

c. Retained earnings and dividend policies:

According to 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.
- 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, its funding requirements, domestic and overseas competitive landscape and its capital expenditure forecast, as well as stockholders' interest, balancing dividends and UMC's long-term financial planning. 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 debit balance of exchange differences on translation of foreign operations, 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 deficits.

The distribution of earnings for 2018 was approved by the stockholders' meeting held on June 12, 2019, while the distribution of earnings for 2019 was approved by the Board of Directors' meeting on April 27, 2020. The details of distribution are as follows:

	Appropriation of earnings (in thousand NT dollars)		Cash dividend per share (NT dollars)	
	2018	2019	2018	2019
Legal reserve	\$ 707,299	\$ 963,947		
Special reserve	14,513,940	(3,491,626)		
Cash dividends	6,916,105	9,765,155	\$ 0.58	\$ 0.75