



Robert H.C. Tsao



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## Dear stockholders,

In 2001, the global semiconductor industry experienced a severe downturn. In this environment, UMC's revenue fell from NT\$105.1 billion in 2000 to only NT\$64.5 billion in 2001. The company also slipped from profitability with earnings dropping from NT\$50.8 billion in 2000 to a loss of NT\$3.2 billion in 2001. Although we managed to achieve our financial forecast for revenue and earnings figures for 2001, the magnitude of the decline was unprecedented.

In 2000, our company's performance in the European market was outstanding, particularly in the communications sector where we secured major customers such as Alcatel, Infineon, and ST Microelectronics. By comparison, our competitor, TSMC was unable to build a meaningful market position in the region. However, due to the poor performance of the communications sector in 2001, our success in building market share in this sector in 2000 caused us to under-perform our competitor this year. As other areas of the industry, such as PC and Consumer related markets, remained relatively stable, our competition suffered less in terms of revenue falloff.

Although our major competitor, TSMC, has taken every opportunity to promote the idea that its market share leadership grew significantly over the course of the year, careful analysis shows that UMC was successful in building up a dominant market position for foundry services in the Asia, Japan and European markets. In fact, our major competitor only managed to establish a lead in the North American market, with almost 80% of its revenue coming from North American customers, and the vast majority of this revenue coming from a small number of large-volume customers. Therefore, it is clear that any claims of increased market share were limited to the North American market, and do not reflect global foundry market leadership.

Although UMC's revenue and earnings suffered in 2001, the industry slowdown provided us an opportunity to reorganize and re-evaluate our internal policies and operations. During the year, in order to enhance competitiveness, we made considerable adjustments to our Marketing, Sales and R&D departments, as well as in quality control and fab operations. We have also re-evaluated our investment and partnership policies, and have taken steps that we believe will significantly benefit UMC in the future. One example was our decision to forgo further participation in our joint venture with Hitachi, Trecenti Technologies. Due to our inability to take management control over the joint venture foundry, we decided to sell our equity stake back to Hitachi. Although we discontinued our participation in Trecenti, during the course of this cooperation, we gained valuable experience in 300mm manufacturing and were able to recoup

the majority of our original investment in the joint venture. At the same time, we stopped incurring any financial losses associated with its operations while maintaining our good relationship with Hitachi. We will continue to re-evaluate our business strategies going forward, and are confident that future operations will be more focused, rational and transparent.

Looking ahead, we have abundant reason to be optimistic and confident. Due to the massive cost associated with investing in 300mm facilities, most integrated device manufacturers (IDMs) become increasingly reluctant to bear the investment burden associated with building and equipping a 300mm fab. Therefore, it is clear that outsourcing to foundries will grow in the coming years.

From a technology standpoint, we have built a remarkable track record, with our accomplishments being increasingly recognized by others in the industry. Texas Instruments' CEO, Tom Engibous, recently commented that UMC's 0.13um process is in the same technology league as that of Intel, TI and IBM. In order to deliver even more advanced process technologies, UMC has already laid the groundwork for the development of 90-nanometer, 65-nanometer, and 45-nanometer devices, and continues to enhance its research and development planning and development roadmaps.

As a further testament to our technology leadership, in February of 2002, AMD signed a long-term agreement with UMC. This alliance includes many exciting aspects such as R&D for high-speed CPU applications, a volume wafer manufacturing agreement, and the establishment

of a joint venture 300mm facility in Singapore. This partnership ensures that we can provide "ultimate performance processes" to our foundry customers for the foreseeable future. Consequently, it enables UMC to enjoy a significant and long-term advantage over its competition in the field of process technology regardless of any inflated claims they may choose to make. Such strategic partnerships will allow us to further expand our market share, and establish ourselves as the leader in the foundry industry.

As the semiconductor industry recovers in 2002, we expect our operations to improve greatly over 2001. We will also continue to work our hardest for the benefit of our customers, stockholders, and employees.



**Robert H.C. Tsao**  
Chairman, UMC



**John Hsuan**  
CEO, UMC