

UMC

YEAR 2000 ANNUAL REPORT

UMC YEAR 2000 ANNUAL REPORT

2	LETTER TO SHAREHOLDERS
6	UMC YEAR 2000 DIGITAL JOURNAL
22	CORPORATE OVERVIEW
26	OPERATION HIGHLIGHTS
34	BUSINESS PLANS
41	FINANCIAL REVIEW
42	Brief Balance Sheets
43	Brief Statements of Income
43	Market Price, Net Worth, Earnings and Dividends Per Share
44	Auditors' Opinion
45	Financial Analysis
46	Review and Analysis of Financial Status and Operating Results
47	Report of Independent Auditors and Financial Statements
82	CONSOLIDATED FINANCIAL REVIEW
83	Report of Independent Auditors and Financial Statements
121	SPECIAL DISCLOSURES
122	Letter of Representation
123	Summary of Affiliated Enterprises
125	Dividend Policy and Status
127	Other Disclosures

DEAR SHAREHOLDERS

The year 2000 opened with the official consolidation of UMC's foundry operations on January 3rd. Our consolidation, accompanied by robust industry conditions in 2000, resulted in record revenues and profits for the year. Revenues increased 260.5% and profits 383.7% respectively, with UMC's gross margin leading all companies in the foundry industry at 51%. The following factors contributed to UMC's success in 2000, and are expected to set the stage for further growth in coming years.

TECHNOLOGY LEADERSHIP

A major factor in our company's success in 2000 was the ability to extend our leadership in the area of technology, testimony to the success of our research and development efforts and rapid deployment capabilities. This resulted in UMC's industry-leading 13% of revenue from 0.18-micron and below technologies. Over the course of the year, we set a string of pure-play foundry industry milestones that included:

- **The first delivery of wafers utilizing copper interconnect technology**
- **The first successful production of 0.13-micron ICs**
- **The first release of a true low-k dielectric production technology (k=2.7)**
- **The first successful production of foundry ICs using 300mm wafers**

These achievements represent significant competitive advantages for UMC and our customers. Apart from our strength in mainstream logic technologies, we made great strides in the development of other specialty processes, including RF CMOS, Liquid Crystal on Silicon (LCOS), CMOS sensor, and Flash memory technologies.

GLOBAL PARTNERSHIPS

In line with UMC's belief that integration, globalization and specialization are the key factors that determine success in the high technology economy, we continued to pursue a wide range of strategic partnerships with major semiconductor manufacturers and design companies. Among the many such alliances, several stand out as remarkable:

- **Joint Development of 0.13 and 0.10-micron technology with IBM and Infineon**
- **Hitachi-UMC joint venture 300mm foundry establishment (Trecenti Technologies)**
- **Sharp Corporation's equity investment in UMC's Japan foundry subsidiary, NFI**
- **Singapore 300mm foundry company investment with Infineon**

These developments reflect the growing importance of global partnerships between first-tier technology companies. They also highlight the fact that industry leaders around the world recognize UMC as a first-class foundry company, and as the partner of choice for long-term cooperation. We expect these partnerships to bring extraordinary benefits to our company in the years to come.

DIVERSIFICATION

As a world-leading foundry, we offer technologies designed to serve customers across the widest possible range of market sectors. This has enabled our company to expand its market share faster than any other pure-play foundry over the last five years, and may shield us from the worst effects of the silicon cycle that characterize the semiconductor industry. In 2000, we improved diversification on many levels, greatly decreasing the risks frequently associated with semiconductor manufacturing. These achievements include:

- **Enhanced diversification of sales to computer, communications, and consumer sectors**
- **Improved geographical diversification of customer base, with Europe growing to an industry leading 22% of total revenues**
- **Diversification of manufacturing operations with large-scale investments in Japan, Singapore, and the Tainan Science-Based Industrial Park**
- **Increased business from IDM and systems company customers**

300MM TECHNOLOGY ADOPTION

Increased productivity is a major driver of semiconductor industry growth, and the adoption of larger diameter wafers is a major step towards this goal. UMC is leading the entire industry in the move to 300mm wafers, with three major 300mm fab projects in progress. In 2000, we set many milestones in the 300mm arena, including:

- The first production of 300mm wafers in a dedicated 300mm fab
- The completion of the structure of UMC's Tainan-based 300mm fab (Fab 12A)
- The establishment of a 300mm foundry company in Singapore (US\$3.6 billion)

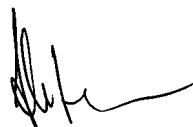
All of these developments put UMC firmly at the head of the industry in terms of 300mm technology and future capacity, and are expected to further increase the competitiveness of UMC and our customers.

POSITIONED FOR THE FUTURE

By any measure, 2000 was a benchmark year for our company. Not only did we achieve record revenues and profitability, we implemented a series of strategic initiatives that leave us strongly positioned to profit from the opportunities that await the foundry industry in the years to come.



ROBERT TSAO
Chairman
UMC Group



JOHN HSUAN
Chairman
UMC



PETER CHANG
President & CEO
UMC