

**UNITED MICROELECTRONICS CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE NINE-MONTH PERIOD ENDED
SEPTEMBER 30, 2008**

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The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

English Translation of a Report Originally Issued in Chinese

To United Microelectronics Corporation

We have reviewed the accompanying consolidated balance sheet of United Microelectronics Corporation and subsidiaries (the “Company”) as of September 30, 2008, and the related consolidated statement of income and cash flows for the nine-month period ended September 30, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our review. As described in Note 3(7) to the consolidated financial statements, certain long-term investments were accounted for under the equity method based on financial statements as of September 30, 2008 of the investees, which were reviewed by other auditors. Our review insofar as it relates to the investment income amounting to NT\$96 million for the nine-month period ended September 30, 2008, and the related long-term investment balance of NT\$3,310 million as of September 30, 2008, is based solely on the reports of other auditors.

We conducted our review in accordance with the Statements of Auditing Standards No. 36, “Review of Financial Statements” of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the reports of other auditors, we are not aware of any material modifications or adjustments that should have been made to the consolidated financial statements referred to above in order for them to be in conformity with requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As described in Note 2 to the consolidated financial statements, effective January 1, 2008, the Company adopted Accounting Research and Development Foundation Interpretation No. 96-052, and recognized share-based employee bonuses and remunerations to directors and supervisors as expenses rather than as a distribution of retained earnings.

October 20, 2008
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying unaudited consolidated financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED BALANCE SHEET
 September 30, 2008
 (Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	As of September 30, 2008	Liabilities and Stockholders' Equity	Notes	As of September 30, 2008
Current assets			Current liabilities		
Cash and cash equivalents	3(1)	\$ 38,417,812	Short-term loans	3(11)	\$ 225,327
Financial assets at fair value through profit or loss, current	3(2)	1,939,396	Financial liabilities at fair value through profit or loss, current	3(12)	175,781
Notes receivable		100,595	Accounts payable		4,396,918
Notes receivable - related parties	4	14,057	Income tax payable		787,112
Accounts receivable, net	3(3)	13,457,356	Accrued expenses		8,512,751
Accounts receivable - related parties, net	4	236,465	Payable on equipment		1,533,573
Other receivables		406,330	Other payables		4,678
Inventories, net	3(4)	12,180,966	Other current liabilities		576,476
Prepaid expenses		681,864	Deferred income tax liabilities, current		233
Deferred income tax assets, current		1,114,006	Total current liabilities		<u>16,212,849</u>
Total current assets		<u>68,548,847</u>			
Funds and investments			Long-term liabilities		
Financial assets at fair value through profit or loss, noncurrent	3(2)	24,550	Bonds payable	3(13)	7,496,568
Available-for-sale financial assets, noncurrent	3(5), 3(10)	21,856,148	Total long-term liabilities		<u>7,496,568</u>
Financial assets measured at cost, noncurrent	3(6), 3(10)	8,810,683	Other liabilities		
Long-term investments accounted for under the equity method	3(7)	8,644,178	Accrued pension liabilities		3,236,159
Prepayment for long-term investments		3,000	Deposits-in		10,402
Total funds and investments		<u>39,338,559</u>	Deferred income tax liabilities, noncurrent		13,574
Property, plant and equipment	3(8), 3(10), 6		Other liabilities - others		536,483
Land		2,096,396	Total other liabilities		<u>3,796,618</u>
Buildings		23,003,278	Total liabilities		<u>27,506,035</u>
Machinery and equipment		455,838,865	Capital	3(14), 3(15), 3(17)	
Transportation equipment		81,692	Common stock		135,434,871
Furniture and fixtures		3,509,096	Additional paid in capital	3(14)	
Leasehold improvements		43,544	Premiums		53,431,558
Total cost		484,572,871	Change in equities of long-term investments		6,889,202
Less : Accumulated depreciation		(375,340,010)	Retained earnings	3(14), 3(17)	
Add : Construction in progress and prepayments		5,045,553	Legal reserve		19,711,865
Property, plant and equipment, net		<u>114,278,414</u>	Unappropriated earnings		(1,896,286)
Intangible assets			Adjusting items in stockholders' equity	3(5)	
Goodwill		3,498,687	Cumulative translation adjustment		(908,546)
Other intangible assets		305	Unrealized gain or loss on financial instruments		(4,911,805)
Total intangible assets		<u>3,498,992</u>	Treasury stock	3(14), 3(16)	(9,080,830)
Other assets			Total stockholders' equity of parent company		<u>198,670,029</u>
Deferred charges		1,149,654	Minority interests		6,467,222
Deferred income tax assets, noncurrent		3,688,249	Total stockholders' equity		<u>205,137,251</u>
Other assets - others	3(9), 5	2,140,571			
Total other assets		<u>6,978,474</u>			
Total assets		<u>\$ 232,643,286</u>	Total liabilities and stockholders' equity		<u>\$ 232,643,286</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF INCOME
 For the nine-month period ended September 30, 2008
 (Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

		For the nine-month period ended September 30,	
	Notes	2008	
Operating revenues	4		
Sales revenues		\$	76,498,034
Less : Sales returns and discounts			(1,105,921)
Net Sales			75,392,113
Other operating revenues			1,413,776
Net operating revenues			76,805,889
Operating costs			
Cost of goods sold			(61,567,166)
Other operating costs			(991,813)
Operating costs			(62,558,979)
Gross profit			14,246,910
Unrealized intercompany profit			(86,204)
Realized intercompany profit			85,543
Gross profit-net			14,246,249
Operating expenses			
Sales and marketing expenses			(2,554,794)
General and administrative expenses			(2,500,713)
Research and development expenses			(6,304,071)
Subtotal			(11,359,578)
Operating income			2,886,671
Non-operating income			
Interest revenue			528,657
Dividend income			2,070,701
Gain on disposal of property, plant and equipment			66,316
Gain on disposal of investments			2,922,378
Exchange gain, net			43,603
Other income			844,223
Subtotal			6,475,878
Non-operating expenses			
Interest expense	3(8)		(58,674)
Investment loss accounted for under the equity method, net	3(7)		(871,804)
Loss on disposal of property, plant and equipment			(17,886)
Loss on decline in market value and obsolescence of inventories			(457,705)
Financial expenses			(75,845)
Impairment loss	3(10)		(3,684,975)
Loss on valuation of financial assets	3(2)		(2,066,392)
Loss on valuation of financial liabilities	3(12)		(677,066)
Other losses			(110,156)
Subtotal			(8,020,503)
Income from continuing operations before income tax			1,342,046
Income tax expense			(523,173)
Net income		\$	818,873
Attributable to:			
Shareholders of the parent		\$	1,189,585
Minority interests			(370,712)
Net income		\$	818,873
		Pre-tax	Post-tax
Earnings per share-basic (NTD)	3(18)		
Net income attributable to shareholders of the parent		\$	0.13
			\$
			0.09
Earnings per share-diluted (NTD)	3(18)		
Net income attributable to shareholders of the parent		\$	0.12
			\$
			0.08

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 For the nine-month period ended September 30, 2008
 (Expressed in Thousands of New Taiwan Dollars)

	For the nine-month period ended September 30,
	2008
Cash flows from operating activities:	
Net income attributable to shareholders of the parent	\$ 1,189,585
Net loss attributable to minority interests	(370,712)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	28,132,629
Amortization	924,291
Bad debt expenses	2,505
Loss on decline in market value and obsolescence of inventories	457,705
Cash dividends received under the equity method	134,924
Investment loss accounted for under the equity method	871,804
Loss on valuation of financial assets and liabilities	2,743,458
Impairment loss	3,684,975
Gain on disposal of investments	(2,922,378)
Gain on disposal of property, plant and equipment	(48,430)
Amortization of bond discounts	7,289
Exchange gain on financial assets and liabilities	(34,524)
Exchange gain on long-term liabilities	(178,877)
Transfer of deferred charges to losses	12,902
Amortization of deferred income	(124,125)
Changes in assets and liabilities:	
Financial assets and liabilities at fair value through profit or loss	(10,843)
Notes and accounts receivable	1,687,531
Other receivables	112,307
Inventories	(712,887)
Prepaid expenses	(50,234)
Deferred income tax assets	(239,641)
Accounts payable	(1,305,381)
Income tax payable	(49,749)
Accrued expenses	83,838
Other current liabilities	(136,924)
Accrued pension liabilities	44,632
Capacity deposits	(4,447)
Other liabilities - others	114,940
Net cash provided by operating activities	34,016,163
Cash flows from investing activities:	
Acquisition of available-for-sale financial assets	(694,499)
Proceeds from disposal of available-for-sale financial assets	4,048,506
Acquisition of financial assets measured at cost	(717,358)
Proceeds from disposal of financial assets measured at cost	146,913
Acquisition of long-term investments accounted for under the equity method	(1,718,543)
Proceeds from disposal of long-term investments accounted for under the equity method	825
Proceeds from capital reduction and liquidation of investments	269,992
Acquisition of property, plant and equipment	(10,025,909)
Proceeds from disposal of property, plant and equipment	186,790
Increase in deferred charges	(630,648)
Decrease in other assets - others	7,992
Net cash used in investing activities	(9,125,939)

English Translation of Consolidated Financial Statements Originally Issued in Chinese
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 For the nine-month period ended September 30, 2008
 (Expressed in Thousands of New Taiwan Dollars)

	For the nine-month period ended September 30,
	2008
(continued)	
Cash flows from financing activities:	
Decrease in short-term loans	\$ (126,477)
Redemption of bonds	(22,716,624)
Remuneration paid to directors and supervisors	(11,939)
Decrease in deposits-in	(4,009)
Cash dividends	(9,371,107)
Payment of employee bonus	(286,541)
Purchase of treasury stock	(2,087,205)
Decrease in minority shareholders	(40,098)
Net cash used in financing activities	(34,644,000)
Effect of exchange rate changes on cash and cash equivalents	493,441
Decrease in cash and cash equivalents	(9,260,335)
Cash and cash equivalents at beginning of period	47,678,147
Cash and cash equivalents at end of period	\$ 38,417,812
Supplemental disclosures of cash flow information:	
Cash paid for interest	\$ 397,291
Cash refunded for income tax	\$ 969,640
Investing activities partially paid by cash:	
Acquisition of property, plant and equipment	\$ 5,523,208
Add: Payable at beginning of period	6,036,274
Less: Payable at end of period	(1,533,573)
Cash paid for acquiring property, plant and equipment	\$ 10,025,909

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

UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

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

United Microelectronics Corporation and the consolidated entities (the “Company”) has prepared the notes in conformity with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan as of November 15, 2007, which simplifies the disclosure requirement. According to this order, the Company is only required to disclose the differences of accounting policies between the latest audited consolidated financial statements and the current ones and to disclose the consolidated entities. The following items can be exempt from disclosures:

- i. History and organization;
- ii. Income tax;
- iii. Pension plan;
- iv. Summary of operation cost and expenses including salary, depreciation, depletion, and amortization; and
- v. Attachments pertaining to significant transactions, investments, and investments in Mainland China.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in conformity with requirements of the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (R.O.C.).

Significant accounting policies adopted in preparing the accompanying consolidated financial statements are those adopted in preparing the annual consolidated financial statements of 2007, except those stated below:

(1) General Description of the Reporting Entities

a. Principles of Consolidation

Investees in which United Microelectronics Corporation (UMC), directly or indirectly, holds more than 50% of voting rights or de facto control with less than 50% of voting rights, are consolidated into UMC’s financial statements.

Transactions between consolidated entities are eliminated in the consolidated financial statements. Prior to January 1, 2006, the difference between the acquisition cost and the net equity of a subsidiary as of the acquisition date was amortized over 5 years; however effective January 1, 2006, goodwill arising from new acquisitions is analyzed and accounted for under the ROC Statement of Financial Accounting Standard (SFAS) No. 25, “Business Combination – Accounting Treatment under Purchase Method”, and goodwill is not subject to amortization.

b. The consolidated entities are as follows:

As of September 30, 2008

Investor	Subsidiary	Business nature	Percentage of ownership (%)
UMC	UMC GROUP (USA)	IC Sales	100.00
UMC	UNITED MICROELECTRONICS (EUROPE) B.V.	IC Sales	100.00
UMC	UMC CAPITAL CORP.	Investment holding	100.00
UMC	UNITED MICROELECTRONICS CORP. (SAMOA)	Investment holding	100.00
UMC	TLC CAPITAL CO., LTD. (TLC)	Consulting and planning for investment in new business	100.00
UMC	UMCI LTD. (UMCI)	Sales and manufacturing of integrated circuits	100.00
UMC	FORTUNE VENTURE CAPITAL CORP. (FORTUNE)	Consulting and planning for investment in new business	99.99
UMC	UNITED MICRODISPLAY OPTRONICS CORP. (UMO)	Sales and manufacturing of LCOS	89.99
UMC	UMC JAPAN (UMCJ)	Sales and manufacturing of integrated circuits	50.81
FORTUNE	UNITRUTH INVESTMENT CORP. (UNITRUTH)	Investment holding	100.00
UMC CAPITAL CORP.	UMC CAPITAL (USA)	Investment holding	100.00
UMC CAPITAL CORP.	ECP VITA LTD.	Insurance	100.00
UMO	UMO (HK) LIMITED	Investment holding	100.00
TLC	SOARING CAPITAL CORP.	Investment holding	100.00
SOARING CAPITAL CORP.	UNITRUTH ADVISOR (SHANGHAI) CO., LTD.	Investment holding introduce and consult	100.00

(2) Employee Stock Option Plan

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with Accounting Research and Development Foundation interpretations No. 92-070 through 072. For stock options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with ROC SFAS No. 39 “Accounting for Share-Based Payment.”

(3) Share-Based Employee Bonuses and Remunerations Paid to Directors and Supervisors

In accordance with Accounting Research and Development Foundation interpretation No. 96-052 effective January 1, 2008, share-based employee bonuses and remunerations paid to directors and supervisors are accounted for as expenses and charged to current income at fair value rather than as a reduction of retained earnings.

2. ACCOUNTING CHANGE

(1) Employee Stock Options

Effective from January 1, 2008, the Company adopted ROC SFAS No. 39, “Accounting for Share-Based Payment” to account for share-based payments. This change in accounting principles had no effect on consolidated net income or consolidated earnings per share for the nine-month period ended September 30, 2008.

(2) Share-Based Employee Bonuses and Remunerations Paid to Directors and Supervisors

Effective from January 1, 2008, the Company adopted Accounting Research and Development Foundation interpretation No. 96-052 to account for share-based employee bonuses and remunerations paid to directors and supervisors. This change in accounting principles had no effect on consolidated net income or consolidated earnings per share for the nine-month period ended September 30, 2008.

3. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	<u>As of September 30, 2008</u>
Cash:	
Cash on hand	\$2,785
Checking and savings accounts	9,868,565
Time deposits	22,853,050
Subtotal	<u>32,724,400</u>
Cash equivalents:	5,693,412
Total	<u><u>\$38,417,812</u></u>

(2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>As of September 30, 2008</u>
Current:	
<u>Held for trading</u>	
Listed stocks	<u>\$1,939,396</u>
Noncurrent:	
Convertible bonds	6,842
<u>Derivative Financial Instruments</u>	
Interest rate swaps	17,708
Subtotal	<u>24,550</u>
Total	<u><u>\$1,963,946</u></u>

During the nine-month period ended September 30, 2008, net loss of financial assets at fair value through profit or loss was NT\$1,979 million.

(3) ACCOUNTS RECEIVABLE, NET

	<u>As of September 30, 2008</u>
Accounts receivable	\$14,873,919
Less: Allowance for sales returns and discounts	(1,411,806)
Less: Allowance for doubtful accounts	(4,757)
Net	<u>\$13,457,356</u>

(4) INVENTORIES, NET

	<u>As of September 30, 2008</u>
Raw materials	\$1,228,938
Supplies and spare parts	2,403,678
Work in process	7,186,155
Finished goods	2,582,930
Total	13,401,701
Less : Allowance for loss on decline in market value and obsolescence	(1,220,735)
Net	<u>\$12,180,966</u>

Inventories were not pledged.

(5) AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

	<u>As of September 30, 2008</u>
Common stock	\$21,532,506
Depository receipts	261,715
Funds	61,927
Total	<u>\$21,856,148</u>

During the nine-month period ended September 30, 2008, the total unrealized loss adjustment to consolidated stockholders' equity due to changes in fair value of available-for-sale assets was NT\$25,331 million. The Company recognized a net gain of NT\$475 million due to the disposal of available-for-sale assets during the nine-month period ended September 30, 2008. Among the available-for-sale assets, 5.3 million shares of EPITECH TECHNOLOGY CORP. (EPITECH) were acquired on March 1, 2007 through the exchange of HIGHLINK TECHNOLOGY CORP. (HIGHLINK) shares, which were previously obtained by the Company through private placement and its subsequent stock dividends since February 2006. On March 1, 2007, HIGHLINK was merged into EPISTAR CORP. Additionally, the Company acquired 6.1 million shares of Simple Technology Co., LTD. through private placement in July 2006 and its subsequent stock dividends. The exchanges of these shares listed above are restricted by the provisions in Article 43 paragraph 8 of the Securities and Exchange Law.

(6) FINANCIAL ASSETS MEASURED AT COST, NONCURRENT

	<u>As of September 30, 2008</u>
Common stock	\$5,308,966
Preferred stock	2,793,762
Convertible bond	16,278
Funds	691,677
Total	<u><u>\$8,810,683</u></u>

The Company acquired 0.077 million shares of Ralink Technology Corp. through private placement in July 2007 and its subsequent stock dividends, 4.2 million shares of INPAQ Technology Co., LTD through private placement in November 2007 and its subsequent stock dividends, and 4.6 million shares of First International Telecom Corp. through private placement in March 2008. The exchanges of these shares listed above are restricted by the provision in Article 43 paragraph 8 of the Securities and Exchange Law.

(7) LONG-TERM INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

<u>Investee Company</u>	<u>As of September 30, 2008</u>	
	<u>Amount</u>	<u>Percentage of Ownership or Voting Rights</u>
<u>Unlisted companies</u>		
PACIFIC VENTURE CAPITAL CO., LTD. (PACIFIC) (Note A)	\$7,379	49.99
UWAVE TECHNOLOGY CORP. (UWAVE) (Note B)	-	48.64
ACHIEVE MADE INTERNATIONAL LTD.	31,694	48.03
MTIC HOLDING PTE LTD.	260,713	46.49
AEVOE INTERNATIONAL LTD.	26,956	45.31
YUNG LI INVESTMENTS, INC.	268,369	45.16
MEGA MISSION LIMITED PARTENRSHIP	1,463,298	45.00
SMEDIA TECHNOLOGY CORP.	149,878	44.16
UNITECH CAPITAL INC.	579,791	42.00
ANOTO TAIWAN CORP.	17,092	39.20
HSUN CHIEH INVESTMENT CO., LTD.	2,139,281	36.49
UC FUND II	129,835	35.45
WALTOP INTERNATIONAL CORP.	165,117	34.79
XGI TECHNOLOGY INC.	76,555	34.42
CRYSTAL MEDIA INC.	41,316	32.60
CTC CAPITAL PARTNERS I, L.P.	145,438	31.40
NEXPOWER TECHNOLOGY CORP.	2,274,672	30.64
ALLIANCE OPTOTEK CORP.	63,132	27.63
AMIC TECHNOLOGY CORP.	42,735	25.87

Investee Company	As of September 30, 2008	
	Amount	Percentage of Ownership or Voting Rights
UNIMICRON HOLDING LIMITED	590,774	25.25
HIGH POWER LIGHTING CORP.	44,864	23.00
MOBILE DEVICES INC.	49,178	21.11
TRANSLINK CAPITAL PARTNERS I L.P. (TRANSLINK)(Note C)	76,111	11.82
Total	<u>\$8,644,178</u>	

Note A : On June 27, 2006, PACIFIC set July 3, 2006 as its liquidation date through a decision at its shareholders' meeting. The liquidation has not been completed as of September 30, 2008.

Note B : On June 29, 2007, UWAVE reached the decision to liquidate the company at its shareholders' meeting. The liquidation has not been completed as of September 30, 2008.

Note C : According to the partnership contract, the Company has significant influence over TRANSLINK, and it is accounted for under the equity method.

b. Total loss arising from investments accounted for under the equity method, based on the reviewed financial statements of the investees, was NT\$872 million for the nine-month period ended September 30, 2008. Investment income amounting to NT\$96 million for the nine-month period ended September 30, 2008, and the related long-term investment balance of NT\$3,310 million as of September 30, 2008, was determined based on the investees' financial statements reviewed by other auditors.

c. The long-term equity investments were not pledged.

(8) PROPERTY, PLANT AND EQUIPMENT

	As of September 30, 2008		
	Cost	Accumulated Depreciation	Book Value
Land	\$2,096,396	\$-	\$2,096,396
Buildings	23,003,278	(8,932,433)	14,070,845
Machinery and equipment	455,838,865	(363,526,133)	92,312,732
Transportation equipment	81,692	(67,793)	13,899
Furniture and fixtures	3,509,096	(2,772,427)	736,669
Leasehold improvement	43,544	(41,224)	2,320
Construction in progress and prepayments	5,045,553	-	5,045,553
Total	<u>\$489,618,424</u>	<u>\$(375,340,010)</u>	<u>\$114,278,414</u>

- a. Total interest expense before capitalization amounted to NT\$87 million for the nine-month period ended September 30, 2008.

Details of capitalized interest are as follows:

	For the nine-month period ended September 30, 2008
Machinery and equipment	\$17,873
Other property, plant and equipment	10,641
Total interest capitalized	<u>\$28,514</u>
Interest rates applied	<u>0.11%~1.22%</u>

- b. Property, plant and equipment were not pledged.

(9) OTHER ASSETS — OTHERS

	As of September 30, 2008
Leased assets	\$1,168,919
Deposits-out	755,486
Others	216,166
Total	<u>\$2,140,571</u>

Please refer to Note 5 for deposits-out pledged as collateral.

(10) IMPAIRMENT

	For the nine-month period ended September 30, 2008
Available for sale financial assets, noncurrent	\$3,615,143
Financial assets measured at cost, noncurrent	59,842
Fixed assets	9,990
Total	<u>\$3,684,975</u>

(11) SHORT-TERM LOANS

	As of September 30, 2008
Unsecured bank loans	<u>\$225,327</u>
Interest rates	<u>3.18%</u>

The Company's unused short-term lines of credits amounted to NT\$14,045 million as of September 30, 2008.

(12) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, CURRENT

	<u>As of September 30, 2008</u>
Forward contract	\$142,592
Interest rate swaps	33,189
Total	<u>\$175,781</u>

During the nine-month period ended September 30, 2008, net loss arising from financial liabilities at fair value through profit or loss, current was NT\$756 million.

(13) BONDS PAYABLE

	<u>As of September 30, 2008</u>
Domestic unsecured bonds	\$7,500,000
Less: Discounts on convertible bonds	(3,432)
Net	<u>\$7,496,568</u>

- a. During the period from April 16 to April 27, 2001, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 5.1195% through 5.1850% and 5.2170% through 5.2850%, respectively. The five-year and seven-year bonds were due starting from April 2004 to April 2006 and April 2006 to April 2008, respectively, both in three yearly installments at the rates of 30%, 30% and 40%. On April 27, 2006 and April 27, 2008, the five-year and seven-year bonds were fully repaid, respectively.
- b. During the period from May 21 to June 24, 2003, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 4.0% minus USD 12-Month LIBOR and 4.3% minus USD 12-Month LIBOR, respectively. Stated interest rates are reset annually based on the prevailing USD 12-Month LIBOR. The five-year bonds and seven-year bonds are repayable in 2008 and 2010, respectively, upon the maturity of the bonds. On June 24, 2008, the five-year bonds were fully repaid.
- c. On October 5, 2005, the Company issued zero coupon convertible bonds on the Luxembourg Stock Exchange. The terms and conditions of the bonds are as follows:
 - (a) Issue Amount: US\$381.4 million
 - (b) Period: October 5, 2005 ~ February 15, 2008 (Maturity date)
 - (c) Redemption:
 - i On or at any time after April 5, 2007, if the closing price of the ADSs listed on the NYSE has been at least 130% of either the conversion price or the last adjusted conversion price, for 20 out of 30 consecutive ADS trading days, UMC may redeem all, but not some only, of the bonds.

- ii If at least 90% in principal amount of the bonds have already been redeemed, repurchased, cancelled or converted, UMC may redeem all, but not some only, of the bonds.
- iii. In the event that UMC's ADSs or shares have officially ceased to be listed or admitted for trading on the NYSE or the TSE, as the case may be, each bondholder shall have the right, at such bondholder's option, to require UMC to repurchase all, but not in part, of such bondholder's bonds at their principal amount.
- iv. In the event of certain changes in taxation in the R.O.C. resulting in UMC becoming required to pay additional amounts, UMC may redeem all, but not part, of the bonds at their principal amount; bondholders may elect not to have their bonds redeemed by UMC in such event, in which case the bondholders shall not be entitled to receive payments of such additional amounts.
- v. If a significant change of control occurs with respect to UMC, each bondholder shall have the right at such bondholder's option, to require UMC to repurchase all, but not in part, of such bondholder's bonds at their principal amount.
- vi. UMC paid the principal amount of the bonds at its maturity date, February 15, 2008.

(d) Conversion:

- i Conversion Period: Except for the closed period, the bonds may be converted into UMC's ADSs on or after November 4, 2005 and on or prior to February 5, 2008.
- ii Conversion Price and Adjustment: The conversion price is US\$4.253 per ADS. The applicable conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(e) Redemption at maturity date:

At the maturity date of February 15, 2008, UMC had redeemed the bonds at the principal amount.

d. Repayments of the above-mentioned bonds in the future years are as follows:

<u>Bonds repayable in</u>	<u>Amount</u>
2010	<u>\$7,500,000</u>

(14) CAPITAL STOCK

- a. As recommended by the board of directors, and approved by the shareholders at the meeting held on June 13, 2008, UMC issued 678 million new shares from capitalization of retained earnings and additional paid-in capital that amounted to NT\$6,776 million, of which NT\$1,001 million was stock dividend, NT\$1,146 million was employee bonus, and NT\$4,629 million was additional paid-in capital. The issuance process through the authority had been completed.
- b. On September 10, 2008, the Company cancelled 349 million shares of treasury stock, which were repurchased during the period from May 18, 2005 to July 15, 2005 for conversion of the convertible bonds into shares.
- c. UMC had 26,000 million common shares authorized to be issued, and 13,543 million shares were issued as of September 30, 2008, each at a par value of NT\$10.
- d. UMC had issued a total of 230 million ADSs, which were traded on the NYSE as of September 30, 2008. The total number of common shares of UMC represented by all issued ADSs was 1,148 million shares as of September 30, 2008. One ADS represents five common shares.

(15) EMPLOYEE STOCK OPTIONS

On September 11, 2002, October 8, 2003, September 30, 2004, December 22, 2005, and October 9, 2007, UMC was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 1 billion, 150 million, 150 million, 350 million, and 500 million units, respectively. Each unit entitles an optionee to subscribe for 1 share of UMC's common stock. Settlement upon the exercise of the options will be made through the issuance of new shares by UMC. The exercise price of the options was set at the closing price of UMC's common stock on the grant date. The contractual life is 6 years and an optionee may exercise the options in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. Detailed information relevant to the employee stock options is disclosed as follows:

Date of grant	Total number of options granted (in thousands)	Total number of options outstanding (in thousands)	Shares available to option holders (in thousands) (Note)	Exercise price (NTD) (Note)
October 7, 2002	939,000	395,539	275,756	\$21.42
January 3, 2003	61,000	39,511	27,546	\$24.15
November 26, 2003	57,330	39,047	27,222	\$33.70
March 23, 2004	33,330	16,078	11,209	\$31.25

Date of grant	Total number of options granted (in thousands)	Total number of options outstanding (in thousands)	Shares available to option holders (in thousands) (Note)	Exercise price (NTD) (Note)
July 1, 2004	56,590	36,683	25,574	\$28.24
October 13, 2004	20,200	8,945	6,236	\$24.28
April 29, 2005	23,460	12,044	8,397	\$22.37
August 16, 2005	54,350	32,638	22,754	\$29.47
September 29, 2005	51,990	40,853	28,481	\$26.89
January 4, 2006	39,290	20,941	14,600	\$23.17
May 22, 2006	42,058	29,595	20,633	\$25.19
August 24, 2006	28,140	19,677	13,718	\$24.09
December 13, 2007	500,000	471,495	471,495	\$18.03
Total	1,906,738	1,163,046	953,621	

Note: The employee stock options granted prior to August 7, 2007, effective date of capital reduction, are adjusted in accordance with capital reduction rate. Each option unit entitles an optionee to subscribe for about 0.7 share of UMC's common stock. The exercise price of the options is also adjusted according to capital reduction rate. Each stock option unit granted after August 7, 2007 remains to be subscribed for 1 share of UMC's common stock.

A summary of the equity-settled share-based payment transactions, and related information for the nine-month period ended September 30, 2008 is as follows:

(1)

	For the nine-month period ended September 30, 2008		
	Option (in thousands)	Shares available to option holders (in thousands)	Weighted-average Exercise Price per share (NTD)
Outstanding at beginning of period	1,287,407	1,048,832	\$21.06
Forfeited	(124,361)	(95,211)	\$21.68
Outstanding at end of period	<u>1,163,046</u>	<u>953,621</u>	\$21.00
Exercisable at end of period	<u>628,814</u>	<u>438,388</u>	\$23.76
Weighted-average fair value of options granted during the period		\$-	

(2) The information on UMC's outstanding stock options as of September 30, 2008, is as follows:

Authorization Date	Range of Exercise Price	Outstanding Stock Options				Exercisable Stock Options		
		Option (in thousands)	Shares available to option holders (in thousands)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per share (NTD)	Option (in thousands)	Shares available to option holders (in thousands)	Weighted-average Exercise Price per share (NTD)
2002.09.11	\$21.42~\$24.15	435,050	303,302	0.04	\$21.67	434,870	303,176	\$21.67
2003.10.08	\$28.24~\$33.70	91,808	64,005	1.45	\$31.09	91,472	63,772	\$31.08
2004.09.30	\$22.37~\$29.47	94,480	65,868	2.81	\$26.96	68,584	47,814	\$27.03
2005.12.22	\$23.17~\$25.19	70,213	48,951	3.60	\$24.28	33,888	23,626	\$24.30
2007.10.09	\$18.03	471,495	471,495	5.20	\$18.03	-	-	\$-
		<u>1,163,046</u>	<u>953,621</u>	2.68	\$21.00	<u>628,814</u>	<u>438,388</u>	\$23.76

UMC used the intrinsic value method to recognize compensation costs for its employee stock options issued between January 1, 2004 and December 31, 2007. Compensation costs for the nine-month periods ended September 30, 2008 was NT\$0.

UMC granted options prior to adopting ROC SFAS No. 39 "Accounting for Share-Based Payment." Pro forma information on net income and earnings per share using the fair value method on net income and earnings per share is as follows:

	For the nine-month period ended September 30, 2008	
	Basic earnings per share	Diluted earnings per share
Net Income	\$1,189,585	\$1,059,675
Earnings per share (NTD)	\$0.09	\$0.08
Pro forma net income	\$485,435	\$355,525
Pro forma earnings per share (NTD)	\$0.04	\$0.03

The fair value of the options granted was estimated at the grant date using the Black-Scholes options pricing model with the following weighted-average assumptions for the nine-month period ended September 30, 2008.

	For the nine-month period ended September 30, 2008
Expected dividend yields	1.37%~1.71%
Volatility factors of the expected market price	36.29%~49.10%
Risk-free interest rate	1.85%~2.85%
Weighted-average expected remaining years	4~5

(16) TREASURY STOCK

- a. Changes in the treasury stock during the nine-month period ended September 30, 2008 is as follows:

For the nine-month period ended September 30, 2008

(In thousands of shares)

<u>Purpose</u>	<u>As of January 1, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>As of September 30, 2008</u>
For transfer to employees	355,716	-	-	355,716
For conversion of the convertible bonds into shares	348,583	-	348,583	-
To retain the Company's credibility and stockholders' interests	-	187,118	-	187,118
<u>Total shares</u>	<u>704,299</u>	<u>187,118</u>	<u>348,583</u>	<u>542,834</u>

- b. 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 stocks, 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 such, the maximum number of shares of treasury stock that UMC could hold as of September 30, 2008 was 1,354 million shares, while the ceiling amount was NT\$65,427 million.
- c. 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 is treated as treasury stock. These subsidiaries have the same rights as other stockholders except for subscription to new stock issuance. Starting June 22, 2005, stocks held by subsidiaries no longer have voting rights according to the revised Companies Act.
- d. As of September 30, 2008, UMC's subsidiary, FORTUNE VENTURE CAPITAL CORP., held 16 million shares of UMC's stock, with a book value of NT\$10.25 per share. The closing price on September 30, 2008 was NT\$10.25.

(17) 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 :

- Payment of all taxes and dues;
- Offset prior years' operation losses;
- Set aside 10% of the remaining amount after deducting items (a) and (b) as a legal reserve;

- d. Set aside 0.1% of the remaining amount after deducting items (a), (b), and (c) as directors' and supervisors' remuneration; and
- e. After deducting items (a), (b), and (c) above from the current year's earnings, no less than 5% of the remaining amount together with the prior years' unappropriated earnings is to be allocated as employees' bonus, which will be settled through issuance of new shares of UMC, or cash. Employees of UMC's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees' bonus.
- f. The distribution of the remaining portion, if any, will be recommended by the board of directors and resolved in the shareholders' meeting.

The policy for dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the benefit of shareholders, share bonus equilibrium, and long-term financial planning. The board of directors shall make the distribution proposal annually and present it at the shareholders' meeting. UMC's Articles of Incorporation further provide that no more than 80% of the dividends to shareholders, if any, must be paid in the form of stock dividends. Accordingly, at least 20% of the dividends must be paid in the form of cash.

During the nine-month period ended September 30, 2008, the amounts of the employee bonuses and remunerations to directors and supervisors were both estimated at NT\$0 million, respectively. The board of directors estimated the amount by taking consideration of the Company's Articles of Incorporation, government regulations and industrial average. Estimated amount of employee bonuses and remunerations to directors and supervisors were charged to current income. If the board modifies the estimates significantly in the subsequent periods during the year, the Company will recognize the change as an adjustment to current income. Moreover, if the amounts were modified by the shareholders' meeting of the following year, the adjustment will be regarded as a change of accounting estimate and will be reflected in the consolidated statement of income in the following year.

The distribution of retained earnings for 2007 was approved through the shareholders' meetings. Information regarding shareholders' approval can be obtained from the "Market Observation Post System" on the website of the TSE.

Details of the 2007 employee bonus settlement and directors' and supervisors' remuneration are as follows:

	2007 (as recommended by the board of directors)
Cash Dividend	NT\$0.75 per share
Stock Dividend	0.08 per share
Employees' bonuses – Cash Dividend (NTD thousands)	286,541
Employees' bonuses – Stock Dividend (NTD thousands)	1,146,166
Directors' and Supervisors' remunerations (NTD thousands)	11,939

Pursuant to Article 41 of the Securities and Exchange Law of the R.O.C., a special reserve is set aside from the current net income and prior unappropriated earnings with an amount equal to the amount of items that is accounted for as deductions to stockholders' equity such as unrealized loss on long-term investment and cumulative translation adjustments. When the deductions to stockholders' equity are reversed, the set-aside special reserve can be distributed.

(18) EARNINGS PER SHARE

There were zero coupon convertible bonds and employee stock options outstanding as of September 30, 2008. Therefore, in consideration of such complex structure, the calculated basic and diluted earnings per share for the nine-month period ended September 30, 2008, are disclosed as follows:

	For the nine-month period ended September 30, 2008				
	Amount		Shares expressed in thousands	Earnings per share (NTD)	
	Income before income tax	Net income		Income before income tax	Net income
Earning per share-basic (NTD)					
Income available to common stock shareholders	\$1,729,413	\$1,189,585	13,157,596	<u>\$0.13</u>	<u>\$0.09</u>
Effect of dilutive equivalent shares					
Convertible bonds payable	\$(173,214)	\$(129,910)	79,354		
Earning per share-diluted:					
Income available to common stock shareholders	\$1,556,199	\$1,059,675	13,236,950	<u>\$0.12</u>	<u>\$0.08</u>

The employee stock options were not dilutive when calculating the diluted earning per share for the nine-month period ended September 30, 2008; therefore, they were not included in the diluted earning per share calculation.

4. RELATED PARTY TRANSACTIONS

(1) Name and Relationship of Related Parties

Name of related parties	Relationship with the Company
UNITECH CAPITAL INC.	Equity Investee
MEGA MISSION LIMITED PARTNERSHIP	Equity Investee
MTIC HOLDINGS PTE. LTD.	Equity Investee
UNIMICRON HOLDING LIMITED	Equity Investee
HSUN CHIEH INVESTMENT CO., LTD.	Equity Investee
AMIC TECHNOLOGY CORP.(AMIC)	Equity Investee
PACIFIC VENTURE CAPITAL CO., LTD.	Equity Investee
XGI TECHNOLOGY INC.	Equity Investee
NEXPOWER TECHNOLOGY CORP.	Equity Investee
SILICON INTEGRATED SYSTEMS CORP. (SIS)	The Company's director
UWAVE TECHNOLOGY CORP.	Subsidiary's equity investee
UCA TECHNOLOGY INC. (Liquidation finished on March 17, 2008)	Subsidiary's equity investee
SMEDIA TECHNOLOGY CORP.	Subsidiary's equity investee
CRYSTAL MEDIA INC.	Subsidiary's equity investee
MOBILE DEVICES INC.	Subsidiary's equity investee

(2) Significant Related Party Transactions

a. Operating revenues

	For the nine-month period ended September 30, 2008	
	Amount	Percentage
SIS	\$890,747	1
Others	482,698	1
Total	\$1,373,445	2

The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for overseas sales to related parties was net 60 days, while the terms for domestic sales were month-end 45~60 days. The collection period for third party overseas sales was net 30~60 days, while the terms for third party domestic sales were month-end 30~60 days.

b. Notes receivable

	As of September 30, 2008	
	Amount	Percentage
AMIC	\$14,057	12

c. Accounts receivable

	As of September 30, 2008	
	Amount	Percentage
AMIC	\$118,022	1
Others	121,857	1
Total	239,879	2
Less: Allowance for sales returns and discounts	(3,414)	
Net	\$236,465	

5. ASSETS PLEDGED AS COLLATERAL

As of September 30, 2008

	Amount	Party to which asset(s) was pledged	Purpose of pledge
Deposit-out (Time deposit)	\$620,222	Customs	Customs duty guarantee

6. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) The Company has entered into several patent license agreements and development contracts of intellectual property for a total contract amount of approximately NT\$7.8 billion. Royalties and development fees payable in future years are NT\$2.7 billion as of September 30, 2008.
- (2) The Company signed several construction contracts for the expansion of its factory space. As of September 30, 2008, these construction contracts have amounted to approximately NT\$2.9 billion and the unpaid portion of the contracts was approximately NT\$0.7 billion.
- (3) The Company entered into several operating lease contracts for land and offices. These renewable operating leases will expire in various years through 2032 and are renewable. Future minimum lease payments under those leases are as follows:

For the year ended December 31,	Amount
2008 (4 th quarter)	\$81,135
2009	322,607
2010	308,720
2011	290,276
2012	243,641
2013 and thereafter	1,949,925
Total	\$3,196,304

- (4) On February 15, 2005, the Hsinchu District Prosecutor's Office conducted a search of UMC's facilities. On February 18, 2005, UMC's former Chairman Mr. Robert H.C. Tsao, released a public statement, explaining that its assistance to Hejian Technology Corp. (Hejian) did not involve any investment or technology transfer.

Furthermore, from the very beginning there was a verbal indication that, at the proper time, UMC would be compensated appropriately for its assistance, and circumstances permitting, at some time in the future, it will push through the merger between two companies. However, no promise was made by UMC and no written agreement was made and executed. Upon UMC's request to materialize the said verbal indication by compensating in the form of either cash or equity, the Chairman of the holding company of Hejian offered 15% of the approximately 700 million outstanding shares of the holding company of Hejian in return for UMC's past assistance and for continued assistance in the future.

Immediately after UMC had received such offer, it filed an application with the Investment Commission of the Ministry of Economic Affairs on March 18, 2005 (Ref. No. 94-Lian-Tung-Tzu-0222), for their executive guidance for the successful transfer of said shares to UMC. The shareholders meeting dated June 13, 2005 resolved that to the extent permitted by law UMC shall try to get the 15% of the outstanding shares offered by the holding company of Hejian as an asset of UMC. The holding company of Hejian offered 106 million shares of its outstanding common shares in return for UMC's assistance. The holding company of Hejian has put all such shares in escrow. UMC was informed of such escrow on August 4, 2006. The subscription price per share of the holding company of Hejian in the last offering was US\$1.1. Therefore, the total market value of the said shares is worth more than US\$110 million. However, UMC may not acquire the ownership of nor exercise the rights of the said shares with any potential stock dividend or cash dividend distributed in the future until the ROC laws and regulations allow UMC to acquire and exercise. In the event that any stock dividend or cash dividend is distributed, UMC's stake in the holding company of Hejian will accumulate accordingly.

In April 2005, UMC's former Chairman Mr. Robert H.C. Tsao was personally fined with in the aggregate amount of NT\$3 million by the Financial Supervisory Commission, Executive Yuan, R.O.C. (ROC FSC) for failure to disclose material information relating to Hejian in accordance with applicable rules. As a result of the imposition of the fines by the ROC FSC, UMC was also fined in the amount of NT\$30,000 by Taiwan Stock Exchange (TSE) for the alleged non-compliance with the disclosure rules in relation to the material information. UMC and its former Chairman Mr. Robert H.C. Tsao have filed for administrative appeal and reconsideration with the Executive Yuan, R.O.C. and TSE, respectively. Mr. Robert H.C. Tsao's administrative appeal was dismissed by the Execution Yuan, R.O.C. on February 21, 2006 and the ROC FSC transferred the case against Mr. Robert H.C. Tsao to the Administrative Enforcement Agency for enforcement of the fine. Mr. Robert H.C. Tsao has filed an administrative action against the ROC FSC with Taipei High Administrative Court on April 14, 2006. On December 27, 2007, the Administrative High Court revoked the decision and ruled in favor of Mr. Tsao.

For UMC's assistance to Hejian Technology Corp., UMC's former Chairman Mr. Robert H.C. Tsao, former Vice Chairman Mr. John Hsuan, and Mr. Duen-Chian Cheng, the General Manager of Fortune Venture Capital Corp., which is 99.99% owned by UMC, were indicted for violating the Business Entity Accounting Act and breach of trust under the Criminal Law by Hsinchu District Prosecutors Office on January 9, 2006. Mr. Robert H.C. Tsao and Mr. John Hsuan had officially resigned from their positions of UMC's Chairman, Vice Chairman and directors prior to the announcement of the prosecution; for this reason, at the time of the prosecution, Mr. Robert H.C. Tsao and Mr. John Hsuan no longer served as UMC's directors and had not executed their duties as UMC's Chairman and Vice Chairman.

In the future, if a guilty judgment is pronounced by the court, such consequences would be Mr. Robert H.C. Tsao, Mr. John Hsuan and Mr. Duen-Chian Cheng's personal concerns only; UMC would not be subject to indictment regarding this case. Mr. Robert H.C. Tsao, Mr. John Hsuan and Mr. Duen-Chian Cheng were pronounced innocent of the charge by Hsinchu District Court on October 26, 2007. On November 15, 2007, Taiwan's Hsinchu District Court Prosecutors Office filed an appeal, which is currently under trial.

On February 15, 2006, UMC was fined in the amount of NT\$5 million for unauthorized investment activities in Mainland China, implicating violation of Article 35 of the Act "Governing Relations Between Peoples of the Taiwan Area and the Mainland Area" by the R.O.C. Ministry of Economic Affairs (MOEA). However, as UMC believes it was illegally and improperly fined, UMC had filed an administrative appeal against MOEA to the Executive Yuan on March 16, 2006. On October 19, 2006, Executive Yuan denied the administrative appeal filed by UMC. UMC had filed an administrative litigation case against MOEA on December 8, 2006. Taipei High Administrative Court announced and reversed MOEA's administrative sanction on July 19, 2007. MOEA filed an appeal against UMC on August 10, 2007.

7. SIGNIFICANT DISASTER LOSS

None.

8. SIGNIFICANT SUBSEQUENT EVENT

None.

9. OTHERS

(1) Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, is comprised of cash and cash equivalents, common stock, preferred stock, convertible bonds, open-end funds, short-term loans, and bonds payable. The main purpose of these financial instruments is to manage financing for the Company's operations. The Company also holds various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

UMC also enters into derivative transactions, including interest rate swaps and forward currency contracts. The purpose of these derivative transactions is to mitigate interest rate risk and foreign currency exchange risks arising from UMC's operations and financing activities.

The main risks arising from the Company's financial instruments include cash flow interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk.

Cash flow interest rate risk

UMC utilizes interest rate swap agreements to avoid its cash flow interest rate risk on the counter-floating rate of its unsecured domestic bonds issued during the period from May 21 to June 24, 2003. The terms of the interest rate swap agreements are the same as those of the domestic bonds, which are five and seven years. The floating rate is reset annually.

Foreign currency risk

The Company has foreign currency risk arising from purchases or sales. The Company utilizes spot or forward contracts to avoid foreign currency risk. The notional amounts of the foreign currency contracts are the same as the amount of the hedged items. In principal, the Company does not carry out any forward contracts for uncertain commitments.

Commodity price risk

The Company's exposure to commodity price risk is minimal.

Credit risk

The Company trades only with established and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, which consequently minimizes the Company's exposure to bad debts.

With respect to credit risk arising from the other financial assets of the Company which is comprised of cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arising from the default of counter-parties is limited to the carrying amount of these instruments.

Although the Company trades only with established third parties, it will request collateral to be provided by third parties with less favorable financial positions.

Liquidity risk

The Company's objective is to maintain a balance of funding continuity and flexibility through the use of financial instruments such as cash and cash equivalents, short-term loans and bonds.

(2) Information of financial instruments

a. Fair value of financial instruments

Financial Assets	As of September 30, 2008	
	Book Value	Fair Value
<u>Non-derivative</u>		
Cash and cash equivalents	\$38,417,812	\$38,417,812
Financial assets at fair value through profit or loss, current	1,939,396	1,939,396
Notes and accounts receivable	14,214,803	14,214,803
Financial assets at fair value through profit or loss, noncurrent	6,842	6,842
Available-for-sale financial assets, noncurrent	21,856,148	21,856,148
Financial assets measured at cost, noncurrent	8,810,683	-
Long-term investments accounted for under the equity method	8,644,178	8,299,971
Prepayment for long-term investments	3,000	-
Deposits-out	755,486	755,486
<u>Derivative</u>		
Interest rate swaps	17,708	17,708
<u>Financial Liability</u>		
<u>Non-derivative</u>		
Short-term loans	\$225,327	\$225,327
Payables	15,235,032	15,235,032
Bonds payable	7,496,568	7,143,323
<u>Derivative</u>		
Forward contract	142,592	142,592
Interest rate swaps	33,189	33,189

- b. The methods and assumptions used to measure the fair value of financial instruments are as follows:
- i. The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes and accounts receivable, short-term loans and payables.
 - ii. The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets are based on the quoted market prices. If there are restrictions on the sale or transfer of an available-for-sale financial 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.
 - iii. The fair value of long-term investments accounted for under equity method is based on the quoted market prices. If market prices are unavailable, the Company estimates the fair value based on the book values.
 - iv. The fair value of financial assets measured at cost and prepayment for long-term investments are unable to be estimated since there is no active market in trading those unlisted investments.
 - v. The fair value of deposits-out is based on their book value since the deposit periods are principally within one year and renewed upon maturity.
 - vi. The fair value of bonds payable is determined by the market price.
 - vii. The fair value of derivative financial instruments is based on the amount the Company expects to receive (positive) or to pay (negative) assuming that the contracts are settled in advance at the balance sheet date.
- c. The fair value of the Company's financial instruments is determined by the quoted prices in active markets, or if the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique:

	<u>As of September 30, 2008</u>	
	<u>Active Market</u>	
	<u>Quotation</u>	<u>Valuation Technique</u>
<u>Non-derivative Financial Instruments</u>		
Financial assets		
Financial assets at fair value through profit or loss, current	\$1,939,396	\$-

	As of September 30, 2008	
	Active Market Quotation	Valuation Technique
<u>Non-derivative Financial Instruments</u>		
Financial assets at fair value through profit or loss, noncurrent	6,842	-
Available-for-sale financial assets, noncurrent	21,041,717	814,431
Long-term investments accounted for under the equity method	-	8,299,971
Financial liabilities		
Short-term loans	-	225,327
Bonds payable	7,143,323	-
<u>Derivative Financial Instruments</u>		
Financial assets		
Interest rate swaps	\$-	\$17,708
Financial liabilities		
Interest rate swaps	-	33,189
Forward contract	-	142,592

d. For the nine-month period ended September 30, 2008, the total changes in fair value estimated by using a valuation technique and recognized in the consolidated statement of income during periods was NT\$49 million.

e. The Company's financial assets and financial liabilities with cash flow interest rate risk exposure were NT\$18 million and NT\$33 million, respectively, as of September 30, 2008.

f. During the nine-month period ended September 30, 2008, total interest revenues for financial assets or liabilities that are not at fair value through profit or loss was NT\$529 million, while interest expense for the nine-month period ended September 30, 2008 was NT\$87 million.

(3) UMC entered into interest rate swap and forward contracts for hedging the interest rate risk arising from the counter-floating rate of its domestic bonds and for hedging the exchange rate risk arising from the net assets or liabilities denominated in foreign currency. UMC entered into these derivative financial instruments in connection with its hedging strategy to reduce the market risk of the hedged items and these financial instruments were not held for trading purpose. The relevant information on the derivative financial instruments entered into by UMC is as follows:

- a. UMC utilized interest rate swap agreements to hedge its interest rate risks on the counter-floating rate of its unsecured domestic bonds issued during the period from May 21 to June 24, 2003. The terms of the interest rate swap agreements are the same as those of the domestic bonds, which are five and seven years. The floating rate is reset annually. The details of interest rate swap agreements are summarized as follows:

As of September 30, 2008, UMC had the following interest rate swap agreements outstanding:

<u>Notional Amount</u>	<u>Contract Period</u>	<u>Interest Rate Received</u>	<u>Interest Rate Paid</u>
NT\$7,500 million	May 21, 2003 to June 24, 2010	4.3% minus USD 12-Month LIBOR	1.48%

- b. The details of forward contracts entered into by UMC are summarized as follows:

As of September 30, 2008

UMC

<u>Type</u>	<u>Notional Amount</u>	<u>Contract Period</u>
Forward contracts	Sell US\$297 million	August 12, 2008 to October 29, 2008

- c. Transaction risk

- (a) Credit risk

There is no significant credit risk exposure with respect to the above transactions as the counter-parties are reputable financial institutions with good global standing.

- (b) Liquidity and cash flow risk

The cash flow requirements on the interest rate swap agreements are limited to the net interest payables or receivables arising from the differences in the swap rates. The cash flow requirements on forward contracts are limited to the forward contract's principal amount, which is the same as the underlying net assets or liabilities denominated in their foreign currencies at the settlement day. Therefore, no significant cash flow risk is anticipated since the working capital is sufficient to meet the cash flow requirements.

- (c) Market risk

Interest rate swap agreements and forward contracts are intended for hedging purposes. Gains or losses arising from the fluctuations in interest rates and exchange rates are likely to be offset against the gains or losses from the hedged items. As a result, no significant exposure to market risk is anticipated.

d. Presentation of derivative financial instruments on the financial statements

UMC

As of September 30, 2008, UMC's interest rate swap agreements were classified as financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss amounted to NT\$18 million and NT\$33 million, respectively. The related valuation gain of NT\$78 million was recorded under non-operating revenue for the nine-month period ended September 30, 2008.

As of September 30, 2008, the forward contracts that were classified as current liabilities amounted to the NT\$143 million and the related valuation loss of NT\$29 million was recorded under non-operating revenue for the nine-month period ended September 30, 2008.

(4) Significant intercompany transactions among consolidated entities for the nine-month period ended September 30, 2008 are disclosed in Attachment 1.

(5) Details of subsidiaries that hold UMC's stock are as follows:

As of September 30, 2008

<u>Subsidiary</u>	<u>No. of Shares (in thousands)</u>	<u>Amount</u>	<u>Purpose</u>
FORTUNE VENTURE CAPITAL CORP.	16,079	\$164,807	Long-term investment

ATTACHMENT 1 (Significant intercompany transactions between consolidated entities)

(Amount in thousand; Currency denomination in NTD unless otherwise specified)

For the nine-month period ended September 30, 2008

No. (Note 1)	Related Party	Counterparty	Relationship with the Company (Note 2)	Transactions			Percentage of consolidated operating revenues or consolidated total assets (Note 4)
				Account	Amount	Terms (Note 3)	
0	UNITED MICROELECTRONICS CORPORATION	UMC GROUP (USA)	1	Sales	\$42,201,481	Net 60 days	54.95%
0	UNITED MICROELECTRONICS CORPORATION	UMC GROUP (USA)	1	Accounts receivable	8,495,185	-	3.65%
0	UNITED MICROELECTRONICS CORPORATION	UNITED MICROELECTRONICS (EUROPE) B.V.	1	Sales	7,557,011	Net 60 days	9.84%
0	UNITED MICROELECTRONICS CORPORATION	UNITED MICROELECTRONICS (EUROPE) B.V.	1	Accounts receivable	1,097,358	-	0.47%
0	UNITED MICROELECTRONICS CORPORATION	UMC JAPAN	1	Sales	1,326,552	Net 60 days	1.73%
0	UNITED MICROELECTRONICS CORPORATION	UMC JAPAN	1	Accounts receivable	303,626	-	0.13%

Note 1: UMC and its subsidiaries are coded as follows:

1. UMC is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows :

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The sales price to the above related parties was determined through mutual agreement based on the market conditions.

Note 4: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.

For profit or loss items, cumulative balances are used as basis.