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UMC Reports Fourth Quarter 2018 Results

Disciplined CAPEX and operating performance enhancements to continue in 2019

Fourth Quarter 2018 Overview¹:

- **Revenue: NT\$35.52 billion (US\$1.16 billion)**
 - **Gross margin: 13.0%**
 - **Foundry revenue from 28nm: 10%; Foundry operating margin: -1.3%**
 - **Foundry capacity utilization rate: 88%**
 - **Net loss attributable to stockholders of the parent: NT\$1.71 billion (US\$56 million)**
 - **Loss per share: NT\$0.14; Loss per ADS: US\$0.023**
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Taipei, Taiwan, ROC – January 29, 2019 – United Microelectronics Corporation (NYSE: UMC; TWSE: 2303) (“UMC” or “The Company”), a leading global semiconductor foundry, today announced its consolidated operating results for the fourth quarter of 2018.

Fourth quarter consolidated revenue was NT\$35.52 billion, down 9.8% QoQ from NT\$39.39 billion in 3Q18 and declined 3.0% YoY from NT\$36.63 billion in 4Q17. Consolidated gross margin for 4Q18 was 13.0%. Net loss attributable to stockholders of the parent was NT\$1.71 billion, with loss per ordinary share of NT\$0.14.

Jason Wang, co-president of UMC, said, “In the fourth quarter, foundry revenue declined 9.8% QoQ to NT\$35.49 billion, leading to a foundry operating loss of 1.3%. Utilization rate was 88%, bringing wafer shipments to 1.71 million 8-inch equivalent wafers. Despite softened wafer demand during the fourth quarter, UMC continued to maintain stable capacity utilization for 8" and mature 12" geometries.”

Co-president Wang continued, “In 2018, we started seeing the early fruits of our strategy with

¹Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with TIFRSs recognized by Financial Supervisory Commission in the ROC, which is different from IFRSs issued by the International Accounting Standards Board. They represent comparisons among the three-month period ending December 31, 2018, the three-month period ending September 30, 2018, and the equivalent three-month period that ended December 31, 2017. For all 4Q18 results, New Taiwan Dollar (NT\$) amounts have been converted into U.S. Dollars at the December 31, 2018 exchange rate of NT\$ 30.72 per U.S. Dollar.

measurable results. Our disciplined capital expenditure approach helped to generate a free cash flow total of NT\$31.34 billion for the year. In addition, we completed two rounds of treasury share buybacks for cancellation, amounting to approximately NT\$6.5 billion.”

Co-president Wang further commented, “Looking into the first quarter of 2019, we anticipate further deceleration in customers’ wafer demand, due to a softer than expected outlook in entry-level and mid-end smartphones as well as falling crypto currency valuations. Although UMC’s ongoing transformation will need time to reach its full synergy and potential, our progress so far has enabled the company to better endure these current headwinds. Going forward, we will continue executing our strategy of evaluating and pursuing return-driven investment while focusing on our technology strength within specialty processes on existing nodes. We are confident that our sustained efforts and calculated global capacity expansion will strengthen UMC’s resilience during a challenging market, while favorably positioning the company to take maximum advantage during strong demand cycles.”

Summary of Operating Results

Operating Results					
(Amount: NT\$ million)	4Q18	3Q18	QoQ % change	4Q17	YoY % change
Net Operating Revenues	35,517	39,387	(9.8)	36,631	(3.0)
Gross Profit	4,601	6,922	(33.5)	6,298	(26.9)
Operating Expenses	(6,396)	(5,702)	12.2	(5,198)	23.0
Net Other Operating Income and Expenses	1,206	1,215	(0.7)	801	50.6
Operating Income (Loss)	(589)	2,435	-	1,901	-
Net Non-Operating Income and Expenses	(1,998)	(1,606)	24.4	(152)	1,214.5
Net Income (Loss) Attributable to Stockholders of the Parent	(1,707)	1,720	-	1,771	-
EPS (NT\$ per share)	(0.14)	0.14		0.15	
(US\$ per ADS)	(0.023)	0.023		0.024	

Net operating revenues in 4Q18 declined 9.8% to NT\$35.52 billion, including NT\$35.49 billion from the foundry segment. Revenue contribution from 40nm and below technologies was 34%. Gross profit fell 33.5% to NT\$4.60 billion, or 13.0% of revenue. Operating expenses increased 12.2% to NT\$6.40 billion. Net other operating income remained flat at NT\$1.21 billion, leading to an operating loss of NT\$0.59 billion. Net non-operating expense was NT\$2.00 billion. Net loss attributable to stockholders of the parent was NT\$1.71 billion.

Loss per ordinary share for the quarter was NT\$0.14. Loss per ADS was US\$0.023. The basic weighted average number of outstanding shares in 4Q18 was 12,111,826,935, compared with 12,053,892,152 shares in 3Q18 and 12,208,239,978 shares in 4Q17. The diluted weighted average number of outstanding shares was 12,111,826,935 in 4Q18, compared with 13,354,955,886 shares in 3Q18 and 13,474,873,551 shares in 4Q17. The fully diluted share count on December 31, 2018 was approximately 13,512,438,000. On December 31, 2018, UMC held 480 million treasury shares acquired from the 17th and 19th share buy-back programs.

Detailed Financials Section

Net operating revenues decreased 9.8% to NT\$35.52 billion. COGS declined 4.8% to NT\$30.92 billion, as depreciation declined 11.4% to NT\$10.23 billion while other manufacturing costs declined 1.1% to NT\$20.69 billion. Gross profit was NT\$4.60 billion. Operating expenses increased 12.2% to NT\$6.40 billion due to an increase of 12.5% in R&D expense to NT\$3.75 billion and an Expected Credit Loss of NT\$409 million, which was partially offset by decreases in Sales & Marketing and General and Administrative (G&A) expenses. R&D expense represented 10.6% of 4Q18 net operating revenues. Net other operating income was NT\$1.21 billion, leading to an operating loss of NT\$0.59 billion.

COGS & Expenses					
(Amount: NT\$ million)	4Q18	3Q18	QoQ % change	4Q17	YoY % change
Net Operating Revenues	35,517	39,387	(9.8)	36,631	(3.0)
COGS	(30,916)	(32,465)	(4.8)	(30,333)	1.9
Depreciation	(10,228)	(11,549)	(11.4)	(10,990)	(6.9)
Other Mfg. Costs	(20,688)	(20,916)	(1.1)	(19,343)	7.0
Gross Profit	4,601	6,922	(33.5)	6,298	(26.9)
Gross Margin (%)	13.0%	17.6%		17.2%	
Operating Expenses	(6,396)	(5,702)	12.2	(5,198)	23.0
G&A	(1,339)	(1,386)	(3.4)	(1,164)	15.0
Sales & Marketing	(903)	(987)	(8.5)	(944)	(4.3)
R&D	(3,745)	(3,329)	12.5	(3,090)	21.2
Expected Credit Loss	(409)	-	-	-	-
Net Other Operating Income & Expenses	1,206	1,215	(0.7)	801	50.6
Operating Income (Loss)	(589)	2,435	-	1,901	-

Net non-operating expense in 4Q18 was NT\$2.00 billion, primarily resulting from NT\$1.86 billion in net investment loss and NT\$438 million in net interest expense, partly offset by NT\$304 million in exchange gain.

Non-Operating Income and Expenses			
(Amount: NT\$ million)	4Q18	3Q18	4Q17
Non-Operating Income and Expenses	(1,998)	(1,606)	(152)
Net Interest Income and Expenses	(438)	(507)	(542)
Net Investment Gain and Loss	(1,859)	(126)	(102)
Exchange Gain and Loss	304	(961)	500
Other Gain and Loss	(5)	(12)	(8)

Cash inflow from operating activities was NT\$12.12 billion. Cash outflow from investing activities totaled NT\$4.61 billion, including NT\$4.36 billion in CAPEX spending for the foundry segment, resulting in free cash flow of NT\$7.76 billion. Cash outflow from financing activities totaled NT\$5.72 billion, including NT\$3.02 billion in treasury share buyback and NT\$2.86 billion in the payment of bank loans. Net cash inflow in 4Q18 was NT\$2.14 billion. Over the next 12 months, the company expects to repay NT\$2.62 billion in bank loans.

Cash Flow Summary		
(Amount: NT\$ million)	For the 3-Month Period Ended Dec. 31, 2018	For the 3-Month Period Ended Sep. 30, 2018
Cash Flow from Operating Activities	12,123	15,772
Net income (loss) before tax	(2,587)	829
Depreciation & Amortization	12,414	12,973
Expected credit loss	409	-
Net loss of financial assets and liabilities at FVTPL	635	797
Share of profit or loss of associates and joint ventures	1,148	(193)
Exchange loss (gain) on financial assets and liabilities	(68)	1,126
Changes in working capital	1,319	158
Interest paid	(905)	(94)
Other	(242)	176
Cash Flow from Investing Activities	(4,613)	(5,476)
Acquisition of PP&E	(4,361)	(5,612)
Acquisition of intangible assets	(292)	(169)
Other	40	305
Cash Flow from Financing Activities	(5,724)	(3,253)
Bank loans	(2,863)	3,114
Treasury stock acquired	(3,019)	-
Treasury stock sold to employees	-	2,204
Cash dividends	-	(8,557)
Other	158	(14)
Effect of Exchange Rate	356	(716)
Net Cash Flow	2,142	6,327

Cash and cash equivalents increased to NT\$83.66 billion. Days of inventory increased three days to 53 days.

Current Assets			
(Amount: NT\$ billion)	4Q18	3Q18	4Q17
Cash and Cash Equivalents	83.66	81.52	81.68
Notes & Accounts Receivable	23.88	25.61	20.97
Days Sales Outstanding	64	61	54
Inventories, net	18.20	17.59	18.26
Days of Inventory	53	50	53
Total Current Assets	141.19	140.15	139.16

Current liabilities decreased to NT\$49.90 billion. Total liabilities decreased to NT\$158.07 billion, leading to a debt to equity ratio of 77%.

Liabilities			
(Amount: NT\$ billion)	4Q18	3Q18	4Q17
Total Current Liabilities	49.90	51.43	88.06
Notes & Accounts Payable	6.80	6.89	6.54
Short-Term Credit / Bonds	18.23	20.33	52.81
Payable on Equipment	4.01	2.59	4.67
Other	20.86	21.62	24.04
Long-Term Credit / Bonds	67.08	67.46	53.32
Long-Term Investment Liabilities	20.41	20.16	20.49
Total Liabilities	158.07	160.11	180.06
Debt to Equity	77%	75%	84%

Analysis of Revenue² for Foundry Segment

Revenue from Asia Pacific decreased to 51%, while contribution from North American customers increased to 38%. Revenue from Japan remained at 3%.

Revenue Breakdown by Region

Region	4Q18	3Q18	2Q18	1Q18	4Q17
North America	38%	34%	37%	42%	43%
Asia Pacific	51%	52%	51%	47%	45%
Europe	8%	11%	9%	8%	9%
Japan	3%	3%	3%	3%	3%

Business from 14nm fell to 1% revenue, while 28nm contribution declined to 10%.

Revenue Breakdown by Geometry

Geometry	4Q18	3Q18	2Q18	1Q18	4Q17
14nm and below	1%	5%	3%	2%	2%
14nm<x<=28nm	10%	13%	15%	12%	15%
28nm<x<=40nm	23%	22%	26%	30%	28%
40nm<x<=65nm	13%	12%	12%	13%	12%
65nm<x<=90nm	11%	10%	7%	6%	5%
90nm<x<=0.13um	13%	11%	11%	11%	12%
0.13um<x<=0.18um	15%	14%	13%	13%	13%
0.18um<x<=0.35um	11%	10%	10%	10%	10%
0.5um and above	3%	3%	3%	3%	3%

Revenue from fabless customers decreased to 92% of revenue.

Revenue Breakdown by Customer Type

Customer Type	4Q18	3Q18	2Q18	1Q18	4Q17
Fabless	92%	93%	92%	92%	91%
IDM	8%	7%	8%	8%	9%

The communication segment increased to 44% of sales, while revenue from consumer applications reached 30%. Computer related applications declined to 15% of revenue.

Revenue Breakdown by Application ⁽¹⁾

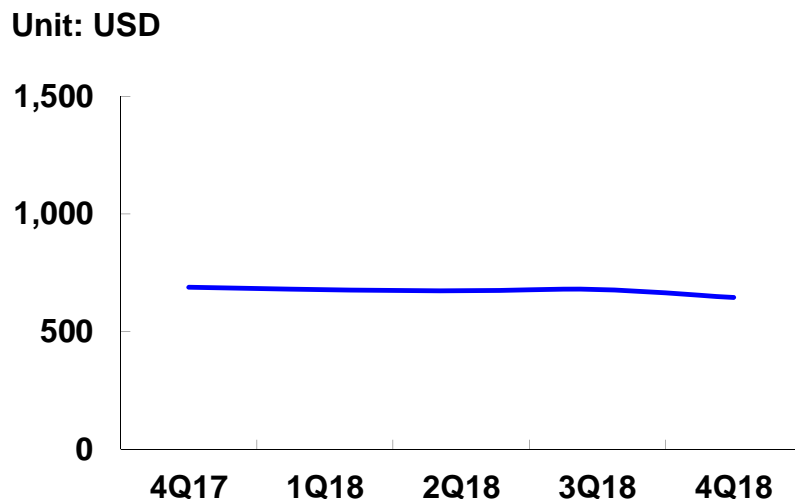
Application	4Q18	3Q18	2Q18	1Q18	4Q17
Computer	15%	19%	16%	14%	13%
Communication	44%	43%	47%	47%	49%
Consumer	30%	28%	28%	29%	29%
Others	11%	10%	9%	10%	9%

⁽¹⁾ **Computer** consists of ICs such as CPU, GPU, HDD controllers, DVD/CD-RW control ICs, PC chipset, audio codec, keyboard controller, monitor scaler, USB, I/O chipset. **Communication** consists of handset components, broadband, WLAN, bluetooth, Ethernet, LAN, DSP, etc. **Consumer** consists of ICs used for DVD players, DTV, STB, MP3/MP4, flash controller, game consoles, DSC, smart cards, toys, etc.

² Revenue in this section represents wafer sales

Blended ASP Trend for Foundry Segment

Blended average selling price (ASP) in 4Q18 decreased.



Shipment and Utilization Rate³ for Foundry Segment

In 4Q18, wafer shipments decreased 5.2% to 1,711K. Quarterly capacity increased 1.0% QoQ to 1,958K, resulting in an overall utilization rate of 88%.

Wafer Shipments

	4Q18	3Q18	2Q18	1Q18	4Q17
Wafer Shipments (8" K equivalents)	1,711	1,804	1,846	1,747	1,670

Quarterly Capacity Utilization Rate

	4Q18	3Q18	2Q18	1Q18	4Q17
Utilization Rate	88%	94%	97%	94%	90%
Total Capacity (8" K equivalents)	1,958	1,938	1,918	1,858	1,886

³ Utilization Rate = Quarterly Wafer Out / Quarterly Capacity

Capacity⁴ for Foundry Segment

Total capacity in the fourth quarter totaled 1,958K 8-inch equivalent wafers. We expect first quarter capacity to decline by approximately 1.1% QoQ to 1,937K 8-inch equivalent wafers, primarily due to fewer working days and tool maintenance.

Annual Capacity in thousands of wafers

FAB	Geometry (um)	2018	2017	2016	2015
WTK	6" 3.5 – 0.45	396	422	423	421
Fab 8A	8" 0.5 – 0.25	825	825	827	813
Fab 8C	8" 0.35 – 0.11	383	357	348	347
Fab 8D	8" 0.13 – 0.09	347	341	342	341
Fab 8E	8" 0.5 – 0.18	418	418	419	418
Fab 8F	8" 0.18 – 0.11	431	417	401	388
Fab 8S	8" 0.18 – 0.11	372	347	336	335
HJ	8" 0.5 – 0.11	771	753	750	667
Fab 12A	12" 0.13 – 0.014	997	970	885	793
Fab 12i	12" 0.13 – 0.040	555	537	584	572
USCXM	12" 0.040 – 0.028	183	97	9	-
Total⁽¹⁾		7,673	7,304	6,983	6,617
YoY Growth Rate		5%	5%	6%	5%

Quarterly Capacity in thousands of wafers

FAB	1Q19E	4Q18	3Q18	2Q18
WTK	91	93	93	106
Fab 8A	204	207	207	207
Fab 8C	106	108	92	92
Fab 8D	89	90	86	86
Fab 8E	103	105	105	105
Fab 8F	107	108	108	108
Fab 8S	92	93	93	93
HJ	201	194	194	194
Fab 12A	246	250	250	250
Fab 12i	141	144	144	136
USCXM	50	51	51	46
Total	1,937	1,958	1,938	1,918

⁽¹⁾One 6-inch wafer is converted into 0.5625(6²/8²) 8-inch equivalent wafer; one 12-inch wafer is converted into 2.25(12²/8²) 8-inch equivalent wafers. Capacity total figures are expressed in 8-inch equivalent wafers.

CAPEX for Foundry Segment

CAPEX spending in 4Q18 was US\$141 million, bringing 2018 capital expenditures to US\$650 million. Full year 2019 CAPEX is budgeted for US\$1.0 billion.

Capital Expenditure by Year - in US\$ billion

Year	2018	2017	2016	2015	2014
CAPEX	\$ 0.7	\$ 1.4	\$ 2.8	\$ 1.9	\$ 1.4

2019 CAPEX Plan

8"	12"	Total
25%	75%	US\$1.0 billion

⁴ Estimated capacity numbers are based on *calculated maximum output* rather than *designed capacity*. The actual capacity numbers may differ depending upon equipment delivery schedules, pace of migration to more advanced process technologies, and other factors affecting production ramp-up.

Brief Summary of Full Year 2018 Consolidated Results

- Consolidated revenue in NTD increased 1.3% YoY to NT\$151.25 billion, up from NT\$149.29 billion in 2017.
- Gross margin was 15.1%, compared to 18.1% in 2017.
- Operating margin was 3.8%, compared to 4.4% in 2017.
- Net income attributable to stockholders of the parent was NT\$7.07 billion in 2018.
- EPS was NT\$0.58, or EPADS of US\$0.094 for 2018.
- The contribution from 28nm technologies and below accounted for 16% in 2018. The revenue from 40nm in 2018 decreased to 25%.

Operating Results			
(Amount: NT\$ million)	2018	2017	YoY % change
Net Operating Revenues	151,253	149,285	1.3
Gross Profit	22,840	27,058	(15.6)
Operating Expenses	(22,160)	(22,143)	0.1
Net Other Operating Income & Expenses	5,117	1,653	209.4
Operating Income	5,797	6,568	(11.7)
Net Non-Operating Income & Expenses	(3,613)	1,230	-
Income Tax Benefit (Expenses)	459	(1,167)	-
Net Income Attributable to Stockholders of the Parent	7,073	9,629	(26.5)
EPS (NT\$ per share)	0.58	0.79	
(US\$ per ADS)	0.094	0.129	

Annual Sales Breakdown in Revenue for Foundry Segment

Region	2018	2017
North America	38%	43%
Asia Pacific	50%	47%
Europe	9%	7%
Japan	3%	3%

Technology	2018	2017
14nm and below	3%	1%
14nm<x<=28nm	13%	16%
28nm<x<=40nm	25%	28%
40nm<x<=65nm	12%	12%
65nm<x<=90nm	8%	5%
90nm<x<=0.13um	12%	12%
0.13um<x<=0.18um	14%	12%
0.18um<x<=0.35um	10%	10%
0.5um and above	3%	4%

Customer Type	2018	2017
Fabless	92%	91%
IDM	8%	9%

Application	2018	2017
Computer	16%	13%
Communication	45%	49%
Consumer	29%	29%
Others	10%	9%

First Quarter of 2019 Outlook & Guidance

Quarter-over-Quarter Guidance:

- Wafer Shipments: To decrease by 6-7%
- ASP in USD: To decline by 1-2%
- Profitability: Gross profit margin will be in the mid-single digit % range
- Foundry Segment Capacity Utilization: low 80% range
- 2019 CAPEX for Foundry Segment: US\$1.0 billion

Recent Developments / Announcements

- Nov. 22, 2018 [UMC Receives Highest Platinum Award for 2018 Taiwan Corporate Sustainability Report](#)
- Nov. 9, 2018 [UMC Issues Follow-up Statement Regarding Recent Legal Developments](#)
- Nov. 2, 2018 [UMC Issues Statement in Response to Recent Indictment and Civil Complaint](#)
- Oct. 24, 2018 [UMC 3Q 2018 Financial Results](#)

Please visit UMC's website for further details regarding the above announcements

Conference Call / Webcast Announcement

Tuesday, January 29, 2019

Time: 5:00 PM (Taipei) / 4:00 AM (New York) / 09:00 AM (London)

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A live webcast and replay of the 4Q18 results announcement will be available at **www.umc.com** under the “Investors / Events” section.

About UMC

UMC (NYSE: UMC, TWSE: 2303) is a leading global semiconductor foundry that provides advanced IC production for applications spanning every major sector of the electronics industry. UMC's comprehensive foundry solutions enable chip designers to leverage the company's sophisticated technology and manufacturing, which include world-class 28nm High-K/Metal Gate technology, 14nm FinFET volume production, specialty process platforms specifically developed for AI, 5G and IoT applications and the automotive industry's highest-rated AEC-Q100 Grade-0 manufacturing capabilities for the production of ICs found in vehicles. UMC's 11 wafer fabs are strategically located throughout Asia and are able to produce over 600,000 wafers per month. The company employs more than 20,000 people worldwide, with offices in Taiwan, China, Europe, Japan, Korea, Singapore, and the United States. UMC can be found on the web at <http://www.umc.com>.

Note from UMC Concerning Forward-Looking Statements

Some of the statements in the foregoing announcement are forward-looking within the meaning of the U.S. Federal Securities laws, including statements about introduction of new services and technologies, future outsourcing, competition, wafer capacity, business relationships and market conditions. Investors are cautioned that actual events and results could differ materially from these statements as a result of a variety of factors, including conditions in the overall semiconductor market and economy; acceptance and demand for products from UMC; and technological and development risks. Further information regarding these and other risks is included in UMC's filings with the U.S. Securities and Exchange Commission. UMC does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.

Safe Harbor Statements

This release contains forward-looking statements. These statements constitute “forward-looking” statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended, and as defined in the United States Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,” “will,” “estimates,” “intends,” “projects,” “goals,” “targets” and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of UMC to be materially different from what is stated or may be implied in such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to: (i) dependence upon the frequent introduction of new services and technologies based on the latest developments in the industry in which UMC operates; (ii) the intensely competitive semiconductor, communications, consumer electronics and computer industries and markets; (iii) the risks associated with international business activities; (iv) dependence upon key personnel; (v) general economic and political conditions; (vi) possible disruptions in commercial activities caused by natural and human-induced events and disasters, including natural disasters, terrorist activity, armed conflict and highly contagious diseases; (vii) reduced end-user purchases relative to expectations and orders; and (viii) fluctuations in foreign currency exchange rates. Further information regarding these and other risks is included in UMC’s filings with the United States Securities and Exchange Commission. All information provided in this release is as of the date of this release and are based on assumptions that UMC believes to be reasonable as of this date, and UMC does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.

The financial statements included in this release are prepared and published in accordance with Taiwan International Financial Reporting Standards, or TIFRSs, recognized by the Financial Supervisory Commission in the ROC, which is different from International Financial Reporting Standards, or IFRSs, issued by the International Accounting Standards Board. Investors are cautioned that there may be significant differences between TIFRSs and IFRSs. In addition, TIFRSs and IFRSs differ in certain significant respects from generally accepted accounting principles in the ROC and generally accepted accounting principles in the United States.

This release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

- FINANCIAL TABLES TO FOLLOW -