponding reduction in deferred income tax assets, where applicable.

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Deferred income tax

Deferred income tax is determined 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 liabilities are recognized for all taxable temporary differences, except:

- a. When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses and unused tax credits can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside 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.

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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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at the acquisition date, might be realized and recognized subsequently as follows:

- a. Acquired deferred tax benefits recognized within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be applied to reduce the carrying amount of any goodwill related to that acquisition. If the carrying amount of that goodwill is nil, any remaining deferred tax benefits shall be recognized in profit or loss;
- b. All other acquired deferred tax benefits realized shall be recognized in profit or loss, other comprehensive income or equity.

(23) Earnings per Share

Earnings per share is computed according to IAS 33 Earnings per Share . Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the current reporting period. Diluted earnings per share is computed by taking basic earnings per share into consideration plus additional ordinary shares that would have been outstanding if the dilutive share equivalents had been issued. Net income is also adjusted for interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted-average of outstanding shares is adjusted retroactively for stock dividends and employee stock bonus issues.

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5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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.

The Company bases its 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 the control of the Company. Such changes are reflected in the assumptions when they occur.

(1) The Fair Value of Financial Instruments

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 for more details.

(2) Inventories

Inventories are valued at the 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). 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. The Company estimates normal production level taking into account loss of capacity resulting from planned maintenance, based on historical experience and current production capacity.

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(3) Post-Employment Benefits

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).

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.

(4) 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, the Company assesses whether there is an indication that an asset in the scope of IAS 36 may be impaired. If any indication exists, the Company completes impairment testing for the CGU to which the individual assets belong. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an individual asset or CGU is the higher of fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on best information available to reflect the amount that an entity could obtain from the disposal of the asset in an orderly transaction between market participants, 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 the Company's operating situation.

Table of Contents**(5) Income Tax**

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

Deferred tax assets are recognized for all carryforward 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(23) for more details on unrecognized deferred tax assets.

6. CONTENTS OF SIGNIFICANT ACCOUNTS**(1) Cash and Cash Equivalents**

	As of December 31,	
	2015 NT\$	2016 NT\$
	(In Thousands)	(In Thousands)
Cash on hand	\$ 3,943	\$ 3,717
Checking and savings accounts	14,464,203	17,840,926
Time deposits	33,962,629	33,546,190
Repurchase agreements collateralized by government and corporate bonds	4,859,658	6,188,148
Total	\$ 53,290,433	\$ 57,578,981

Please refer to the consolidated statements of cash flows for the reconciliation of the balances of cash and cash equivalents on the consolidated statements of cash flows and the consolidated balance sheets.

Table of Contents(2) Financial Assets at Fair Value through Profit or Loss

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Designated financial assets at fair value through profit or loss		
Convertible bonds	\$ 295,708	\$ 263,201
Financial assets held for trading		
Listed stocks	258,055	615,157
Funds		50,003
Corporate bonds	192,080	
Forward exchange contracts	1,008	543
Subtotal	451,143	665,703
Total	\$ 746,851	\$ 928,904
Current	\$ 664,918	\$ 714,169
Noncurrent	81,933	214,735
Total	\$ 746,851	\$ 928,904

(3) Accounts Receivable, Net

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Accounts receivable	\$ 20,253,481	\$ 24,732,207
Less: allowance for sales returns and discounts	(1,103,139)	(1,744,151)
Less: allowance for doubtful accounts	(90,568)	(86,595)
Net	\$ 19,059,774	\$ 22,901,461

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Aging analysis of accounts receivable, net:

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Neither past due nor impaired	\$ 15,643,254	\$ 18,516,739
Past due but not impaired:		
£ 30 days	2,497,133	3,018,482
31 to 60 days	652,241	630,762
61 to 90 days	213,367	513,702
91 to 120 days	38,597	183,572
³ 121 days	15,182	38,204
Subtotal	3,416,520	4,384,722
Total	\$ 19,059,774	\$ 22,901,461

Movement on allowance for individually evaluated doubtful accounts:

	For the years ended December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Beginning balance	\$ 272,324	\$ 90,568
Net charge for the period	(181,756)	(3,973)
Ending balance	\$ 90,568	\$ 86,595

The collection periods for third party domestic sales and third party overseas sales were month-end 30~60 days and net 30~60 days, respectively.

The impairment losses assessed individually as of December 31, 2015 and 2016 primarily resulted from the financial difficulties of the counter trading parties and the amounts recognized were the difference between the carrying amount of the accounts receivable and the present value of expected collectable amounts. The Company has no collateral with respect to those accounts receivables.

Table of Contents(4) Inventories, Net

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In	(In
	Thousands)	Thousands)
Raw materials	\$ 2,522,906	\$ 2,248,589
Supplies and spare parts	2,044,550	2,795,371
Work in process	11,025,222	10,712,396
Finished goods	2,048,707	1,241,459
Total	\$ 17,641,385	\$ 16,997,815

- a. For the years ended December 31, 2014, 2015 and 2016, the Company recognized NT\$105,320 million, NT\$109,782 million and NT\$114,527 million, respectively, in operating costs, of which NT\$(87) million, NT\$826 million and NT\$2,130 million in 2014, 2015 and 2016, respectively, were related to reversal of write-down or write-down of inventories.
- b. On February 6, 2016, an earthquake with a magnitude of 6.4 Richter struck southern Taiwan and caused financial related losses to UMC. UMC insured for losses endured due to the earthquake. As of December 31, 2016, UMC recognized losses including loss from scrapped inventory of NT\$1,143 million and production line recovery expenses of NT\$669 million. Furthermore, UMC received compensation from insurance claims of NT\$2,646 million. The case is closed as of December 31, 2016.
- c. None of the aforementioned inventories were pledged.

Table of Contents(5) Available-For-Sale Financial Assets, Non-Current

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In	(In
	Thousands)	Thousands)
Common stocks	\$ 21,586,850	\$ 18,059,586
Preferred stocks	1,166,256	1,203,589
Depository receipts	196,560	202,979
Funds	851,020	949,387
Total	\$ 23,800,686	\$ 20,415,541

(6) Financial Assets Measured at Cost, Non-Current

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Common stocks	\$ 598,295	\$ 514,426
Preferred stocks	3,160,427	2,152,297
Funds	129,587	93,892
Total	\$ 3,888,309	\$ 2,760,615

Since these financial assets mostly consist of non-publicly traded stocks and private venture funds, for which the fair value cannot be reliably measured due to lack of sufficient financial information available, the Company measures these financial assets at cost.

Table of Contents(7) Investments Accounted For Under the Equity Method

a. Details of investments accounted for under the equity method are as follows:

Investee companies	As of December 31,			
	2015	Percentage of ownership or voting rights	2016	Percentage of ownership or voting rights
	Amount NT\$ (In Thousands)		Amount NT\$ (In Thousands)	
<u>Listed company</u>				
FARADAY TECHNOLOGY CORP. (FARADAY) (Note A)	\$ 1,793,203	13.94	\$ 1,671,902	13.94
<u>Unlisted companies</u>				
SHANDONG HUAHONG ENERGY INVEST CO., INC. (SHANDONG HUAHONG) (Note B)	680,374	50.00		50.00
WINAICO SOLAR PROJEKT 1 GMBH (Note B)	32,737	50.00		50.00
LIST EARN ENTERPRISE INC.	10,486	49.00	9,722	49.00
MTIC HOLDINGS PTE. LTD.	81,342	45.44	75,502	45.44
YUNG LI INVESTMENTS, INC.	317,294	45.16	174,153	45.16
MEGA MISSION LIMITED PARTNERSHIP	1,913,134	45.00	1,823,877	45.00
WINAICO IMMOBILIEN GMBH (Note B)	233,713	44.78		44.78
UNITECH CAPITAL INC.	532,186	42.00	531,373	42.00
TRIKNIGHT CAPITAL CORPORATION			836,752	40.00
HSUN CHIEH INVESTMENT CO., LTD.	1,197,976	36.49	1,249,738	36.49
YANN YUAN INVESTMENT CO., LTD.	2,299,914	31.94	1,679,552	31.94
CTC CAPITAL PARTNERS I, L.P.	221,607	31.40	61,780	31.40
VSENSE CO., LTD.	101,281	28.63	85,719	28.63
UNITED LED CORPORATION HONG KONG LIMITED	478,112	25.14	252,853	25.14
ACHIEVE MADE INTERNATIONAL LTD.	116,321	23.32	105,777	23.32
CLIENTRON CORP.	234,273	20.28	235,799	20.28
TRANSLINK CAPITAL PARTNERS I, L.P. (Note C)	95,082	10.38	111,416	10.38
Total	\$ 10,339,035		\$ 8,905,915	

Note A: Beginning from June 2015, the Company accounts for its investment in FARADAY as an associate given the fact that the Company obtained the ability to exercise significant influence over FARADAY through representation on its Board of Directors. As a result, the investment was revalued to fair value and reclassified out of the available-for-sale category as an investment in associate accounted for under the equity method. Fair value remeasurement that was previously recognized in other comprehensive income was reclassified to profit or loss in 2015.

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Note B: SHANDONG HUAHONG, WINAICO SOLAR PROJEKT 1 GMBH and WINAICO IMMOBILIEN GMBH are joint ventures to the Company.

Note C: The Company follows international accounting practices in equity accounting for limited partnerships and uses the equity method to account for these investees.

The carrying amount of investments accounted for using the equity method for which there are published price quotations amounted to NT\$1,793 million and NT\$1,672 million, as of December 31, 2015 and 2016, respectively. The fair value of these investments were NT\$1,534 million and NT\$1,039 million, as of December 31, 2015 and 2016, respectively.

None of the aforementioned associates and joint ventures were pledged.

b. Financial information of associates and joint ventures:

There is no individually significant associate or joint venture for the Company. For individually immaterial associates and joint ventures, the following tables summarized the amount recognized by the Company at its share of those associates and joint ventures separately. When an associate or a joint venture is a foreign operation, and the functional currency of the foreign entity is different from the Company, an exchange difference arising from translation of the foreign entity will be recognized in other comprehensive income (loss). Such exchange differences recognized in other comprehensive income (loss) in the financial statements for the years ended December 31, 2014, 2015 and 2016 were NT\$138 million, NT\$46 million and NT\$(83) million, respectively, which were not included in the following table.

- (i) The aggregate amount of the Company's share of its all individually immaterial associates that are accounted for using the equity method was as follows:

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Profit (Loss) from continuing operations	\$ 79,407	\$ 44,834	\$ (270,060)
Other comprehensive income (loss)	139,030	(360,618)	(187,891)
Total comprehensive income (loss)	\$ 218,437	\$ (315,784)	\$ (457,951)

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- (ii) The aggregate amount of the Company's share of its all individually immaterial joint ventures that are accounted for using the equity method was as follows:

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Loss from continuing operations	\$ (42,228)	\$ (40,140)	\$ (45,606)
Other comprehensive income (loss)			
Total comprehensive loss	\$ (42,228)	\$ (40,140)	\$ (45,606)

(8) Property, Plant and Equipment

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Land	\$ 1,314,402	\$ 1,314,402
Buildings	17,271,051	21,429,861
Machinery and equipment	124,628,140	155,539,235
Transportation equipment	17,627	21,958
Furniture and fixtures	1,288,250	1,627,959
Leasehold improvement	9,814	7,307
Construction in progress and equipment awaiting inspection	41,904,111	45,042,682
Net	\$ 186,433,395	\$ 224,983,404

Table of Contents**Cost:**

	Land NT\$	Buildings NT\$	Machinery and equipment NT\$	Transportation equipment NT\$	Furniture and fixtures NT\$	Leasehold improvement NT\$	Construction in progress and equipment awaiting inspection NT\$	Total NT\$
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
As of January 1, 2015	\$ 1,314,402	\$ 25,837,548	\$ 662,490,428	\$ 67,683	\$ 5,359,909	\$ 68,280	\$ 32,380,979	\$ 727,519,229
Additions							57,837,663	57,837,663
Acquired in business combination			123,124		31,009		210	154,343
Disposals			(2,834,152)	(1,647)	(47,209)			(2,883,008)
Transfers and reclassifications		5,364,106	47,374,249	7,804	702,498	731	(48,284,824)	5,164,564
Exchange effect		195,219	5,397,419	411	17,939	1,420	(29,917)	5,582,491
As of December 31, 2015	\$ 1,314,402	\$ 31,396,873	\$ 712,551,068	\$ 74,251	\$ 6,064,146	\$ 70,431	\$ 41,904,111	\$ 793,375,282

	Land NT\$	Buildings NT\$	Machinery and equipment NT\$	Transportation equipment NT\$	Furniture and fixtures NT\$	Leasehold improvement NT\$	Construction in progress and equipment awaiting inspection NT\$	Total NT\$
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
As of January 1, 2016	\$ 1,314,402	\$ 31,396,873	\$ 712,551,068	\$ 74,251	\$ 6,064,146	\$ 70,431	\$ 41,904,111	\$ 793,375,282
Additions							83,703,970	83,703,970
Disposals			(3,976,177)	(5,237)	(51,354)			(4,032,768)
Transfers and reclassifications		6,020,884	81,101,146	9,981	831,465	268	(79,048,373)	8,915,371
Exchange effect		(375,434)	(4,233,062)	(681)	(17,300)	(1,454)	(1,511,077)	(6,139,008)
As of December 31, 2016	\$ 1,314,402	\$ 37,042,323	\$ 785,442,975	\$ 78,314	\$ 6,826,957	\$ 69,245	\$ 45,048,631	\$ 875,822,847

Accumulated Depreciation and Impairment:

	Land NT\$	Buildings NT\$	Machinery and equipment NT\$	Transportation equipment NT\$	Furniture and fixtures NT\$	Leasehold improvement NT\$	Construction in progress and equipment awaiting inspection NT\$	Total NT\$
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
As of January 1, 2015	\$	\$ 12,881,733	\$ 543,420,741	\$ 53,053	\$ 4,417,389	\$ 56,070	\$	\$ 560,828,986
Depreciation		1,188,944	41,923,305	4,725	353,005	3,029		43,473,008
Impairment loss			1,003,230		17,780			1,021,010
Disposals			(2,782,911)	(1,454)	(47,063)			(2,831,428)
Transfers and reclassifications		(305)	1,380		20,542			21,617
Exchange effect		55,450	4,357,183	300	14,243	1,518		4,428,694
As of December 31, 2015	\$	\$ 14,125,822	\$ 587,922,928	\$ 56,624	\$ 4,775,896	\$ 60,617	\$	\$ 606,941,887

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	Land	Buildings	Machinery and equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Construction in progress and equipment awaiting inspection	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
As of January 1, 2016	\$ 14,125,822	\$ 587,922,928	\$ 56,624	\$ 4,775,896	\$ 60,617	\$ 606,941,887		
Depreciation	1,514,819	47,689,725	5,264	478,775	2,452	49,691,035		
Impairment loss		447,279		1,848	5,949	455,076		
Disposals		(3,937,744)	(5,237)	(49,915)		(3,992,896)		
Transfers and reclassifications	994	(994)						
Exchange effect	(29,173)	(2,217,454)	(295)	(7,606)	(1,131)	(2,255,659)		
As of December 31, 2016	\$ 15,612,462	\$ 629,903,740	\$ 56,356	\$ 5,198,998	\$ 61,938	\$ 650,839,443		

The thin-film solar cell and module industry has undergone challenging business conditions in the past year and experienced pricing declines indirectly due to oversupply of inventory in the silicon solar cell industry and the reductions in government supported incentives. The Company considered that the thin-film solar cell and module business had an indication of possible impairment and performed an impairment test for the CGU composed of property, plant and equipment used in the manufacturing of thin-film solar cells and modules.

In 2015, the Company determined the recoverable amount of the CGU to be NT\$1,995 million on the basis of value in use, representing the present value of the future cash flows expected to be derived by the CGU, and compared it to its carrying amount. The impairment test revealed that the recoverable amount was less than the carrying amount. After considering the relevant objective evidence, the Company recorded in the net other operating income and expenses an impairment loss of NT\$795 million at discount rates of 13.0% for the year ended December 31, 2015, all of which came from new business segment.

In 2016, the Company determined the recoverable amount of the CGU to be NT\$1,169 million based on the fair value less costs of disposal. Its fair value measurement was classified as Level 3 of the fair value hierarchy. External independent appraisers are involved in fair value measurement using a cost method. After considering the relevant objective evidence, the key assumptions used included replacement costs, residual value and remaining useful life of the existing assets. The impairment test revealed that the recoverable amount was less than the carrying amount. The Company recorded in the net other operating income and expenses an impairment loss of NT\$455 million for the year ended December 31, 2016, all of which came from new business segment.

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Please refer to Note 8 for property, plant and equipment pledged as collateral.

The amounts of total interest expense before capitalization of borrowing costs were NT\$992 million, NT\$867 million and NT\$1,407 million for the years ended December 31, 2014, 2015 and 2016, respectively. Details of capitalized borrowing costs are as follows:

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Total interest capitalized	\$ 305,037	\$ 395,569	\$ 157,210
Interest rates applied	1.33%~2.21%	1.35%~2.10%	1.52%~2.01%

(9) Intangible Assets

	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Goodwill	\$ 15,188	\$ 15,188
Software	377,643	470,456
Patents and technology license fees	2,871,308	2,390,968
Others	1,239,949	1,211,691
Net	\$ 4,504,088	\$ 4,088,303

Cost:

	Goodwill NT\$ (In Thousands)	Software NT\$ (In Thousands)	Patents and technology license fees NT\$ (In Thousands)	Others NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2015	\$ 7,791	\$ 490,744	\$ 4,229,744	\$ 2,904,499	\$ 7,632,778
Additions		1,173	263,847	1,061,083	1,326,103
Acquired in business combination	7,397	330	11,023		18,750
Disposals		(148,140)		(544,018)	(692,158)
Reclassifications		305,571	(259)		305,312
Exchange effect		3,220	42,393	(7)	45,606
As of December 31, 2015	\$ 15,188	\$ 652,898	\$ 4,546,748	\$ 3,421,557	\$ 8,636,391

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	Goodwill NT\$ (In Thousands)	Software NT\$ (In Thousands)	Patents and technology license fees NT\$ (In Thousands)	Others NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2016	\$ 15,188	\$ 652,898	\$ 4,546,748	\$ 3,421,557	\$ 8,636,391
Additions		1,365	283,439	1,287,844	1,572,648
Disposals		(85,437)		(1,279,755)	(1,365,192)
Reclassifications		345,810			345,810
Exchange effect		(10,643)	(295,847)	(6)	(306,496)
As of December 31, 2016	\$ 15,188	\$ 903,993	\$ 4,534,340	\$ 3,429,640	8,883,161

Accumulated Amortization and Impairment:

	Goodwill NT\$ (In Thousands)	Software NT\$ (In Thousands)	Patents and technology license fees NT\$ (In Thousands)	Others NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2015	\$	\$ 274,746	\$ 1,207,956	\$ 1,617,138	\$ 3,099,840
Amortization		146,652	452,183	1,108,492	1,707,327
Disposals		(148,139)		(544,018)	(692,157)
Exchange effect		1,996	15,301	(4)	17,293
As of December 31, 2015	\$	\$ 275,255	\$ 1,675,440	\$ 2,181,608	\$ 4,132,303

	Goodwill NT\$ (In Thousands)	Software NT\$ (In Thousands)	Patents and technology license fees NT\$ (In Thousands)	Others NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2016	\$	\$ 275,255	\$ 1,675,440	\$ 2,181,608	\$ 4,132,303
Amortization		245,345	480,913	1,316,102	2,042,360
Disposals		(85,437)		(1,279,755)	(1,365,192)
Exchange effect		(1,626)	(12,981)	(6)	(14,613)
As of December 31, 2016	\$	\$ 433,537	\$ 2,143,372	\$ 2,217,949	\$ 4,794,858

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The amortization amounts of intangible assets are as follows:

	For the years ended December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Operating cost	\$ 534,860	\$ 675,257
Operating expense	\$ 1,172,467	\$ 1,367,103

Significant technology licenses obtained by the Company amounted to NT\$2,483 million and NT\$2,071 million as of December 31, 2015 and 2016, respectively, which were included in the carrying amounts of patents and technology license fees. The remaining amortization periods as of December 31, 2015 and 2016 were 6~7 years and 5~6 years, respectively.

(10) Short-Term Loans

	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Unsecured bank loans	\$ 5,505,049	\$ 20,550,801

	For the years ended December 31,		
	2014	2015	2016
Interest rates applied	0.57%~2.50%	0.61%~4.85%	0.51%~4.60%

The Company's unused short-term lines of credits amounted to NT\$35,863 million and NT\$47,145 million as of December 31, 2015 and 2016, respectively.

(11) Financial Liabilities at Fair Value through Profit or Loss, Current

	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Forward exchange contracts	\$ 999	\$ 60,855

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Table of Contents(12) Bonds Payable

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Unsecured domestic bonds payable	\$ 25,000,000	\$ 25,000,000
Unsecured convertible bonds payable	18,196,332	18,196,332
Less: Discounts on bonds payable	(1,559,662)	(1,215,401)
Total	41,636,670	41,980,931
Less: Current portion		(7,499,426)
Net	\$ 41,636,670	\$ 34,481,505

- A. On May 24, 2011, UMC issued SGX-ST listed currency linked zero coupon convertible bonds. The terms and conditions of the bonds were as follows:
- a. Issue Amount: US\$500 million
 - b. Period: May 24, 2011 ~ May 24, 2016 (Maturity date)
 - c. Redemption:
 - i. UMC may redeem the bonds, in whole or in part, after 3 years of the issuance and prior to the maturity date, at the principal amount of the bonds with an interest calculated at the rate of -0.25% per annum (the Early Redemption Amount) if the closing price of UMC's ADS on the New York Stock Exchange, for a period of 20 out of 30 consecutive ADS trading days, the last of which occurs not more than 5 ADS trading days prior to the date upon which notice of such redemption is published, is at least 130% of the conversion price. The Early Redemption Price will be converted into NTD based on the Fixed Exchange Rate (NTD 28.846=USD 1.00), and this fixed NTD amount will be converted using the prevailing rate at the time of redemption for payment in USD.
 - ii. UMC may redeem the bonds, in whole, but not in part, at the Early Redemption Amount if at least 90% in principal amount of the bonds has already been converted, redeemed or repurchased and cancelled.

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- iii. UMC may redeem all, but not part, of the bonds, at the Early Redemption Amount at any time, in the event of certain changes in the R.O.C.'s tax rules which would require UMC to gross up for payments of principal, or to gross up for payments of interest or premium.
- iv. All or any portion of the bonds will be redeemable at Early Redemption Amount at the option of bondholders on May 24, 2014 at 99.25% of the principal amount.
- v. Bondholders have the right to require UMC to redeem all of the bonds at the Early Redemption Amount if UMC's ADS cease to be listed or admitted for trading on the New York Stock Exchange, or UMC's ordinary shares cease to be listed on the Taiwan Stock Exchange.
- vi. In the event that a change of control as defined in the indenture of the bonds occurs to UMC, the bondholders shall have the right to require UMC to redeem the bonds, in whole but not in part, at the Early Redemption Amount.

d. Terms of Conversion:

- i. Underlying Securities: ADS of UMC
- ii. Conversion Period: The bonds are convertible at any time on or after July 4, 2011 and prior to May 14, 2016, into UMC's ADS; provided, however, that if the exercise date falls within 8 business days from the beginning of, and during, any closed period, the right of the converting holder of the bonds to vote with respect to the ADS it receives will be subject to certain restrictions.
- iii. Conversion Price and Adjustment: The conversion price was originally USD 3.77 per ADS, determined on the basis of a Fixed Exchange Rate of NTD 28.846=USD 1.00. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

e. Early Redemption of the Bonds:

UMC redeemed bonds with principal amount of US\$324 million as requested by investors on May 27, 2014. The associated convertible rights were deemed cancelled and the consideration paid for the early redemption was fully allocated to the liability components. UMC adjusted the carrying amount of the liability components to reflect actual consideration paid and recognized a loss amount to NT\$194 million as non-operating income and expenses. UMC reclassified cancelled convertible rights of NT\$441 million from additional paid-in capital stock options to additional paid-in capital others.

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As bondholders' redemption and UMC's repurchases of bonds from open market in prior year amounted to US\$466 million, which represented over 90% principal being redeemed; therefore, UMC redeemed the remaining bonds in whole at the Early Redemption Price on June 27, 2014. The principal amount of the redeemed bonds was US\$34 million. UMC recognized a gain of NT\$15 million from the redemption as non-operating income and expense.

In accordance with IAS 32 Financial Instruments: Presentation (IAS 32), the value of the conversion right of the convertible bonds was determined at issuance and recognized in additional paid-in capital—stock options amounting to NT\$680 million, after reduction of issuance costs amounting to NT\$3 million. The effective interest rate on the liability component of the convertible bonds was determined to be 0.82%.

- B. In early June 2012, UMC issued a five-year and a seven-year domestic unsecured corporate bonds amounting to 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 a rate of 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 a rate of 1.63%, and the principal will be repayable in June 2019 upon maturity.

- C. In mid-March 2013, UMC issued five-year and seven-year domestic unsecured corporate bonds amounting to 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 a rate of 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 a rate of 1.50%, and the principal will be repayable in March 2020 upon maturity.

- D. In mid-June 2014, UMC issued seven-year and ten-year domestic unsecured corporate bonds amounting to NT\$5,000 million, with a face value of NT\$1 million per unit. The seven-year domestic unsecured corporate bond was issued in the amount of NT\$2,000 million. Interest will be paid annually at a rate of 1.70%, and the principal will be repayable in June 2021 upon maturity. The ten-year domestic unsecured corporate bond was issued in the amount of NT\$3,000 million. Interest will be paid annually at a rate of 1.95%, and the principal will be repayable in June 2024 upon maturity.

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- E. On May 18, 2015, UMC issued SGX-ST listed currency linked zero coupon convertible bonds. The terms and conditions of the bonds were as follows:
- a. Issue Amount: US\$600 million
 - b. Period: May 18, 2015 ~ May 18, 2020 (Maturity date)
 - c. Redemption:
 - i. UMC may redeem the bonds, in whole or in part, after 3 years of the issuance and prior to the maturity date, at the principal amount of the bonds with an interest calculated at the rate of -0.25% per annum (the Early Redemption Amount) if the closing price of the ordinary shares of UMC on the TWSE, for a period of 20 out of 30 consecutive trading days, the last of which occurs not more than 5 days prior to the date upon which notice of such redemption is published, is at least 125% of the conversion price. The Early Redemption Price will be converted into NTD based on the Fixed Exchange Rate (NTD 30.708=USD 1.00), and this fixed NTD amount will be converted using the prevailing rate at the time of redemption for payment in USD.
 - ii. UMC may redeem the bonds, in whole, but not in part, at the Early Redemption Amount if at least 90% in principal amount of the bonds has already been converted, redeemed or repurchased and cancelled.
 - iii. UMC may redeem all, but not part, of the bonds, at the Early Redemption Amount at any time, in the event of certain changes in the R.O.C.'s tax rules which would require UMC to gross up for payments of principal, or to gross up for payments of interest or premium.
 - iv. All or any portion of the bonds will be redeemable at Early Redemption Amount at the option of bondholders on May 18, 2018 at 99.25% of the principal amount.
 - v. Bondholders have the right to require UMC to redeem all of the bonds at the Early Redemption Amount if UMC's ordinary shares cease to be listed on the Taiwan Stock Exchange.
 - vi. In the event that a change of control as defined in the indenture of the bonds occurs to UMC, the bondholders shall have the right to require UMC to redeem the bonds, in whole but not in part, at the Early Redemption Amount.

d. Terms of Conversion:

- i. Underlying Securities: Ordinary shares of UMC

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- ii. Conversion Period: The bonds are convertible at any time on or after June 28, 2015 and prior to May 8, 2020, into UMC ordinary shares; provided, however, that if the exercise date falls within 5 business days from the beginning of, and during, any closed period, the right of the converting holder of the bonds to vote with respect to the shares it receives will be subject to certain restrictions.
- iii. Conversion Price and Adjustment: The conversion price was originally NT\$17.50 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. The conversion price was NT\$15.9895 per share on December 31, 2016.
- e. Redemption on the Maturity Date: On the maturity date, UMC will redeem the bonds at 98.76% of the principal amount unless, prior to such date:
 - i. UMC shall have redeemed the bonds at the option of UMC, or the bonds shall have been redeemed at option of the bondholder;
 - ii. The bondholders shall have exercised the conversion right before maturity; or
 - iii. The bonds shall have been redeemed or repurchased by UMC and cancelled.

In accordance with IAS 32, the value of the conversion right of the convertible bonds was determined at issuance and recognized in additional paid-in capital stock options amounting to NT\$1,894 million, after reduction of issuance costs amounting to NT\$9 million. The effective interest rate on the liability component of the convertible bonds was determined to be 2.03%.

(13) Long-Term Loans

- a. Details of long-term loans as of December 31, 2015 and 2016 are as follows:

Lenders	As of December 31,		Redemption
	2015 NT\$	2016 NT\$	
	(In Thousands)	(In Thousands)	
Secured Long-Term Loan from Mega International Commercial Bank (1)	\$ 51,137	\$ 21,916	Effective August 1, 2012 to August 1, 2017. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Mega International Commercial Bank (2)	12,000	8,000	Effective November 21, 2013 to November 21, 2018. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with

monthly interest payments.

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Lenders	As of December 31,		Redemption
	2015 NT\$	2016 NT\$	
	(In Thousands)	(In Thousands)	
Secured Long-Term Loan from Taiwan Cooperative Bank (1)	52,588	17,530	Effective May 25, 2012 to May 25, 2017. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (2)	40,156		Effective January 10, 2013 to January 10, 2018. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (3)	61,794	39,324	Effective July 10, 2013 to July 10, 2018. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (4)	19,410	14,843	Effective February 13, 2015 to February 13, 2020. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (5)	22,750	18,735	Effective April 28, 2015 to April 28, 2020. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (6)	7,300	6,441	Effective August 10, 2015 to August 10, 2020. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (7)	110,000	107,027	Effective October 19, 2015 to October 19, 2025. Interest-only payment for the first year. Principal is repaid in 37 quarterly payments with monthly interest payments.
Secured Long-Term Loan from Taiwan Cooperative Bank (8)	2,510	2,067	Effective October 28, 2015 to April 28, 2020. Interest-only payment for the first half year. Principal is repaid in 17 quarterly payments with monthly interest payments.

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Lenders	As of December 31,		Redemption
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)	
Secured Long-Term Loan from Taiwan Cooperative Bank (9)	5,900	5,553	Effective November 20, 2015 to November 20, 2020. Interest-only payment for the first year. Principal is repaid in 17 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Bank of Taiwan	2,625,000	1,125,000	Repayable quarterly from October 31, 2015 to July 31, 2017 with monthly interest payments.
Unsecured Syndicated Loans from Bank of Taiwan and 7 others	1,385,000	1,385,000	Repayable semi-annually from February 6, 2017 to February 6, 2020 with monthly interest payments.
Unsecured Long-Term Loan from Mega International Commercial Bank	1,423,077	948,712	Repayable quarterly from October 4, 2015 to October 4, 2018 with monthly interest payments.
Unsecured Long-Term Loan from E. Sun Bank	444,445	222,222	Repayable quarterly from December 24, 2015 to December 24, 2017 with monthly interest payments.
Unsecured Long-Term Loan from Taiwan Cooperative Bank	1,900,000	950,000	Repayable quarterly from March 24, 2016 to December 24, 2017 with monthly interest payments.
Unsecured Revolving Loan from CTBC Bank (1) (Note A)		1,000,000	Settlement due on January 25, 2021 with monthly interest payments.
Unsecured Revolving Loan from CTBC Bank (2) (Note B)	2,000,000		Settlement due on August 30, 2016 with monthly interest payments.
Unsecured Revolving Loan from Chang Hwa Commercial Bank (Note C)	1,333,333		Repayable quarterly from December 29, 2014 to December 29, 2016 with monthly interest payments.
Unsecured Revolving Loan from KGI Bank (Note D)	1,000,000	1,000,000	Settlement due on December 25, 2019 with monthly interest payments.
Secured Syndicated Loans from China Development Bank and 6 others		22,381,561	Effective October 20, 2016 to October 20, 2024. Interest-only payment for the first and the second year. Principal is repaid in 13 semi-annually payments with semi-annually interest payments.
Subtotal	12,496,400	29,253,931	
Less: Administrative expenses from syndicated loans	(6,942)	(5,241)	
Less: Current portion	(6,601,721)	(3,001,503)	
Total	\$ 5,887,737	\$ 26,247,187	

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	For the years ended December 31,		
	2014	2015	2016
Interest Rates	1.23%~2.51%	1.10%~2.95%	0.98%~4.66%

- Note A: UMC entered into a 5-year loan agreement with CTBC Bank, effective from January 25, 2016. The agreement offered UMC a revolving line of credit of NT\$2.5 billion starting from the first use of the loan to the expiration date of the agreement, January 25, 2021. As of December 31, 2016, the unused line of credit was NT\$1.5 billion.
- Note B: UMC entered into a 5-year loan agreement with CTBC Bank, effective from August 30, 2011. The agreement, which offered UMC a revolving line of credit of NT\$2.5 billion starting from the first use of the loan to the expiration date of the agreement, August 30, 2016, was early terminated on January 25, 2016. As of December 31, 2015, the unused line of credit was NT\$0.5 billion.
- Note C: UMC entered into a 5-year loan agreement with Chang Hwa Commercial Bank, effective from December 29, 2011. The agreement offered UMC a revolving line of credit of NT\$3 billion. This line of credit will be reduced starting from the end of the third year after the first use and every three months thereafter, with a total of nine adjustments. The expiration date of the agreement is December 29, 2016. As of December 31, 2015, all lines of credit were used.
- Note D: UMC entered into a 5-year loan agreement with KGI Bank, effective from September 25, 2014. The agreement offered UMC a revolving line of credit of NT\$2 billion. This line of credit will be reduced starting from the end of the second year after the first use and every twelve months thereafter, with a total of four adjustments. The expiration date of the agreement is December 25, 2019. As of December 31, 2015 and 2016, the unused line of credit were NT\$1 billion and NT\$0.5 billion, respectively.
- b. Please refer to Note 8 for property, plant and equipment pledged as collateral for long- term loans.
- c. In 2014, UMC resolved to provide endorsement for NEXPOWER's syndicated loan from banks including Bank of Taiwan for the amount up to NT\$1,700 million. As of December 31, 2015 and 2016, the actual amount provided were both NT\$1,385 million.

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- d. In 2016, HEJIAN resolved to provide endorsement for USC's syndicated loan from banks including China Development Bank for the amount up to NT\$9,471 million. As of December 31, 2016, the actual amount provided was NT\$6,629 million.

(14) Post-Employment Benefits

a. Defined contribution plan

The Labor Pension Act of the R.O.C. (the Act) is a defined contribution plan. Under the Act, the monthly contributions percentage shall not be less than 6% of these employees' monthly wages. Accordingly, a total of NT\$597 million, NT\$620 million and NT\$638 million were contributed by the Company for the years ended December 31, 2014, 2015 and 2016, respectively. Pension benefits for employees of the Singapore branch, and other subsidiaries overseas were provided in accordance with the local regulations, and during the years ended December 31, 2014, 2015 and 2016, the Company made total contributions of NT\$445 million, NT\$531 million and NT\$582 million, respectively.

b. Defined benefit plan

The employee pension plan mandated by the Labor Standards Act of the R.O.C. is a defined benefit plan. The pension benefits are disbursed based on the units of service years and average monthly salary prior to retirement according to the Labor Standards Act. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year and the total units will not exceed 45 units. The Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited with the Bank of Taiwan under the name of an administered pension fund committee. For the years ended December 31, 2014, 2015 and 2016, total pension expenses of NT\$113 million, NT\$111 million and NT\$94 million, respectively, were recognized by the Company.

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i. Movements in present value of defined benefit obligation during the year:

	For the years ended December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Defined benefit obligation at beginning of year	\$ (5,450,787)	\$ (5,386,355)
Items recognized as profit or loss:		
Service cost	(30,973)	(27,368)
Interest cost	(114,468)	(91,568)
Subtotal	(145,441)	(118,936)
Remeasurements recognized in other comprehensive income (loss):		
Arising from changes in demographic assumptions	342,640	(105,542)
Arising from changes in financial assumptions	(336,679)	(42,256)
Experience adjustments	(56,398)	85,962
Subtotal	(50,437)	(61,836)
Benefits paid	260,310	84,862
Defined benefit obligation at end of year	\$ (5,386,355)	\$ (5,482,265)

ii. Movements in fair value of plan assets during the year:

	For the years ended December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Beginning balance of fair value of plan assets	\$ 1,625,297	\$ 1,495,554
Items recognized as profit or loss:		
Interest income on plan assets	34,132	25,424
Contribution by employer	86,198	91,312
Payment of benefit obligation	(260,310)	(84,862)
Remeasurements recognized in other comprehensive income (loss):		
Return on plan assets, excluding amounts included in interest income	10,237	(14,057)
Fair value of plan assets at end of year	\$ 1,495,554	\$ 1,513,371

The actual returns on plan assets of the Company for the years ended December 31, 2015 and 2016 were NT\$44 million and NT\$11 million, respectively.

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- iii. The defined benefit plan recognized on the consolidated balance sheets are as follows:

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Present value of the defined benefit obligation	\$ (5,386,355)	\$ (5,482,265)
Fair value of plan assets	1,495,554	1,513,371
Funded status	(3,890,801)	(3,968,894)
Net defined benefit liabilities, noncurrent recognized on the consolidated balance sheets	\$ (3,890,801)	\$ (3,968,894)

- iv. The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	As of December 31,	
	2015	2016
Cash	21%	21%
Equity instruments	49%	45%
Debt instruments	27%	27%
Others	3%	7%

Employee pension fund is deposited under a trust administered by the Bank of Taiwan. The overall expected rate of return on assets is determined based on historical trend and actuaries' expectations on the assets' returns in the market over the obligation period. Furthermore, the utilization of the fund is determined by the labor pension fund supervisory committee, which also guarantees the minimum earnings to be no less than the earnings attainable from interest rates offered by local banks for two-year time deposits.

- v. The principal underlying actuarial assumptions are as follows:

	As of December 31,	
	2015	2016
Discount rate	1.70%	1.40%
Rate of future salary increase	4.00%	3.50%

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vi. Expected future benefit payments are as follows:

Year	As of December 31, 2016 NT\$ (In Thousands)
2017	\$ 133,100
2018	149,047
2019	165,507
2020	201,409
2021	252,654
2022 and thereafter	1,955,476
Total	\$ 2,857,193

The Company expects to make pension fund contribution of NT\$93 million in 2017. The weighted-average durations of the defined benefit obligation are 13 years and 12 years as of December 31, 2015 and 2016, respectively.

vii. Sensitivity analysis:

	As of December 31, 2015			
	Discount rate		Rate of future salary increase	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)
Decrease (increase) in defined benefit obligation	\$ 277,412	\$ (297,728)	\$ (262,321)	\$ 248,054

	As of December 31, 2016			
	Discount rate		Rate of future salary increase	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)
Decrease (increase) in defined benefit obligation	\$ 290,068	\$ (311,920)	\$ (276,029)	\$ 260,500

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Table of Contents(15) Deferred Government Grants

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Beginning balance	\$ 76,259	\$ 295,133
Arising during the period	254,645	9,566,327
Recorded in profit or loss:		
Other operating income	(34,405)	(118,757)
Exchange effect	(1,366)	(445,332)
Ending balance	\$ 295,133	\$ 9,297,371
Current	\$ 20,641	\$ 888,921
Noncurrent	274,492	8,408,450
Total	\$ 295,133	\$ 9,297,371

The significant government grants related to equipment acquisitions received by the Company are amortized as income over the useful lives of related equipment and recorded in the net other operating income and expenses.

(16) Equity

a. Capital stock:

- i. UMC had 26,000 million common shares authorized to be issued as of December 31, 2015 and 2016, of which 12,758 million shares and 12,624 million shares were issued as of December 31, 2015 and 2016, respectively, each at a par value of NT\$10.
- ii. UMC had 136 million and 151 million ADSs, which were traded on the NYSE as of December 31, 2015 and 2016, respectively. The total number of common shares of UMC represented by all issued ADSs were 678 million shares and 754 million shares as of December 31, 2015 and 2016, respectively. One ADS represents five common shares.

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- iii. Among the employee stock options issued by UMC on June 19, 2009, 28 million options had been exercised for the year ended December 31, 2015. The issuance process was completed through the authority.
 - iv. UMC sold 61 million shares of treasury stock to employees for the year ended December 31, 2015, which were repurchased during the period from March 15 to May 6, 2013, for the purpose of transferring to employees.
 - v. On June 15, 2016, UMC cancelled 134 million shares of treasury stock, which were repurchased during the periods from March 15 to May 6, 2013 for the purpose of transferring to employees.
- b. Treasury stock:
- i. UMC carried out treasury stock program and repurchased its shares from the centralized securities exchange market. The purpose for repurchase and changes in treasury stock during the years ended December 31, 2015 and 2016 are as follows:

For the year ended December 31, 2015

(In thousands of shares)

Purpose	As of January 1, 2015	Increase	Decrease	As of December 31, 2015
For transfer to employees	194,510	200,000	60,696	333,814

For the year ended December 31, 2016

(In thousands of shares)

Purpose	As of January 1, 2016	Increase	Decrease	As of December 31, 2016
For transfer to employees	333,814	200,000	133,814	400,000

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- ii. According to the Securities and Exchange Law of the R.O.C., the total shares of treasury stock shall not exceed 10% of UMC's issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital-premiums and realized additional paid-in capital. As of December 31, 2015 and 2016, the treasury stock held by UMC did not exceed the threshold.

- iii. In compliance with Securities and Exchange Law of the R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends. Stock held by subsidiaries and associates is treated as treasury stock. According to the Company Act of R.O.C., these subsidiaries have the same rights as other stockholders except for subscription to new stock issuance and voting rights.

- iv. As of December 31, 2015 and 2016, UMC's subsidiary, FORTUNE VENTURE CAPITAL CORP., and associate, HSUN CHIEH INVESTMENT CO., LTD., held 16 million shares and 441 million shares, respectively, of UMC's stock as available-for-sale financial assets. As of December 31, 2015 and 2016, UMC's associate, YANN YUAN INVESTMENT CO., LTD., held nil and 165 million shares, respectively, of UMC's stock as available-for-sale financial assets. As of December 31, 2015 and 2016, UMC's associate, MEGA MISSION LIMITED PARTNERSHIP, held 10 million shares and nil, respectively, of UMC's stock as financial assets at fair value through profit or loss. The closing prices of UMC's stock on December 31, 2015 and 2016 were NT\$12.10 and NT\$11.40 respectively.

c. Retained earnings and dividend policies:

In consideration of the revision of the Company Act in May 2015, the stockholders' meeting resolved the amendment of UMC's Articles of Incorporation on June 7, 2016. According to the amendment of UMC's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- i. Payment of taxes.

- ii. Making up loss for preceding years.

- iii. Setting aside 10% for legal reserve, except for when accumulated legal reserve has reached UMC's paid-in capital.

- iv. Appropriating or reversing special reserve by government officials or other regulations.

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- v. The remaining, plus the previous year's unappropriated earnings, shall be distributed according to the distribution plan proposed by the Board of Directors according to the dividend policy and submitted to the stockholders' meeting for approval.

Because UMC conducts business in a capital intensive industry and continues to operate in its growth phase, the dividend policy of UMC shall be determined pursuant to factors such as the investment environment, capital requirements, domestic and overseas competitive environment and capital budget, as well as stockholders' interest, dividend balance and long term financial plan of UMC. The Board of Directors shall propose the distribution plan and submit it to the stockholders' meeting every year. The distribution of stockholders' dividend shall be allocated as cash dividend in the range of 20% to 100%, and stock dividend in the range of 0% to 80%.

According to the regulations of Taiwan Financial Supervisory Commission (FSC), UMC is required to appropriate a special reserve in the amount equal to the sum of debit elements under equity, such as unrealized loss on financial instruments and negative cumulative translation adjustment, at every year-end. Such special reserve is prohibited from distribution. However, if any of the debit elements is reversed, the special reserve in the amount equal to the reversal may be released for earnings distribution or offsetting accumulated deficit.

The distribution of earnings for 2015 was approved through the stockholders' meeting on June 7, 2016, while the distribution of earnings for 2016 was approved through the Board of Directors' meeting on February 22, 2017. The details of distribution are as follows:

	Appropriation of earnings (in thousand NT dollars)		Cash dividend per share (NT dollars)	
	2015	2016	2015	2016
Legal reserve	\$ 1,344,862	\$ 831,566		
Cash dividends	6,906,973	6,112,159	\$ 0.55	\$ 0.50

The aforementioned 2015 distributions approved during stockholders' meeting were consistent with the resolutions of meeting of Board of Directors held on March 16, 2016.

The cash dividend per share for 2015 was adjusted to NT\$0.56501906 per share according to the resolution of the Board of Directors' meeting on June 15, 2016. The adjustment was made for the decrease in outstanding common shares due to the share repurchase program and the cancellation of the treasury stock purchased.

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The appropriation of 2016 unappropriated retained earnings has not yet been approved by the stockholders' meeting as of the reporting date. Information on the Board of Directors' recommendations and stockholders' approval can be obtained from the Market Observation Post System on the website of the TWSE.

Please refer to Note 6(19) for information on the employees' compensation and remuneration to directors.

d. Non-controlling interests:

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Balance as of January 1	\$ 4,319,988	\$ 3,849,798	\$ 2,027,065
Attributable to non-controlling interests:			
Net loss	(661,752)	(612,973)	(4,452,585)
Other comprehensive income (loss)	142,991	(62,114)	(32,318)
Changes in subsidiaries' ownership	59,785	(1,047,246)	567,073
Effect of deconsolidation of subsidiaries	(11,214)	(100,400)	
Derecognition of the non-controlling interests			4,052,494
Balance as of December 31	\$ 3,849,798	\$ 2,027,065	\$ 2,161,729

(17) Employee Stock Options

On May 12, 2009, the Company was authorized by the Securities and Futures Bureau of FSC, to issue employee stock options with a total number of 500 million units each. Each unit entitled an optionee to subscribe to 1 share of the Company's common stock. Settlement upon the exercise of the options would be made through the issuance of new shares by the Company. The exercise prices of the options were set at the closing prices of the Company's common stock on the dates of grant. The contractual lives were 6 years and an optionee might exercise the options in accordance with certain schedules as prescribed by the plans after 2 years from the dates of grant. All employee stock options expired on June 18, 2015.

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A summary of the Company's stock option plan and related information for the years ended December 31, 2014 and 2015 is as follows:

For the year ended December 31, 2014

	Options (in thousands)	Shares available to option holders (in thousands)	Weighted - average exercise price per share (NTD)
Outstanding at beginning of period	87,768	87,768	\$ 10.40
Exercised	(35,655)	(35,655)	\$ 10.40
Forfeited	(3,384)	(3,384)	\$ 10.40
Outstanding at end of period	48,729	48,729	\$ 10.40
Exercisable at end of period	44,222	44,222	\$ 10.40

For the year ended December 31, 2015

	Options (in thousands)	Shares available to option holders (in thousands)	Weighted - average exercise price per share (NTD)
Outstanding at beginning of period	48,729	48,729	\$ 10.40
Exercised	(27,828)	(27,828)	\$ 10.40
Forfeited	(469)	(469)	\$ 10.40
Expired	(20,432)	(20,432)	\$ 10.40
Outstanding at end of period			\$ 10.40
Exercisable at end of period			\$ 10.40

The weighted-average share price at the date of exercise of employee stock options for the years ended December 31, 2014 and 2015 were NT\$14.06 and NT\$14.95, respectively. The compensation expenses for the years ended December 31, 2014 and 2015 were both NT\$1 million.

Table of Contents**(18) Operating Revenues**

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Net sales			
Sale of goods	\$ 134,526,268	\$ 140,640,738	\$ 142,816,919
Other operating revenues			
Royalty	1,767,723	18,616	11,757
Mask tooling	3,137,979	3,424,335	3,676,365
Others	580,106	746,732	1,365,083
Net operating revenues	\$ 140,012,076	\$ 144,830,421	\$ 147,870,124

On August 29, 2014, UMC entered into a technology license contract with FUJITSU SEMICONDUCTOR LIMITED (FUJITSU) under which UMC granted a perpetual license to its 40LP (low power) process technology to FUJITSU for royalty income. As UMC completed all the performance obligations under the contract by the end of 2014, the royalty income was recognized in 2014.

(19) Operating Costs and Expenses

The Company's employee benefit, depreciation and amortization expenses are summarized as follows:

	For the years ended December 31,								
	Operating costs	2014 Operating expenses NT\$ (In Thousands)	Total	Operating costs	2015 Operating expenses NT\$ (In Thousands)	Total	Operating costs	2016 Operating expenses NT\$ (In Thousands)	Total
Employee benefit expenses									
Salaries	\$ 14,048,324	\$ 5,687,654	\$ 19,735,978	\$ 14,756,493	\$ 6,141,982	\$ 20,898,475	\$ 14,839,388	\$ 6,781,877	\$ 21,621,265
Depreciation and amortization	794,333	318,830	1,113,163	820,037	340,102	1,160,139	802,913	351,873	1,154,812
Health insurance									
Provision	873,437	281,677	1,155,114	943,297	319,414	1,262,711	965,494	347,871	1,313,365
Other	212,883	76,131	289,014	229,491	101,950	331,441	231,270	90,402	321,672
Employee benefit expenses									

Depreciation	36,427,088	2,307,181	38,734,269	41,022,028	2,381,481	43,403,509	46,805,589	2,790,138	49,595,7
Amortization	633,786	1,237,992	1,871,778	654,711	1,344,390	1,999,101	790,206	1,502,360	2,292,5

In consideration of the revision of the Company Act in May 2015, the stockholders meeting resolved the amendment of UMC's Articles of Incorporation on June 7, 2016. According to the amendment of UMC's Articles of Incorporation, the employees' compensation and directors' remuneration shall be distributed in the following order:

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UMC shall allocate no less than 5% of profit as employees' compensation and no more than 0.1% of profit as directors' compensation for each profitable fiscal year after offsetting any cumulative losses. The aforementioned employees' compensation will be distributed in shares or cash. The employees of UMC's subsidiaries who fulfill specific requirements stipulated by the Board of Directors may be granted such compensation. Directors may only receive compensation in cash. UMC may, by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, distribute the aforementioned employees' and directors' compensation and report to the stockholders' meeting for such distribution.

The distributions of employees' compensation and remuneration to directors for 2015 have complied with the aforementioned amendment of the UMC's articles.

The Company estimates the amounts of the employees' compensation and remuneration to directors and recognizes them in the profit or loss during the periods when earned for the years ended December 31, 2015 and 2016. The Board of Directors estimated the amount by taking into consideration the amendment of the Articles of Incorporation, government regulations and industry averages. If the Board of Directors resolves to distribute employee compensation through stock, the number of stock distributed is calculated based on total employee compensation divided by the closing price of the day before the Board of Directors meeting. If the Board of Directors subsequently modifies the estimates significantly, the Company will recognize the change as an adjustment in the profit or loss in the subsequent period. The difference between the estimation and the resolution of the stockholders' meeting will be recognized in profit or loss in the subsequent year.

The distributions of employees' compensation and remuneration to directors for 2015 were reported to the stockholders' meeting on June 7, 2016, while the distributions of employees' compensation and remuneration to directors for 2016 were approved through the Board of Directors' meeting on February 22, 2017. The details of distribution are as follows:

	2015 NT\$	2016 NT\$
	(In Thousands)	(In Thousands)
Employees' compensation - Cash	\$ 1,131,180	\$ 930,551
Directors' remuneration	12,086	9,714

The aforementioned 2015 employees' compensation and remuneration to directors approved during the stockholders' meeting were consistent with the resolutions of meeting of Board of Directors held on March 16, 2016.

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Information on the aforementioned employees' compensation and remuneration to directors can be obtained from the Market Observation Post System on the website of the TWSE.

(20) Net Other Operating Income and Expenses

	For the years ended December 31,		
	2014 NT\$	2015 NT\$	2016 NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Net rental loss from property	\$ (24,098)	\$ (84,492)	\$ (141,773)
Gain on disposal of property, plant and equipment	81,811	97,366	73,014
Impairment loss of property, plant and equipment	(596,678)	(1,021,010)	(455,076)
Others		44,402	260,710
Total	\$ (538,965)	\$ (963,734)	\$ (263,125)

(21) Non-Operating Income and Expenses

a. Other income

	For the years ended December 31,		
	2014 NT\$	2015 NT\$	2016 NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Interest income			
Bank deposits	\$ 471,153	\$ 313,620	\$ 260,582
Others	24,577	42,464	33,208
Dividend income	706,719	692,858	606,193
Total	\$ 1,202,449	\$ 1,048,942	\$ 899,983

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b. Other gains and losses

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Gain on valuation of financial assets and liabilities at fair value through profit or loss:			
Designated financial assets at fair value through profit or loss	\$ 34,816	\$ 8,462	\$
Financial assets held for trading	44,310		60,821
Forward exchange contract			93,781
Embedded derivative financial liabilities	60,064		
Loss on valuation of financial assets and liabilities at fair value through profit or loss:			
Designated financial assets at fair value through profit or loss			(3,832)
Financial assets held for trading		(21,020)	
Forward exchange contract	(84,962)	(81,895)	
Impairment loss:			
Investments accounted for under the equity method			(837,153)
Available-for-sale financial assets, noncurrent	(176,958)	(1,238,932)	(492,140)
Financial assets measured at cost, noncurrent	(127,559)	(6,559)	(293,205)
Gain on disposal of investments	2,445,259	2,517,137	2,097,818
Others	474,163	756,666	233,310
Total	\$ 2,669,133	\$ 1,933,859	\$ 859,400

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c. Finance costs

	For the years ended December 31,		
	2014 NT\$	2015 NT\$	2016 NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Interest expenses			
Bonds payable	\$ 465,577	\$ 290,132	\$ 595,311
Bank loans	221,879	180,068	654,181
Others	(278)	110	91
Financial expenses	58,887	53,555	164,720
Total	\$ 746,065	\$ 523,865	\$ 1,414,303

(22) Components of Other Comprehensive Income (Loss)

	For the year ended December 31, 2014				
	Arising during the period NT\$	Reclassification adjustments during the period NT\$	Other comprehensive income (loss), before tax NT\$	Income tax effect NT\$	Other comprehensive income (loss), net of tax NT\$
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans	\$ (2,607)	\$	\$ (2,607)	\$ 521	\$ (2,086)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	4,290,260	(869)	4,289,391	40,380	4,329,771
Unrealized gain (loss) on available-for-sale financial assets	3,598,159	(1,945,996)	1,652,163	(187,652)	1,464,511
Share of other comprehensive income (loss) of associates and joint ventures which may be reclassified subsequently to profit or loss	312,815	(727)	312,088	(34,992)	277,096
Total other comprehensive income (loss)	\$ 8,198,627	\$ (1,947,592)	\$ 6,251,035	\$ (181,743)	\$ 6,069,292

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	For the year ended December 31, 2015				
	Arising during the period	Reclassification adjustments during the period	Other	Income tax effect	Other
			comprehensive income (loss), before tax		comprehensive income (loss), net of tax
	NT\$	NT\$	NT\$	NT\$	NT\$
(In Thousands)	Thousands	(In Thousands)	(In Thousands)	(In Thousands)	
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans	\$ (40,200)	\$	\$ (40,200)	\$ 6,809	\$ (33,391)
Share of remeasurements of defined benefit plans of associates and joint ventures	(1,831)		(1,831)		(1,831)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	2,784,800		2,784,800	(21,026)	2,763,774
Unrealized gain (loss) on available-for-sale financial assets	(2,843,916)	(916,291)	(3,760,207)	281,203	(3,479,004)
Share of other comprehensive income (loss) of associates and joint ventures which may be reclassified subsequently to profit or loss	(277,004)	677	(276,327)	(37,850)	(314,177)
Total other comprehensive income (loss)	\$ (378,151)	\$ (915,614)	\$ (1,293,765)	\$ 229,136	\$ (1,064,629)

	For the year ended December 31, 2016				
	Arising during the period	Reclassification adjustments during the period	Other	Income tax effect	Other
			comprehensive income (loss), before tax		comprehensive income (loss), net of tax
	NT\$	NT\$	NT\$	NT\$	NT\$
(In Thousands)	Thousands	(In Thousands)	(In Thousands)	(In Thousands)	
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans	\$ (75,893)	\$	\$ (75,893)	\$ 12,899	\$ (62,994)
Share of remeasurements of defined benefit plans of associates and joint ventures	2,459		2,459		2,459
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	(1,815,947)		(1,815,947)	(620)	(1,816,567)

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Unrealized gain (loss) on available-for-sale financial assets	(287,866)	(1,681,770)	(1,969,636)	95,705	(1,873,931)
Share of other comprehensive income (loss) of associates and joint ventures which may be reclassified subsequently to profit or loss	(331,615)		(331,615)	58,577	(273,038)
Total other comprehensive income (loss)	\$ (2,508,862)	\$ (1,681,770)	\$ (4,190,632)	\$ 166,561	\$ (4,024,071)

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Table of Contents(23) Income Tax

- a. The major components of income tax expense for the years ended December 31, 2014, 2015 and 2016 were as follows:

- i. Income tax expense recorded in profit or loss

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Current income tax expense (benefit):			
Current income tax charge	\$ 3,439,422	\$ 2,081,552	\$ 3,502,195
Adjustments in respect of current income tax of prior periods	(485,580)	(154,769)	(424,939)
Deferred income tax expense (benefit):			
Deferred income tax related to origination and reversal of temporary differences	(650,172)	(1,431,680)	(2,770,767)
Deferred income tax related to recognition and derecognition of tax losses and unused tax credits	1,924,919	654,065	(54,519)
Adjustment of prior year's deferred income tax	307,661	(1,690)	53,322
Deferred income tax arising from write-down or reversal of write-down of deferred tax assets	(1,411,135)	(119,978)	247,232
Income tax expense recorded in profit or loss	\$ 3,125,115	\$ 1,027,500	\$ 552,524

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ii. Income tax relating to components of other comprehensive income (loss)

Items that will not be reclassified:

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Remeasurements of defined benefit pension plans	\$ 521	\$ 6,809	\$ 12,899

Items that may be reclassified subsequently to profit or loss:

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Exchange differences on translation of foreign operations	\$ 40,380	\$ (21,026)	\$ (620)
Unrealized loss (gain) on available-for-sale financial assets	(187,652)	281,203	95,705
Share of other comprehensive income (loss) of associates and joint ventures which may be reclassified subsequently to profit or loss	(34,992)	(37,850)	58,577
Income tax relating to items that may be reclassified subsequently to profit or loss	\$ (182,264)	\$ 222,327	\$ 153,662

iii. Deferred income tax charged directly to equity

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Temporary differences arising from the initial recognition of the equity component separately from the liability component	\$ 83,185	\$ (322,001)	\$
Adjustments of changes in net assets of associates and joint ventures accounted for using equity method	(2,870)	1,040	1,608
Income tax charged directly to equity	\$ 80,315	\$ (320,961)	\$ 1,608

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- b. A reconciliation between income tax expense and income before tax at UMC's applicable tax rate was as follows:

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In	(In	(In
	Thousands)	Thousands)	Thousands)
Income before tax	\$ 13,572,303	\$ 13,668,598	\$ 4,721,086
At UMC's statutory income tax rate of 17%	2,307,291	2,323,662	802,584
Adjustments in respect of current income tax of prior periods	(485,580)	(154,769)	(424,939)
Net change in loss carry-forward and investment tax credits	212,862	705,857	1,327,716
Tax effect of deferred tax assets/liabilities	427,605	11,421	253,100
Tax effect of non-taxable income and non-deductible expenses:			
Tax exempt income	(328,456)	(1,649,709)	(1,707,646)
Investment gain	(266,413)	(1,196,376)	(658,375)
Dividend income	(107,436)	(90,201)	(88,518)
Others	(181,598)	354,485	254,903
Basic tax	16,379		70,316
Estimated 10% income tax on unappropriated earnings	1,092,466	344,932	(299,338)
Effect of different tax rates applicable to UMC and its subsidiaries	(13,833)	(6,225)	(13,103)
Taxes withheld in other jurisdictions	382,912	16,629	753,752
Others	68,916	367,794	282,072
Income tax expense recorded in profit or loss	\$ 3,125,115	\$ 1,027,500	\$ 552,524

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c. Significant components of deferred income tax assets and liabilities were as follows:

	As of December 31,			
	2015		2016	
	Amount	Tax effect	Amount	Tax effect
	NT\$		NT\$	
	(In Thousands)		(In Thousands)	
Deferred income tax assets				
Depreciation	\$ 5,541,838	\$ 881,603	\$ 13,031,432	\$ 2,147,042
Loss carry-forward	17,475	2,231	9,294	842
Pension	3,861,009	656,372	3,934,999	668,950
Allowance for sales returns and discounts	1,007,449	171,266	1,732,414	294,510
Allowance for inventory valuation losses	1,755,537	294,284	1,988,283	333,472
Investment loss	1,079,356	208,802	1,332,345	231,299
Unrealized profit on intercompany sales	414,431	70,453	5,037,080	856,304
Deferred revenue			2,363,471	401,790
Others	118,204	38,231	417,821	88,186
Total deferred income tax assets		2,323,242		5,022,395
Deferred income tax liabilities				
Unrealized exchange gain	(1,960,967)	(333,364)	(2,327,786)	(395,723)
Depreciation	(1,036,606)	(155,491)	(1,742,959)	(277,365)
Investment gain	(10,246,059)	(1,195,474)	(8,618,970)	(1,095,682)
Convertible bond option	(1,695,120)	(288,170)	(1,369,594)	(232,831)
Amortizable assets	(2,742,811)	(411,422)	(2,623,852)	(393,578)
Others	(12,818)	(2,179)	(15,395)	(2,617)
Total deferred income tax liabilities		(2,386,100)		(2,397,796)
Net deferred income tax assets (liabilities)		\$ (62,858)		\$ 2,624,599

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d. Movement of deferred tax

	For the years ended	
	December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Balance at January 1	\$ (873,113)	\$ (62,858)
Amounts recognized in profit or loss during the period	899,283	2,524,732
Amounts recognized in other comprehensive income	229,136	166,561
Amounts recognized in equity	(320,961)	1,608
Exchange adjustments	2,797	(5,444)
Balance at December 31	\$ (62,858)	\$ 2,624,599

- e. The Company is subject to taxation in Taiwan and other foreign jurisdictions. As of December 31, 2016, income tax returns of UMC and its subsidiaries in Taiwan have been examined by the tax authorities through 2014 and 2012, respectively, while in other foreign jurisdictions, relevant tax authorities have completed the examination through 2009. UMC has applied for a reexamination of the 2012 tax return with the competent tax collection authority as UMC disagreed with the decision made in the tax assessment notice.
- f. UMC was granted income tax exemption for several periods with respect to income derived from the expansion of operations. The income tax exemption will expire on December 31, 2020.

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g. The Company's unused investment tax credits were as follows:

As of December 31, 2015

Expiration year	Investment tax credits earned NT\$ (In Thousands)	Balance of unused investment tax credits NT\$ (In Thousands)
2016	\$ 5,596	\$ 5,589

As of December 31, 2016: None.

h. The unutilized accumulated losses for the Company were as follows:

As of December 31, 2015

Expiration year	Accumulated loss NT\$ (In Thousands)	Unutilized accumulated loss NT\$ (In Thousands)
2016	\$ 21,616	\$ 21,616
2017	15,844	15,844
2018	165,258	98,221
2019	600,180	600,180
2020	799,425	782,909
2021	1,184,838	1,184,838
2022	2,296,589	2,288,463
2023	4,843,921	4,843,921
2024	2,689,506	2,689,506
2025	2,826,695	2,826,695
2031	2,570	2,570
2032	7,864	6,260
2035	1,894	1,894
Unlimited duration	5,141	5,141
	\$ 15,461,341	\$ 15,368,058

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As of December 31, 2016

Expiration year	Accumulated loss	Unutilized
	NT\$	accumulated loss
	(In Thousands)	NT\$
2017	\$ 15,844	\$ 15,844
2018	165,258	98,221
2019	600,180	600,180
2020	862,586	835,559
2021	6,612,085	6,523,911
2022	2,286,358	2,278,232
2023	4,843,921	4,843,921
2024	2,254,348	2,254,348
2025	4,265,773	4,258,812
2026	2,137,596	2,137,596
2031	6,729	2,526
2032	7,730	5,953
2035	1,382	1,382
Unlimited duration	4,856	4,856
	\$ 24,064,646	\$ 23,861,341

- i. As of December 31, 2015 and 2016, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amounted to NT\$3,163 million and NT\$5,375 million, respectively.
- j. Imputation credit information

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In Thousands)	(In Thousands)
Balances of imputation credit amounts	\$ 2,656,855	\$ 3,850,306

The actual creditable ratio for 2015 and the expected creditable ratio for 2016 were 6.68% and 9.16%, respectively. Imputation credit ratio for individual stockholders residing in R.O.C. will be half of the original ratio according to the Article 66-6 of Income Tax Act.

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- k. UMC's earnings generated in and prior to the year ended December 31, 1997 have been fully appropriated.
- l. As of December 31, 2015 and 2016, the taxable temporary differences of unrecognized deferred tax liabilities associated with investments in subsidiaries amounted to NT\$12,793 million and NT\$9,869 million, respectively.

(24) Earnings Per Share

a. Earnings per share-basic

Basic earnings per share amounts are calculated by dividing the net income for the year attributable to ordinary equity holders of the parent company by the weighted-average number of ordinary shares outstanding during the year. The reciprocal stockholdings held by subsidiaries and associates are deducted from the computation of weighted-average number of shares outstanding.

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Net income attributable to the parent company	\$ 11,108,940	\$ 13,254,071	\$ 8,621,147
Weighted-average number of ordinary shares for basic earnings per share (thousand shares)	12,333,913	12,336,388	12,098,826
Earnings per share-basic (NTD)	\$ 0.90	\$ 1.07	\$ 0.71

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b. Earnings per share-diluted

Diluted earnings per share is calculated by taking basic earnings per share plus the effect of additional common shares that would have been outstanding if the dilutive share equivalents had been issued. The net income attributable to ordinary equity holders of the parent company would be also adjusted for the interest and other income or expenses derived from any underlying dilutive share equivalents, such as convertible bonds. For employees' compensation that may be distributed in shares, the number of shares to be distributed is taken into consideration assuming the distribution will be made entirely in shares when calculating diluted earnings per share. Additionally, the dilutive effect of outstanding employee options generally should be reflected in diluted earnings per share by application of treasury stock method. The assumed proceeds include the exercise price of the options and the average measured but unrecognized compensation expense during the period.

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Net income attributable to the parent company	\$ 11,108,940	\$ 13,254,071	\$ 8,621,147
Effect of dilution			
Unsecured convertible bonds	189,336	172,592	282,325
Income attributable to stockholders of the parent	\$ 11,298,276	\$ 13,426,663	\$ 8,903,472
Weighted-average number of common stocks for basic earnings per share (thousand shares)	12,333,913	12,336,388	12,098,826
Effect of dilution			
Employees' compensation	135,940	143,726	99,122
Employee stock options	15,751	3,199	
Unsecured convertible bonds	232,989	687,493	1,152,306
Weighted-average number of common stocks after dilution (thousand shares)	12,718,593	13,170,806	13,350,254
Diluted earnings per share (NTD)	\$ 0.89	\$ 1.02	\$ 0.67

(25) Deconsolidation of Subsidiaries**ALLIANCE OPTOTEK CORP. (ALLIANCE)**

In order to integrate resources and expand operations to improve operating performance and industrial competitiveness, ALLIANCE's Board of Directors (ALLIANCE, one of the Company's subsidiaries) resolved merger with WIESON TECHNOLOGIES CO., LTD. (WIESON) on January 23, 2014. WIESON was the surviving company and the merger date was June 3, 2014. ALLIANCE's assets and liabilities were reclassified to non-current assets held for sale as a disposal group as of January 23, 2014 until the Company derecognized the related assets and liabilities of ALLIANCE on June 3, 2014.

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- a. Derecognized assets and liabilities mainly consisted of:

	NT\$ (In Thousands)
Assets	
Cash and cash equivalents	\$ 15,617
Notes and accounts receivable	14,239
Inventories	24,165
Property, plant and equipment	6,669
Others	6,418
	67,108
Liabilities	
Payables	(22,984)
Others	(120)
	(23,104)
Net carrying amount of the disposal group	\$ 44,004

- b. Consideration received and gain recognized from the transaction:

	NT\$ (In Thousands)
Stock received WIESON	\$ 32,148
Less: Net assets of the subsidiary deconsolidated	(44,004)
Add: Non-controlling interests	11,214
Amounts transferred from other comprehensive income to profit	869
Gain on disposal of the shares of subsidiary	\$ 227

Gain on disposal of the shares of subsidiary for the year ended December 31, 2014 was recognized as other gains and losses in the consolidated statement of comprehensive income.

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- c. Analysis of net cash outflow arising from deconsolidation of the subsidiary:

	NT\$ (In Thousands)
Cash received	\$
Net cash of subsidiary derecognized	(15,617)
Net cash outflow from deconsolidation	\$ (15,617)

TOPCELL SOLAR INTERNATIONAL CO., LTD. (TOPCELL)

In order to integrate resources and reduce operating cost by improving operating performance and expanding economies of scale, TOPCELL's Board of Directors (TOPCELL, one of the Company's subsidiaries) resolved to offer a merger with MOTECH INDUSTRIES, INC. (MOTECH) on December 26, 2014. Six shares of TOPCELL were exchanged for one share of MOTECH. MOTECH was the surviving company. On June 1, 2015, the Company derecognized the related assets and liabilities.

- a. TOPCELL's derecognized assets and liabilities mainly consisted of:

	NT\$ (In Thousands)
Assets	
Cash and cash equivalents	\$ 834,955
Notes and accounts receivable	855,927
Other receivables	60,638
Inventories	495,726
Prepayments	231,288
Property, plant and equipment	3,862,129
Others	106,714
	6,447,377
Liabilities	
Short-term loans	(3,488,700)
Notes and accounts payable	(409,244)
Other payables	(197,259)
Payables on equipment	(127,297)
Current portion of long-term liabilities	(810,878)
Other current liabilities	(10,107)
Long-term loans	(176,470)
	(5,219,955)
Net carrying amount of the disposal group	\$ 1,227,422

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- b. Consideration received and gain recognized from the transaction:

	NT\$ (In Thousands)
Stock received MOTECH	\$ 1,495,023
Less: Net assets of the subsidiary deconsolidated	(1,227,422)
Add: Non-controlling interests	100,400
Less: Goodwill	(43,072)
Gain on disposal of the shares of subsidiary	\$ 324,929

Gain on disposal of the shares of subsidiary for the year ended December 31, 2015 was recognized as other gains and losses in the consolidated statement of comprehensive income.

- c. Analysis of net cash outflow arising from deconsolidation of the subsidiary:

	NT\$ (In Thousands)
Cash received	\$
Net cash of subsidiary derecognized	(834,955)
Net cash outflow from deconsolidation	\$ (834,955)

7. SIGNIFICANT RELATED PARTY TRANSACTIONS

- a. Significant intercompany transactions between consolidated entities were as follows:
For the year ended December 31, 2014

Entity	Counterparty	Account	Transactions (Note 1)		Terms (Note 3)
			Amount NT\$ (In Thousands)		
UMC	UMC-USA	Sales	\$56,095,440		Net 60 days
UMC	UMC-USA	Accounts receivable	7,191,171		
UMC	UMC GROUP JAPAN	Sales	5,527,537		Net 60 days
UMC	UMC GROUP JAPAN	Accounts receivable	1,205,059		

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Table of ContentsFor the year ended December 31, 2015

Entity	Counterparty	Account	Transactions (Note 2)	
			Amount NT\$ (In Thousands)	Terms (Note 3)
UMC	UMC-USA	Sales	\$ 62,952,979	Net 60 days
UMC	UMC-USA	Accounts receivable	7,615,622	
UMC	UMC GROUP JAPAN	Sales	9,716,823	Net 60 days
UMC	UMC GROUP JAPAN	Accounts receivable	2,299,403	
WAVETEK	UMC	Sales	928,335	Net 30 days
WAVETEK	UMC	Accounts receivable	128,809	
HEJIAN	UMC-USA	Sales	657,149	Net 60 days
HEJIAN	UMC-USA	Accounts receivable	108,932	
HEJIAN	UMC GROUP JAPAN	Sales	151,935	Net 60 days
HEJIAN	UMC GROUP JAPAN	Accounts receivable	16,480	

For the year ended December 31, 2016

Entity	Counterparty	Account	Transactions (Note 2)	
			Amount NT\$ (In Thousands)	Terms (Note 3)
UMC	UMC-USA	Sales	69,676,143	Net 60 days
UMC	UMC-USA	Accounts receivable	9,122,728	
UMC	UMC GROUP JAPAN	Sales	4,056,027	Net 60 days
UMC	UMC GROUP JAPAN	Accounts receivable	681,621	
UMC	USC	Sales	379,332	Net 30 days
			(Note 4)	
UMC	USC	Accounts receivable	3,091,249	
UMC	WAVETEK	Sales	148,266	Month-end 30 days
UMC	WAVETEK	Accounts receivable	337	
HEJIAN	UMC-USA	Sales	429,216	Net 60 days
HEJIAN	UMC-USA	Accounts receivable	99,626	

HEJIAN	UMC GROUP JAPAN	Sales	161,809	Net 60 days
HEJIAN	UMC GROUP JAPAN	Accounts receivable	30,294	

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- Note 1: All the significant intercompany transactions listed above are downstream transactions.
- Note 2: The significant intercompany transactions listed above include downstream and upstream transactions.
- Note 3: The sales price to the above related parties was determined through mutual agreement in reference to market conditions.
- Note 4: UMC authorized technology licenses to its subsidiary, USC, in the amount of USD\$0.15 billion which was recognized as deferred revenue. Since it was a downstream transaction, the deferred revenue would be realized over time.

b. Significant transactions between the Company and other related parties were as follows:

(i) Operating revenues

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Associates	\$ 120	\$ 1,132,831	\$ 1,961,451
Joint ventures	46,230	14,224	13,122
Other related parties	117,674	7,228	2,305
Total	\$ 164,024	\$ 1,154,283	\$ 1,976,878

Table of Contents(ii) Accounts receivable, net

	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Associates	\$ 215,402	\$ 138,869
Joint ventures	1,161	1,012
Other related parties	1,834	86
Total	218,397	139,967
Less: Allowance for sales returns and discounts	(4,937)	(3,057)
Net	\$ 213,460	\$ 136,910

The sales price to the above related parties was determined through mutual agreement in reference to market conditions. The collection periods for domestic sales to related parties were month-end 30~60 days, while the collection periods for overseas sales was net 60 days.

(iii) Significant asset transactionsAcquisition of intangible assets

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	Purchase price 2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Associates	\$	\$ 129,327	\$ 254,611

Disposal of available-for-sale financial assets, noncurrent

	Trading Volume (In thousands of shares)	Transaction underlying	For the year ended December 31, 2015	
			Disposal amount NT\$ (In Thousands)	Disposal gain NT\$ (In Thousands)
Associates	336	DRAMEXCHANGE TECH. INC.	\$ 5,400	\$ 2,346

For the years ended December 31, 2014 and 2016: None.

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c. Key management personnel compensation

	For the years ended December 31,		
	2014 NT\$ (In Thousands)	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
Short-term employee benefits	\$ 212,111	\$ 292,282	\$ 267,501
Post-employment benefits	2,789	2,953	2,773
Termination benefits	1,029	1,582	939
Share-based payment	12,256	5,772	10
Others	467	1,039	422
Total	\$ 228,652	\$ 303,628	\$ 271,645

8. **ASSETS PLEDGED AS COLLATERAL**

	As of December 31,		Party to which asset(s) was pledged	Purpose of pledge
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)		
Refundable Deposits (Time deposit)	\$ 815,159	\$ 815,195	Customs	Customs duty guarantee
Refundable Deposits (Time deposit)	207,510	251,231	Science Park Administration	Collateral for land lease
Refundable Deposits (Time deposit)	49,785	37,084	Liquefied Natural Gas Business Division, CPC Corporation, Taiwan	Energy resources guarantee
Refundable Deposits (Time deposit)	870	870	National Pingtung University of Science and Technology	Guarantee for engineering project
Refundable Deposits (Time deposit)	286	286	Bureau of Energy, Ministry of Economic Affairs	Energy resources guarantee
Refundable Deposits (Time deposit)	357		National Pei-men Senior High School	Guarantee for engineering project
Buildings	145,493	138,063	Taiwan Cooperative Bank	Collateral for long-term loans
Machinery and equipment	414,275	234,499	Taiwan Cooperative Bank and Mega International Commercial Bank	Collateral for long-term loans
Total	\$ 1,633,735	\$ 1,477,228		

Table of Contents**9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS**

- (1) As of December 31, 2016, amounts available under unused letters of credit for importing machinery and equipment was NT\$3.3 billion.
- (2) The Company entered into several patent license agreements and development contracts of intellectual property for a total contract amount of approximately NT\$15.2 billion. As of December 31, 2016, the portion of royalties and development fees not yet recognized was NT\$1.3 billion.
- (3) The Company entered into several construction contracts for the expansion of its factory premise. As of December 31, 2016, these construction contracts amounted to approximately NT\$9.2 billion and the portion of the contracts not yet recognized was approximately NT\$1.8 billion.
- (4) The Company entered into several operating lease contracts for land and office. These renewable operating leases will expire in various years through 2036. Future minimum lease payments under those leases are as follows:

Year	As of December 31, 2016 NT\$ (In Thousands)
2017	\$ 373,373
2018	302,647
2019	298,265
2020	273,545
2021	263,192
2022 and thereafter	2,747,445
Total	\$ 4,258,467

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- (5) The Board of Directors of UMC resolved to participate in a 3-way agreement with Xiamen Municipal People's Government and FUJIAN ELECTRONIC & INFORMATION GROUP to form a company which will focus on 12 wafer foundry services. Based on the agreement, UMC will submit an investment application with R.O.C. government authorities for approval to invest in the company established by Xiamen Municipal People's Government and FUJIAN ELECTRONIC & INFORMATION GROUP. The Company anticipates that its investment could reach approximately US\$1.4 billion in the next five years, with instalment funding starting in 2015. On December 31, 2014, UMC obtained R.O.C. government authority's approval of the investment application for US\$0.7 billion (including indirect investment). In January 2015, the Company obtained the control over UNITED SEMICONDUCTOR (XIAMEN) CO., LTD. by acquiring more than half of the seats of the Board of Directors. As of December 31, 2016, the Company has invested RMB 1.8 billion. Furthermore, according to the agreement, UMC recognized a financial liability in other noncurrent liabilities, for the repurchase of other investors' investments in the company at their original investment cost plus interest, beginning from the seventh year following the last instalment payment made by other investors.

10. SIGNIFICANT SUBSEQUENT EVENTS

None.

11. FINANCIAL RISK AND FAIR VALUE DISCLOSURES

- (1) Categories of financial instruments

Financial Assets	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
<u>Non-derivative financial instruments</u>		
Financial assets at fair value through profit or loss		
Designated financial assets at fair value through profit or loss	\$ 295,708	\$ 263,201
Financial assets held for trading	450,135	665,160
Subtotal	745,843	928,361
Available-for-sale financial assets	23,800,686	20,415,541
Financial assets measured at cost	3,888,309	2,760,615
Loans and receivables		
Cash and cash equivalents (excludes cash on hand)	53,286,490	57,575,264
Receivables	19,964,707	23,965,052
Refundable deposits	2,638,788	2,203,658

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Other financial assets, current	1,066,447	323,769
Subtotal	76,956,432	84,067,743
<u>Derivative financial instruments</u>		
Financial assets at fair value through profit or loss		
Forward exchange contracts	1,008	543
Total	\$ 105,392,278	\$ 108,172,803

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Financial Liabilities	As of December 31,	
	2015 NT\$ (In Thousands)	2016 NT\$ (In Thousands)
<u>Non-derivative financial instruments</u>		
Financial liabilities measured at amortized cost		
Short-term loans	\$ 5,505,049	\$ 20,550,801
Payables	33,242,615	34,401,266
Capacity deposit (current portion included)	358,887	209,250
Bonds payable (current portion included)	41,636,670	41,980,931
Long-term loans (current portion included)	12,489,458	29,248,690
Other financial liabilities-noncurrent	6,056,742	20,311,688
Subtotal	99,289,421	146,702,626
<u>Derivative financial instruments</u>		
Financial liabilities at fair value through profit or loss		
Forward exchange contracts	999	60,855
Total	\$ 99,290,420	\$ 146,763,481

(2) Financial risk management objectives and policies

The Company's risk management objectives are to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on policy and risk preference.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

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(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise currency risk, interest rate risk and other price risk (such as equity price risk).

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company applies natural hedges on the foreign currency risk arising from purchases or sales, and utilizes spot or forward exchange contracts to avoid foreign currency risk and the net effect of the risks related to monetary financial assets and liabilities is minor. The notional amounts of the foreign currency contracts are the same as the amount of the hedged items. In principle, the Company does not carry out any forward exchange contracts for uncertain commitments. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. When NTD strengthens/weakens against USD by 10%, the profit for the years ended December 31, 2014, 2015 and 2016 increases/decreases by NT\$189 million, NT\$186 million and decreases/increases by NT\$33 million, respectively. When RMB strengthens/weakens against USD by 10%, the profit for the years ended December 31, 2014, 2015 and 2016 increases/decreases by nil, nil and RMB\$777 million, respectively.

Interest rate risk

The Company is exposed to interest rate risk arising from borrowing at floating interest rates. All of the Company's bonds have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows. On the other hand, as the interest rates of the Company's short-term and long-term bank loans are floating, changes in interest rates would affect the future cash flows but not the fair value. Please refer to Note 6(10), 6(12) and 6(13) for the range of interest rate of the Company's bonds and bank loans.

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At the reporting dates, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2014, 2015 and 2016 to decrease/increase by NT\$18 million, NT\$18 million and NT\$50 million, respectively.

Equity price risk

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future performance of equity markets. The Company's listed equity investments are classified as financial assets at fair value through profit or loss and available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale financial assets which are subsequently measured using a valuation model and financial assets measured at cost.

The sensitivity analysis for the equity instruments is based on the change in fair value as of the reporting date. A change of 5% in the price of the aforementioned financial assets at fair value through profit or loss could increase/decrease the Company's profit for the years ended December 31, 2014, 2015 and 2016 by NT\$12 million, NT\$13 million and NT\$31 million, respectively. A change of 5% in the price of the aforementioned available-for-sale financial instrument could increase/decrease the Company's other comprehensive income for the years ended December 31, 2014, 2015 and 2016 by NT\$1,217 million, NT\$1,150 million and NT\$976 million, respectively.

(4) Credit risk management

The Company only trades with approved and creditworthy third parties. Where the Company trades with third parties which have less favorable financial positions, it will request collateral from them. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, notes and accounts receivable balances are monitored on an ongoing basis, which consequently minimizes the Company's exposure to bad debts.

The Company mitigates the credit risks from financial institutions by limiting its counter parties to only reputable domestic or international financial institutions with good credit standing and spreading its holdings among various financial institutions. The Company's exposure to credit risk arising from the default of counter-parties is limited to the carrying amount of these instruments.

As of December 31, 2015 and 2016, accounts receivables from the top ten customers represent 58% and 63% of the total accounts receivables of the Company, respectively.

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The credit concentration risk of other accounts receivables is insignificant.

(5) Liquidity risk management

The Company's objectives are to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank loans and bonds.

The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity:

	As of December 31, 2015					Total NT\$ (In Thousands)
	Less than 1 year NT\$ (In Thousands)	2 to 3 years NT\$ (In Thousands)	4 to 5 years NT\$ (In Thousands)	> 5 years NT\$ (In Thousands)		
<u>Non-derivative financial liabilities</u>						
Short-term loans	\$ 5,539,169	\$	\$	\$	\$	\$ 5,539,169
Payables	32,882,728			107,975		32,990,703
Capacity deposits	167,586	191,301				358,887
Bonds payable	622,936	15,510,038	23,444,199	5,218,410		44,795,583
Long-term loans	6,782,180	4,206,040	1,829,407	62,208		12,879,835
Other financial liabilities -noncurrent				6,778,450		6,778,450
Total	\$ 45,994,599	\$ 19,907,379	\$ 25,273,606	\$ 12,167,043		\$ 103,342,627
<u>Derivative financial liabilities</u>						
Forward exchange contracts						
Net settlement	\$ (999)	\$	\$	\$	\$	\$ (999)

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As of December 31, 2016

	Less than 1 year NT\$ (In Thousands)	2 to 3 years NT\$ (In Thousands)	4 to 5 years NT\$ (In Thousands)	> 5 years NT\$ (In Thousands)	Total NT\$ (In Thousands)
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 20,916,531	\$	\$	\$	\$ 20,916,531
Payables	33,996,623			109,075	34,105,698
Capacity deposits	209,250				209,250
Bonds payable	8,062,161	10,339,221	22,870,813	3,144,137	44,416,332
Long-term loans	4,000,076	7,507,908	9,899,242	12,575,318	33,982,544
Other financial liabilities -noncurrent				22,561,882	22,561,882
Total	\$ 67,184,641	\$ 17,847,129	\$ 32,770,055	\$ 38,390,412	\$ 156,192,237
<u>Derivative financial liabilities</u>					
Forward exchange contracts					
Net settlement	\$ (60,855)	\$	\$	\$	\$ (60,855)

(6) Foreign currency risk management

UMC entered into forward exchange contracts for hedging the exchange rate risk arising from the net assets or liabilities denominated in foreign currency. The details of forward exchange contracts entered into by UMC are summarized as follows:

As of December 31, 2015

Type	Notional Amount	Contract Period
Forward exchange contracts	Sell USD 44 million	December 3, 2015~January 28, 2016

As of December 31, 2016

Type	Notional Amount	Contract Period
Forward exchange contracts	Sell USD 285 million	December 1, 2016~February 16, 2017

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(7) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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- a. Assets and liabilities measured and recorded at fair value on a recurring basis:

	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)
Financial assets:				
Financial assets at fair value through profit or loss, current	\$ 450,135	\$ 214,783	\$	\$ 664,918
Financial assets at fair value through profit or loss, noncurrent		81,933		81,933
Available-for-sale financial assets, noncurrent	14,571,610	142,231	9,086,845	23,800,686
Financial liabilities:				
Financial liabilities at fair value through profit or loss, current		999		999

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)	NT\$ (In Thousands)
Financial assets:				
Financial assets at fair value through profit or loss, current	\$ 665,160	\$ 49,009	\$	\$ 714,169
Financial assets at fair value through profit or loss, noncurrent	171,700	43,035		214,735
Available-for-sale financial assets, noncurrent	10,517,662	64,242	9,833,637	20,415,541
Financial liabilities:				
Financial liabilities at fair value through profit or loss, current		60,855		60,855

Fair values of financial assets at fair value through profit or loss and available-for-sale financial assets that are categorized into level 1 are based on the quoted market prices in active market. If there is no active market, the Company estimates the fair value by using the market method valuation techniques based on parameters such as recent fund raising activities, valuation of similar companies, individual company's development, market conditions and other economic indicators. If there are restrictions on the sale or transfer of an available-for-sale financial asset, which are a characteristic of the asset, the fair value of the asset will be determined based on similar but unrestricted financial assets' quoted market price with appropriate discounts for the restrictions.

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During the years ended December 31, 2015 and 2016, there were no significant transfers between Level 1 and Level 2 fair value measurements.

Reconciliations for fair value measurement in Level 3 fair value hierarchy were as follows:

	Available-for-sale financial assets			
	Common stock NT\$ (In Thousands)	Funds NT\$ (In Thousands)	Preferred stock NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2015	\$ 5,236,004	\$	\$ 781,148	\$ 6,017,152
Recognized in profit (loss)	(135,241)			(135,241)
Recognized in other comprehensive income (loss)	(147,552)	(1,681)	24,777	(124,456)
Acquisition	3,083,316	464,105	636,300	4,183,721
Disposal	(48,762)		(300,000)	(348,762)
Transfer to Level 3	14,854	307,230		322,084
Transfer out of Level 3	(878,338)			(878,338)
Exchange effect	13,899	12,755	24,031	50,685
As of December 31, 2015	\$ 7,138,180	\$ 782,409	\$ 1,166,256	\$ 9,086,845

	Available-for-sale financial assets			
	Common stock NT\$ (In Thousands)	Funds NT\$ (In Thousands)	Preferred stock NT\$ (In Thousands)	Total NT\$ (In Thousands)
As of January 1, 2016	\$ 7,138,180	\$ 782,409	\$ 1,166,256	\$ 9,086,845
Recognized in profit (loss)	(157,547)	(13,152)	(160,081)	(330,780)
Recognized in other comprehensive income (loss)	517,475	22,651	(5,691)	534,435
Acquisition	20,702	180,022	121,453	322,177
Disposal	(34,732)	(20,945)		(55,677)
Transfer to Level 3	211,217		95,030	306,247
Exchange effect	(7,543)	(8,689)	(13,378)	(29,610)
As of December 31, 2016	\$ 7,687,752	\$ 942,296	\$ 1,203,589	\$ 9,833,637

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The Company's policy to recognize the transfer into and out of fair value hierarchy levels is based on the event or changes in circumstances that caused the transfer.

The total losses of NT\$119 million, NT\$134 million and NT\$331 million for the years ended December 31, 2014, 2015 and 2016, were included in profit or loss that is attributable to the change in unrealized gains or losses relating to those available-for-sale assets without quoted market prices held at the end of the reporting period.

- b. Assets and liabilities not recorded at fair value on a recurring basis but for which fair value is disclosed:

The fair value of bonds payables is estimated by the market price or estimated using valuation model. The model uses market-based observable inputs including share price, volatility, credit spread and risk-free interest rates. The fair value of long-term loans is determined using discounted cash flow model, based on the Company's current incremental borrowing rates of similar loans.

The fair values of the Company's short-term financial instruments including cash and cash equivalents, receivables, refundable deposits, other financial assets-current, short-term loans, payables and capacity deposits approximate their carrying amount due to their maturities within one year.

As of December 31, 2015

Items	Fair value NT\$ (In Thousands)	Fair value measurements during reporting period using			Carrying amount NT\$ (In Thousands)
		Level 1 NT\$ (In Thousands)	Level 2 NT\$ (In Thousands)	Level 3 NT\$ (In Thousands)	
Bonds payables	\$ 42,325,673	\$ 25,134,763	\$ 17,190,910	\$	\$ 41,636,670
Long-term loans (current portion included)	12,489,458		12,489,458		12,489,458

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As of December 31, 2016

Items	Fair value NT\$ (In Thousands)	Fair value measurements during reporting period using			Carrying amount NT\$ (In Thousands)
		Level 1 NT\$ (In Thousands)	Level 2 NT\$ (In Thousands)	Level 3 NT\$ (In Thousands)	
Bonds payables (current portion included)	\$ 42,835,431	\$ 25,182,667	\$ 17,652,764	\$	\$ 41,980,931
Long-term loans (current portion included)	29,248,690		29,248,690		29,248,690

12. OPERATING SEGMENT INFORMATION

- (1) The Company determined its operating segments based on business activities with discrete financial information regularly reported through the Company's internal reporting protocols to the Company's chief operating decision maker. The Company is organized into business units based on its products and services. As of December 31, 2016, the Company had the following segments: wafer fabrication and new business. There were no material differences between the accounting policies described in Note 4 and those applied by the operating segments. The primary operating activity of the wafer fabrication segment is the manufacture of chips to the design specifications of our customers by using our own proprietary processes and techniques. The Company maintains a diversified customer base across industries, including communication, consumer electronics, computer, memory and others, while continuing to focus on manufacturing for high growth, large volume applications, including networking, telecommunications, internet, multimedia, PCs and graphics. New business segment primarily includes researching, developing, manufacturing, and providing solar energy and new generation light-emitting diode (LED).

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Reportable segment information for the years ended December 31, 2014, 2015 and 2016 were as follows:

	For the year ended December 31, 2014				
	Wafer Fabrication NT\$ (In Thousands)	New Business NT\$ (In Thousands)	Subtotal NT\$ (In Thousands)	Adjustment and Elimination (Note) NT\$ (In Thousands)	Consolidated NT\$ (In Thousands)
Net revenue from external customers	\$ 129,953,847	\$ 10,058,229	\$ 140,012,076	\$	\$ 140,012,076
Net revenue from sales among intersegments	2	3,779	3,781	(3,781)	
Segment net income (loss), net of tax	12,310,921	(2,354,155)	9,956,766	490,422	10,447,188
Capital expenditure	42,805,809	431,198	43,237,007		43,237,007
Depreciation	36,632,334	2,153,242	38,785,576		38,785,576
Share of profit or loss of associates and joint ventures	(1,392,452)	(84,850)	(1,477,302)	1,514,481	37,179
Income tax expense	2,031,006	2,701	2,033,707	1,091,408	3,125,115
Impairment loss	303,220	597,975	901,195		901,195

	For the year ended December 31, 2015				
	Wafer Fabrication NT\$ (In Thousands)	New Business NT\$ (In Thousands)	Subtotal NT\$ (In Thousands)	Adjustment and Elimination (Note) NT\$ (In Thousands)	Consolidated NT\$ (In Thousands)
Net revenue from external customers	\$ 141,705,196	\$ 3,125,225	\$ 144,830,421	\$	\$ 144,830,421
Net revenue from sales among intersegments		15,725	15,725	(15,725)	
Segment net income (loss), net of tax	13,569,672	(1,731,181)	11,838,491	802,607	12,641,098
Capital expenditure	60,386,300	117,849	60,504,149		60,504,149
Depreciation	42,833,022	639,986	43,473,008		43,473,008
Share of profit or loss of associates and joint ventures	(869,190)	(58,513)	(927,703)	932,397	4,694
Income tax expense (benefit)	880,170	(3,676)	876,494	151,006	1,027,500
Impairment loss	1,465,036	801,465	2,266,501		2,266,501

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	For the year ended December 31, 2016				
	Wafer Fabrication NT\$ (In Thousands)	New Business NT\$ (In Thousands)	Subtotal NT\$ (In Thousands)	Adjustment and Elimination (Note) NT\$ (In Thousands)	Consolidated NT\$ (In Thousands)
Net revenue from external customers	\$ 147,444,265	\$ 425,859	\$ 147,870,124	\$	\$ 147,870,124
Net revenue from sales among intersegments		6,547	6,547	(6,547)	
Segment net income (loss), net of tax	4,218,948	(1,661,885)	2,557,063	1,611,499	4,168,562
Capital expenditure	91,542,436	18,203	91,560,639		91,560,639
Depreciation	49,288,201	402,834	49,691,035		49,691,035
Share of profit or loss of associates and joint ventures	(1,285,380)	(210,746)	(1,496,126)	1,180,460	(315,666)
Income tax expense (benefit)	992,580	(9,017)	983,563	(431,039)	552,524
Impairment loss	1,296,529	781,045	2,077,574		2,077,574

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As of December 31, 2015

	Wafer Fabrication NT\$ (In Thousands)	New Business NT\$ (In Thousands)	Subtotal NT\$ (In Thousands)	Adjustment and Elimination (Note) NT\$ (In Thousands)	Consolidated NT\$ (In Thousands)
Segment assets	\$ 335,087,629	\$ 5,484,681	\$ 340,572,310	\$ (5,218,017)	\$ 335,354,293
Segment liabilities	\$ 106,609,990	\$ 1,942,746	\$ 108,552,736	\$ 1,948,910	\$ 110,501,646

As of December 31, 2016

	Wafer Fabrication NT\$ (In Thousands)	New Business NT\$ (In Thousands)	Subtotal NT\$ (In Thousands)	Adjustment and Elimination (Note) NT\$ (In Thousands)	Consolidated NT\$ (In Thousands)
Segment assets	\$ 384,870,981	\$ 3,213,397	\$ 388,084,378	\$ (3,857,663)	\$ 384,226,715
Segment liabilities	\$ 166,110,998	\$ 1,857,130	\$ 167,968,128	\$ 1,312,213	\$ 169,280,341

Note: The adjustments primarily consisted of intragroup elimination entries and GAAP difference adjustments.

(2) Geographic information

a. Revenue from external customers

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In Thousands)	(In Thousands)	(In Thousands)
Taiwan	\$ 47,843,603	\$ 46,015,882	\$ 46,493,583
Singapore	17,500,236	18,316,785	26,753,960
China (includes Hong Kong)	14,982,545	11,722,585	13,732,391
Japan	7,599,531	10,141,883	4,501,057
USA	12,402,440	12,794,864	13,713,202
Europe	27,443,850	33,882,327	29,253,755
Others	12,239,871	11,956,095	13,422,176

Total	\$ 140,012,076	\$ 144,830,421	\$ 147,870,124
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The geographic breakdown of the Company's operating revenues was based on the location of the Company's customers.

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b. Non-current assets

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In	(In
	Thousands)	Thousands)
Taiwan	\$ 152,936,469	\$ 141,692,141
Singapore	24,372,975	22,891,986
China (includes Hong Kong)	19,956,012	69,461,494
USA	21,530	22,734
Europe	178,625	165,794
Others	168	113
Total	\$ 197,465,779	\$ 234,234,262

Non-current assets include property, plant and equipment, intangible assets, prepayment for equipment and other noncurrent assets.

(3) Major customers

Individual customers accounting for at least 10% of net sales for the years ended December 31, 2014, 2015 and 2016 were as follows:

	For the years ended December 31,		
	2014	2015	2016
	NT\$	NT\$	NT\$
	(In	(In	(In
	Thousands)	Thousands)	Thousands)
Customer A from wafer fabrication segment	\$ 16,911,071	\$ 20,761,648	\$ 20,816,001

13. **CAPITAL MANAGEMENT**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize the stockholders' value. The Company also ensures its ability to operate continuously to provide returns to stockholders and the interests of other related parties, while maintaining the optimal capital structure to reduce costs of capital.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to stockholders, return capital to stockholders, issue new shares or dispose assets to redeem liabilities.

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Similar to its peers, the Company monitors its capital based on debt to capital ratio. The ratio is calculated as the Company's net debt divided by its total capital. The net debt is derived by taking the total liabilities on the consolidated balance sheets minus cash and cash equivalents. The total capital consists of total equity (including capital, additional paid-in capital, retained earnings, other components of equity and non-controlling interests) plus net debt.

The Company's strategy, which is unchanged for the reporting periods, is to maintain a reasonable ratio in order to raise capital with reasonable cost. The debt to capital ratios as of December 31, 2015 and 2016 were as follows:

	As of December 31,	
	2015	2016
	NT\$	NT\$
	(In	(In
	Thousands)	Thousands)
Total liabilities	\$ 110,501,646	\$ 169,280,341
Less: Cash and cash equivalents	(53,290,433)	(57,578,981)
Net debt	57,211,213	111,701,360
Total equity	224,852,647	214,946,374
Total capital	\$ 282,063,860	\$ 326,647,734
Debt to capital ratios	20.28%	34.20%

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