UMC
A Member of UMC GROUP

ANNUAL REPORT
UNITED MICROELECTRONICS CORPORATION
1998

1.Spokesman

Name: Jing-Shan Aur
Title: Chief Administrative Officer,
UMC Group Companies
TEL: (03) 578-2258

2.Main Office

Address: No. 3, Li-Hsin RD. 2,
Science-Based Industrial Park,
Hsin-Chu City, Taiwan, R.O.C.
TEL: (03) 578-2258

Fab 2
Address: No. 10, Innovation RD. 1,
Science-Based Industrial Park,
Hsin-Chu City, Taiwan, R.O.C.
TEL: (03) 578-2259

Fab 3
Address: No. 3, Li-Hsin RD. 2,
Science-Based Industrial Park,
Hsin-Chu City, Taiwan, R.O.C.
TEL: (03) 578-9158

Taipei Office
Address: 3F, No. 76, Sec. 2, Tunhwa S. RD.,
Taipei, Taiwan, R.O.C.
TEL: (02) 2700-6999

Hsin-Tien Office
Address: 8F, No. 233-1, Bao-Chiao RD.,
Hsin-Tien, Taipei County, Taiwan, R.O.C.
TEL: (02) 2918-1589
http://www.umc.com.tw

3.Securities Dealing Institute

National Securities Corp.
Address: 3F, No. 53, Po-Ai RD.,
Taipei, Taiwan, R.O.C.
TEL: (02) 2381-6288

4.Auditor

Name of CPA Firm: PricewaterhouseCoopers
Name of CPA: Albert Hsueh, James Tsai
Address: 27/F Int'l Trade Building, 333 Keelung RD.,
Sec. 1, Taipei, Taiwan, R.O.C.
TEL: (02) 2729-6666

BELIEFS

Fundamental Beliefs

1.We believe that by fully utilizing our employees' talents, we can out-perform all competition and maintain an outstanding corporation.

2.We believe that our employees, in spite of outside factors, can determine the company's continued success based on their individual efforts.

3.We believe that by working to benefit others we will in turn benefit ourselves.

Long-term Managerial Guidelines

1.We respect the company as a public instrument, whose image, reputation, and credibility, all employees are committed to preserve.

2.By constantly increasing productivity, we will maximize profits and thus maintain our ability to contribute to the economic growth and well-being of our community.

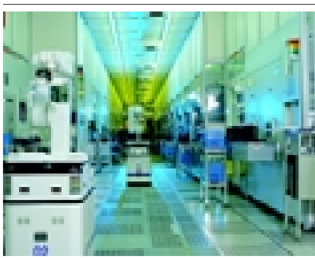
3.Through endless innovation and a relentless pursuit of quality, we will become a world leader in our field.

4.We will take every opportunity to form beneficial alliances and always treat our partners with honesty and friendship.

5.We will actively encourage our employees to take initiative and make every effort to cultivate their talents. Also, we will turn leadership into service rather than authority.

6.We strive for vitality (endurance, productivity), harmony (mutual respect and cooperation), contentment (the right positions for the right people), and cheerfulness (positive attitudes), thus creating a lively, stimulating, and creative environment in which to work.

Contents



Letter to Shareholders

Robert Tsao, Chairman

- One of the few wafer manufacturers to show a profit in 1998
- While other manufacturers cut investments, UMC Group expanded its operations:
  - UMC Group continued construction of UMC Fab 5 on schedule.
  - Took over management of UTEK Semiconductor.
  - Acquired Nippon Steel Semiconductor Corporation.
- Established technology leadership:
  - No.1 foundry worldwide for 0.25-micron technology

Dear Shareholders,

1998 was a key year for UMC Group in laying the foundations for growth in the next millennium. It was also a year of great challenges. 1998 was the third consecutive year of the global semiconductor industry slowdown. Due to tough industry conditions, United Microelectronics Corporation annual revenues were 18.4 billion NTD, 75% of the previous year. Earnings in 1998 were 4.4 billion NTD, 45% of the previous year's earnings. Revenues for UMC Group as a whole were roughly the same as the previous year, with earnings remaining at 58%. In light of the massive losses booked by many integrated device manufacturers (IDMs) around the world, UMC Group was one of the few wafer manufacturers to show a profit in 1998.

In 1998, UMC Group completed the transition of its business model to pure foundry, and was firmly established as a specialist in semiconductor wafer manufacturing services. While other manufacturers were forced to cut investments in 1998, UMC Group took advantage of the tough economic conditions to expand operations. We continued construction of UMC Fab 5 according to schedule, and brought UTEK Semiconductor Corporation and Nippon Steel Semiconductor Corporation into the folds of UMC Group, rapidly bolstering our position in the global foundry industry.

In the research and development of new process technology, we made large investments; and under the leadership of our new director of technology development, Senior Vice President Fu Tai Liou, we established clear leadership over our closest competitor in 0.25-micron technology. This dominance will contribute to UMC Group's ability to set wafer foundry pricing in the future. In the face of the most serious recession in the history of the semiconductor industry, UMC Group managed to strengthen its organization and lay an extremely strong foundation for future growth in 1998. If the current recessionary conditions should continue into 1999, UMC Group will be in a strong position to respond. If, however, industry conditions start to rise from the depths of 1998, we will be able to grasp upcoming business opportunities.

In April of 1998, UMC Group took management control of UTEK Semiconductor. A team of 300 UMC Group personnel was sent to assist with the development of 0.35-micron process technology at UTEK's 8-inch wafer fab. The first products were shipped in June.

At the end of September, UMC Group agreed to purchase 56% of the shares of Nippon Steel Semiconductor Corporation for 380 million NTD, taking management control and resulting in the first acquisition of a Japanese company by a major domestic semiconductor company in Taiwan's history. With the takeover of the company, UMC Group acquired 60 billion yen in assets for an investment of only 1.5 billion yen, an unprecedented opportunity. UMC Group will use the company as an entry point for early positioning in the incredibly promising Japanese foundry market.

UMC also continued construction on Fab 5 in the Third Phase of the Hsin-Chu Science-Based Industrial Park according to plan. The five foundry companies of UMC Group invested 1.3 billion US dollars in 1998, ranking UMC Group number four worldwide in expansion investment, trailing only industry giants Intel, Motorola and Siemens.

In the area of dedicated foundry technology, UMC Group established leadership by a wide margin. In 0.35-micron production volume, UMC Group was equal to its competitor Taiwan Semiconductor Manufacturing Corporation (TSMC). However, in 0.30-micron and 0.25-micron production volumes, UMC Group was clearly ahead. Most notably, UMC Group led TSMC by a factor of seven in production volume for 0.25-micron wafers manufactured in the first three quarters of 1998.

In 1998, the Central Standards Bureau of the Ministry of Economics published a list of the top 100 domestic patent winners over the last five years.UMC applied for 1,857 patents, ranking first on the list. The R.O.C. Industrial Technology Research Institute (ITRI) appling for 1,848 was ranked No.2, with TSMC appling for 979 at No.3. In terms of semiconductor patents awarded in the United States from 1993 to 1997, UMC received 402 patents, twice as many as TSMC (204), and four times as many as ITRI (97).UMC Group's leadership in the development of new technology, and the strength of its intellectual property portfolio, clearly put it at the top of the class.

In August of 1998, UMC Group established a new corporate identity system (CIS). The new UMC Group logo is emblazoned in gold with the words "United to Excel" underneath. USIC, UTEK and UICC also developed new logos to further strengthen their identities as members of UMC Group.

Looking ahead, 1999 will be a critical year in the expansion of our operations. Integrated device manufacturers around the world have suffered massive losses in their standard product businesses and are aggressively entering the wafer foundry business. In order to gain market share, they have adopted predatory pricing strategies. However, the major global markets of the United States and Europe remain strong, and the Asian financial crisis seems to have stabilized. Furthermore, the boost in global internet application and the spread of low-cost computers will lead to a growth in 1999.

Regardless of economic conditions in 1999, UMC Group is well prepared to meet the challenges that lie ahead. UMC Group has assembled one of the finest management teams in the industry, as well as a first-class workforce. UMC Group's flexible and effective business strategy, and constantly improving process technology will provide our foundry customers with industry-leading cost competitiveness and services.

Thank you for your support,

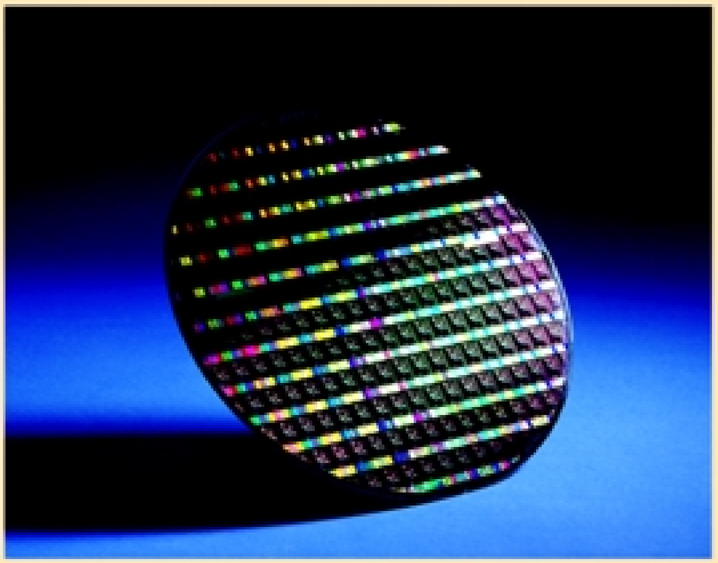
Chairman

CEO

President

◂ John Hsuan, CEO,
UMC Group Companies

◂◂ H. J. Wu, President




We believe that by fully utilizing
our employees' talents,
we can out-perform all competition
and maintain an outstanding corporation.

Company Profile

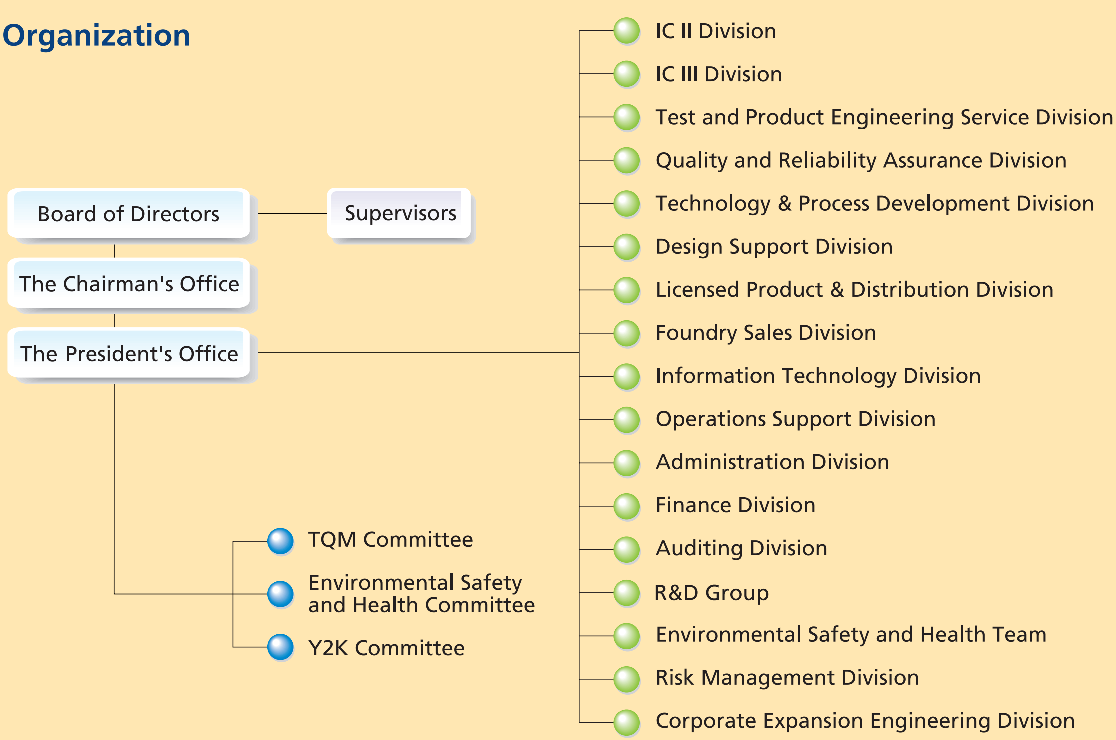
1. Date of Incorporation

May 22, 1980

2. Business Items

A. Semiconductor wafers manufacturing
B. Integrated circuits fabrication, including logic, memory, and mixed-signal ICs
C. Mask design and production
D. Semiconductor products test and assembly (not a dedicated business)
E. Semiconductor ICs material analysis, diagnosis, and debug
F. Semiconductor ICs design support and system integration
G. Import/ export trading business related to UMC operations

Organization



Management Team

Robert Tsao, Chairman ▸▸
John Hsuan, CEO, UMC Group Companies ▸
Donald W. Brooks, CEO, UMC Group Companies ▸▸▸

Directors and Supervisors

Title	Name	Date Elected	Term	Shareholding When Elected		Present Shareholding	
			Year	Common Stock	%	Common Stock	%
Chairman	Robert H.C. Tsao	1998.5.5	3	28,544,328	0.68	39,222,183	0.72
Director	John Hsuan	1998.5.5	3	25,885,401	0.62	35,192,167	0.64
Director	Patrick C.J. Liang	1998.5.5	3	181,074,815	4.32	233,586,511	4.26
Director	Theodore M.H. Huang	1998.5.5	3	136,518,808	3.26	164,109,262	2.99
Director	Donald W. Brooks	1998.5.5	3	112,688,095	2.69	145,367,642	2.65
Director	Ing-Dar Liu	1998.5.5	3	18,025,089	0.43	24,752,364	0.45
Director	Terry T.M. Gou	1998.5.5	3	(representative of the same legal entity as Donald W. Brooks)			
Director	Jing-Shan Aur	1998.5.5	3	13,000,000	0.31	16,770,000	0.31
Director	H. J. Wu	1998.5.5	3	31,200,000	0.74	40,248,000	0.73
Director	Mao-Chung Lin	1998.5.5	3	6,103,041	0.15	7,872,922	0.14
Director	Jack K.C. Wang	1998.5.5	3	9,873,208	0.24	12,592,438	0.23
Director	Tsing-Yuan Hwang	1998.5.5	3	10,000	0.00	12,900	0.00
Supervisor	Eric C.Y. Huang	1998.5.5	3	(representative of the same legal entity as Theodore M.H. Huang)			
Supervisor	Ming-Jan Chen	1998.5.5	3	20,131,775	0.48	25,969,989	0.47
Supervisor	Felix S.T. Chen	1998.5.5	3	188,175	0.00	242,745	0.00

Major Officers

Title	Name	Since	Present Shareholding		Spouse & Minor Shareholding	
			Common Stock	%	Common Stock	%
President	H. J. Wu	1997.11.28	12,294,479	0.22	-	-
Senior Vice President	Casper Lin	1994.02.16	3,292,826	0.06	25,253	0.00

Spouse & Minor Shareholding		Education & Experience
Common Stock	%	
9,013	0.00	Chairman, United Microelectronics Corp.
47,155	0.00	CEO, UMC Group Companies
-	-	Chairman, Chiao Tung Bank
-	-	Chairman, TECO Electric & Machinery Co., Ltd.
-	-	CEO, UMC Group Companies
1,143,084	0.02	COO, Expansion Projects, UMC Group Companies
		Chairman, Hon Hai Precision Industry Co., Ltd.
-	-	Chief Administrative Officer, UMC Group Companies
-	-	President, United Microelectronics Corp.
393,820	0.01	President, Sunrox International Inc.
106	0.00	Chairman, Sen Dah Investment Co., Ltd.
-	-	Chief Representative of Daiwa Institute of Research Ltd., Taipei Representative Office
		Executive Vice President, TECO Electric & Machinery Co., Ltd.
-	-	Vice President, Industrial Technology Research Institute
16,183	0.00	Chairman, SAMPO Corp.

Note

1. Present shareholding is based on actual holding shares, December 31, 1998.
2. (a) Patrick C.J. Liang represents Chiao Tung Bank.
   (b) Theodore M.H. Huang represents TECO Electric & Machinery Co., Ltd..
   (c) Donald W. Brooks represents Hsun Chieh Investment Corporation.
   (d) Terry T.M. Gou represents Hsun Chieh Investment Corporation.
   (e) Jing-Shan Aur represents Chuin Li Investment Corporation.
   (f) H. J. Wu represents Chuin Tsie Investment Corporation.
   (g) Tsing-Yuan Hwang represents Ming Shing Industrial Co., Ltd..
   (h) Eric C.Y. Huang represents TECO Electric & Machinery Co., Ltd..
   (i) Ming-Jan Chen represents Shieh Li Investment Corporation.

Education & Experience
M.S. Chemical Engineering, National Taiwan University
M.B.A., Bloomsburg University of Pennsylvania

Note

1. Present shareholding is based on actual holding shares, December 31, 1998.
2. Casper Lin, Senior Vice President, resigned in February 1999.

Status of Bond/ Preferred Stock Issues

A. The Company issued unsecured Euro convertible bonds on June 8, 1994.

The main terms of the issue are as follows:

(1) Total amount: US$160,000,000

(2) Issue price: The bonds were issued in registered form in denominations of US$1,000 each.

(3) Interest payment and redemption details: 1.25% per annum net of withholding tax (Interest payable on the bonds to nonresidents is subject to a withholding tax in the R.O.C. equal to 20% of the gross amount of interest. The Company will pay such tax to the tax authority for each bondholder). Interest will be paid on August 22nd each year. On the maturity date, the bondholders may present the bonds to the Company for repayment of the principal in cash.

(4) Issue period: 10 years after issue date (From June 8, 1994 to June 8, 2004)

B. The Company issued the second round of unsecured convertible bonds in the amount of NT$6,000,000,000 on May 20, 1996. All of the bonds were converted into the Company's common stocks or redeemed before October 13, 1998.

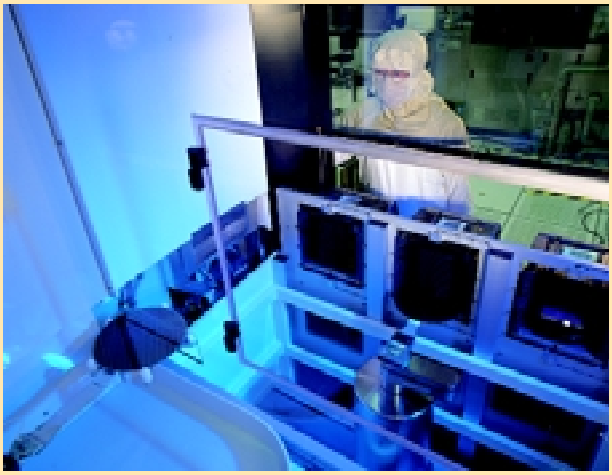
C. The Company issued the second round of unsecured Euro convertible bonds on May 16 and June 3 of 1997.

The main terms of the issue are as follows:

(1) Total amount: US$300,000,000

(2) Issue price: The bonds were issued in registered form in denominations of US$5,000 each.

(3) Interest payment and redemption details: 0.25% per annum net of withholding tax (Interest payable on the bonds to nonresidents is subject to a withholding tax in the R.O.C. equal to 20% of the gross amount of interest. The Company will pay such tax to the tax authority for each bondholder). Interest will be paid on February 14th each year. On the maturity date, the bondholders may present the bonds to the Company for repayment of the principal in cash.



(4) Issue period: 7 years after issue date (From May 16, 1997 to May 16, 2004)

(5) Conversion period: From July 1, 1997 to May 2, 2004

D. The Company issued the third round of unsecured convertible bonds on January 20, 1998.

The main terms of the issue are as follows:

(1) Total amount: NT$15,000,000,000

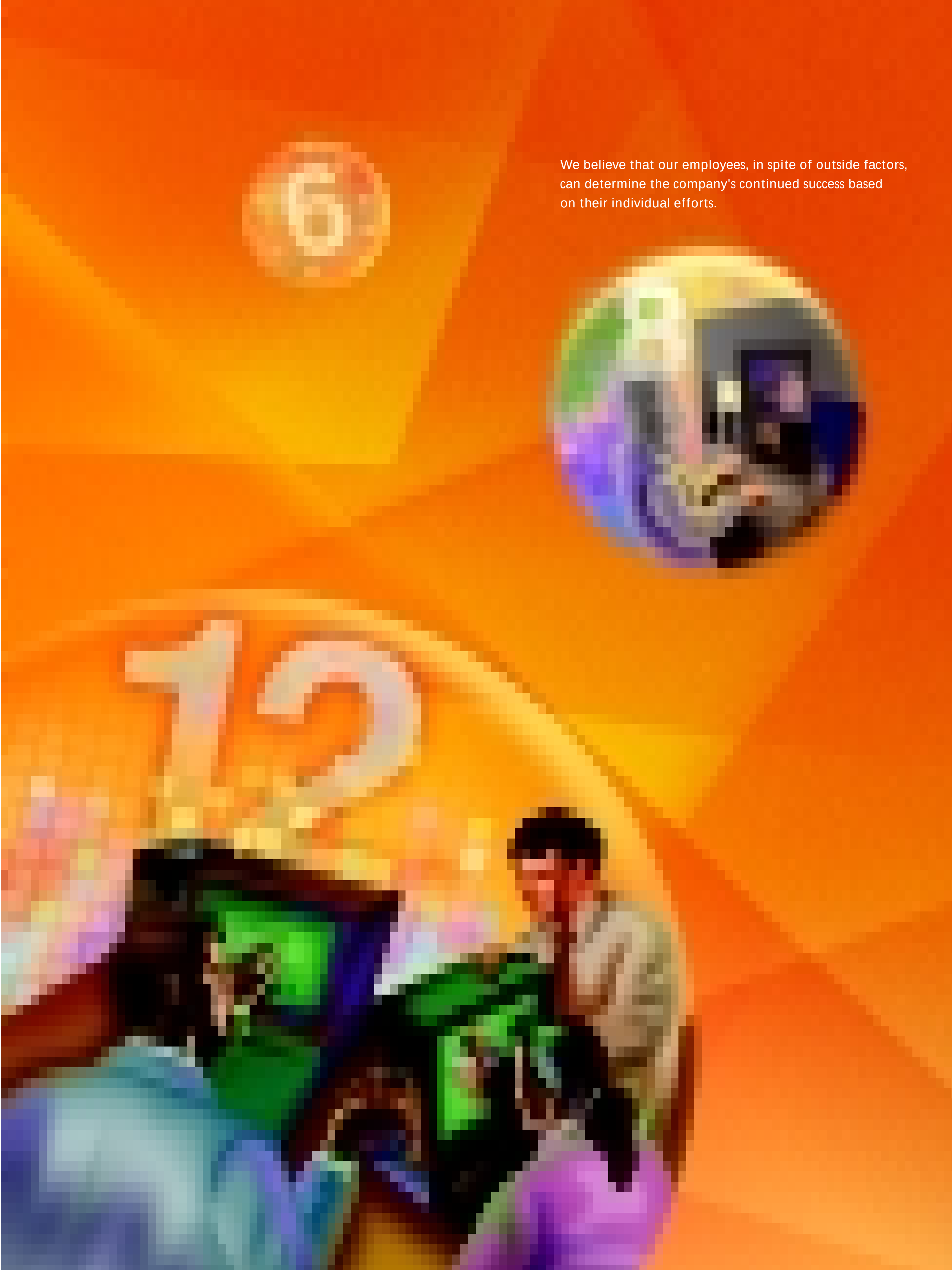
(2) Issue price: The bonds were issued in registered form in denominations of NT$100,000 each.

(3) Interest payment and redemption details: 0 % per annum. On the maturity date, the bondholders may present the bonds to the Company for repayment of the principal in cash.

(4) Issue period: 10 years after issue date (From January 20, 1998 to January 19, 2008)

(5) Conversion period: At any time during the issue period from the end of the first month after the issue date until ten days prior to the maturity date

We believe that our employees, in spite of outside factors, can determine the company's continued success based on their individual efforts.



Business Activity

Scope of Operations:

Our major business is dedicated to foundry operations, which include wafers production, mask production, IC test and assembly, material analysis and associated R&D, promotion, sales, and marketing.

Production Quantity/Value 1996 - 1998

Unit: Thousand NTD

	Wafers (pcs)		Chips (thousands)		Packaged ICs (thousands)	
Year	Quantity	Value	Quantity	Value	Quantity	Value
1998	525,899	6,318,820	8,642	233,526	197,149	8,460,274
1997	535,400	5,546,248	173,460	589,039	338,443	11,845,964
1996	516,922	3,974,878	167,389	751,479	286,049	9,934,761

Sales Quantity/Value 1996-1998

Unit: Thousand NTD

	Wafers (pcs)		Chips (thousands)		Packaged ICs (thousands)	
Year	Quantity	Value	Quantity	Value	Quantity	Value
1998	518,519	9,546,247	8,421	310,099	162,433	7,449,410
1997	531,549	10,144,225	187,328	1,935,109	312,346	12,515,511
1996	482,937	8,528,854	147,544	1,585,433	255,590	12,226,772

Market Analysis

In 1998, the semiconductor industry was influenced significantly by the Asian financial crisis. It caused soft demand for semiconductor products, and resulted in a decline in industry revenues. Strong growth in the sub-$1,000 PC sector led to lower ASP and shrinking margins. In addition, the DRAM over-capacity problem remained severe, resulting in sliding DRAM pricing that hurt the entire IC industry. Global DRAM revenues showed negative growth for an unprecedented third straight year. As a result, 1998 worldwide semiconductor revenue dropped 11.4%. The foundry industry was also affected, with a mere 4% growth for the year.

Although the foundry industry performed below expectations, UMC still exhibited momentum in sales revenue. Revenues were NT$ 5.2, NT$ 4.0, NT$ 4.08, and NT$ 5.15 billion respectively from the first to fourth quarter of 1998. In particular, the third quarter stood out with UMC Fab 2 close to full loading despite slow market conditions. In the fourth quarter, the traditional high season, surging demand for wafers caused UMC Fab 3 to operate at full capacity, leading to 25% growth in fourth-quarter revenues.

To be competitive in the foundry industry, steady, long-term, and aggressive capital investment is a necessity. More importantly, a foundry must develop leading-edge process technologies, provide excellent customer service and maintain top-line quality control. With the recent trend towards system-on-chip designs, the acquisition of third-party merchant IP (Intellectual Property) resources has become another factor in the foundry model. UMC has grasped this trend and is well prepared to address customer needs. UMC has formed agreements with world class IP vendors, such as Mentor Graphics and Artisan, so that it can make available design libraries and IP for system integration, drastically shortening design cycles for many foundry customers.

The trend towards ever increasing system integration has also led to a strong demand for embedded memory technology. UMC leads Taiwan's IC industry in the area of embedded memories. The combination of UMC's cutting-edge logic and memory processes enables a wide range of innovative applications. Currently, UMC has the largest customer base in the industry for 0.35um embedded DRAM technology. Furthermore, 0.25um embedded DRAM process will be also ready for production in the second half of 1999. Pilot runs for the 0.25um logic process were successful in early 1998, and production started in the third quarter.

Meanwhile, 0.25um wafer production volume was number one among dedicated foundries. These accomplishments were well-recognized by the industry. For next generation 0.18um technology, UMC Group successfully delivered prototypes to several customers in the fourth quarter of 1998. Volume production for 0.18um technology is targeted for the beginning of the second quarter of 1999, and copper-interconnect technology will be offered as a process option later in the year. These developments mark the arrival of Taiwan as a leader in the international semiconductor technology arena.

In 1999, the global market for semiconductors is expected to see real growth, aided by the Y2K effect. Moreover, emerging applications, such as ADSL, cable modems, DVD, set-top boxes and DSC, will play an important role in driving IC market growth. It seems that South Korea and Japan's efforts to cut back DRAM production have eased the glut that has plagued the industry lately. According to Dataquest, in 1999, the global semiconductor industry market will escape from the cloud of 1998. The industry growth rate is projected at 14.6%. The foundry over-capacity situation will also gradually improve, and a growth rate of 18.7% can be expected for the foundry industry.

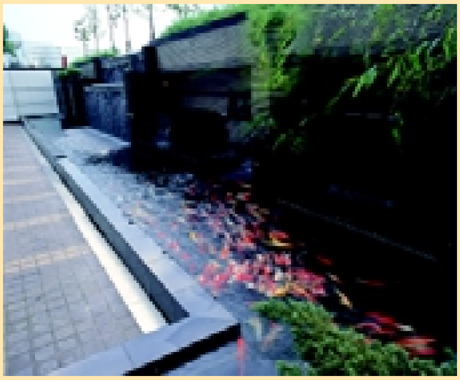
Despite adverse conditions, UMC Group was successful in 1998 in expanding capacity, developing leading-edge processes, and improving customer service. These efforts have set up a solid foundation that should lead to greater success in 1999.

Environmental Protection

Environmental protection, as well as wafer manufacturing, has been and continues to be an important consideration for UMC. UMC recognizes that an excellent environmental performance is one of critical elements in ensuring the success of an enterprise sustainable development. Therefore, the Company has conducted activities in a manner with the most comprehensive pollution prevention programs and pipe-end treatments. The Company has been extremely successful in its efforts and awards received are as follows:

1. Enterprise Environmental Protection Award (1992,1998)
2. Industrial Pollution Control Award (1990,1994,1998)
3. Ozone Layer Protection Company Award (1994)
4. Hsin-Chu County's Excellent Environmental Protection Company Award (1995,1996)
5. Excellent Environmental Protection Self-Inspection Company Award (1996)
6. Energy Saving Award (1995, 1997)
7. Industrial Waste Minimization Award (1995)
8. National Quality Award (1995)
9. Operation on Pollution Prevention Equipment Award (1996)
10. Water Conservation Award (1998)

Not only has UMC made significant efforts on the environmental pollution prevention and control, the Company has also devoted in establishing and maintaining an effective ISO-14001 Environmental Management System (EMS) since 1997. The EMS will be constantly reviewed and audited, and corrective actions will follow if necessary, to ensure we have a healthy and green environment.



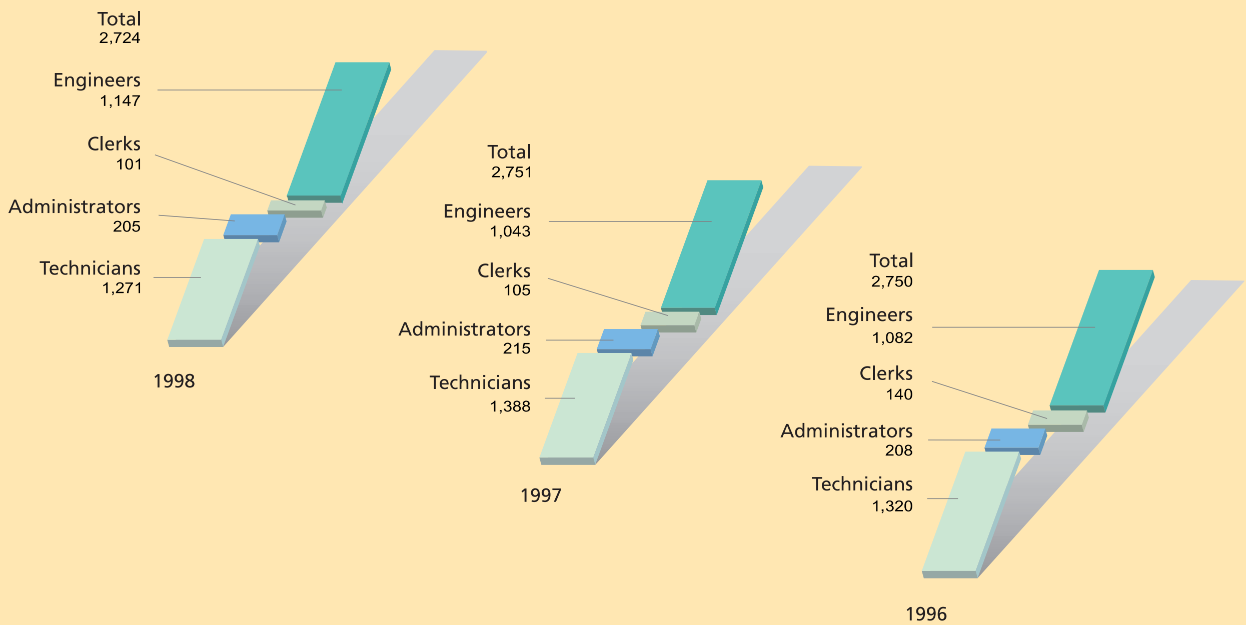
Labor Relations

UMC places great importance on employee salaries and benefits, and actively engages in employee training, the enforcement of all labor laws, and the protection of employee rights, in an effort to provide the best possible working environment. Employees can communicate with management through many avenues, including departmental meetings, colleague symposiums, and opinion boxes. In addition, UMC has set up employee counseling services to further ensure the mental and physical health of UMC employees, and to develop a harmonious atmosphere between employees and management.

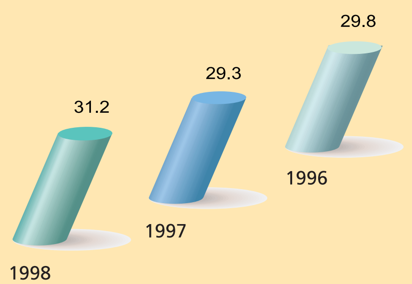
Due to its continuous efforts to create good labor relations, UMC has received several awards from the Council of Labor Affairs and other related organizations. These awards include such titles as "Model Institution for the Promotion of Labor Welfare", " Model Enterprise for the Promotion of Labor Education", and "Model Enterprise for Industrial Relations".

Employee Analysis

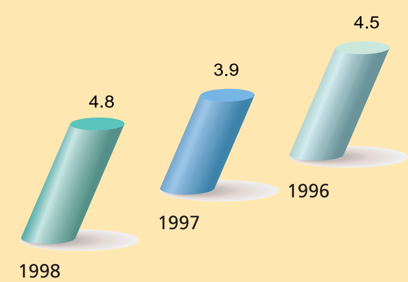
Number of Employees (person)



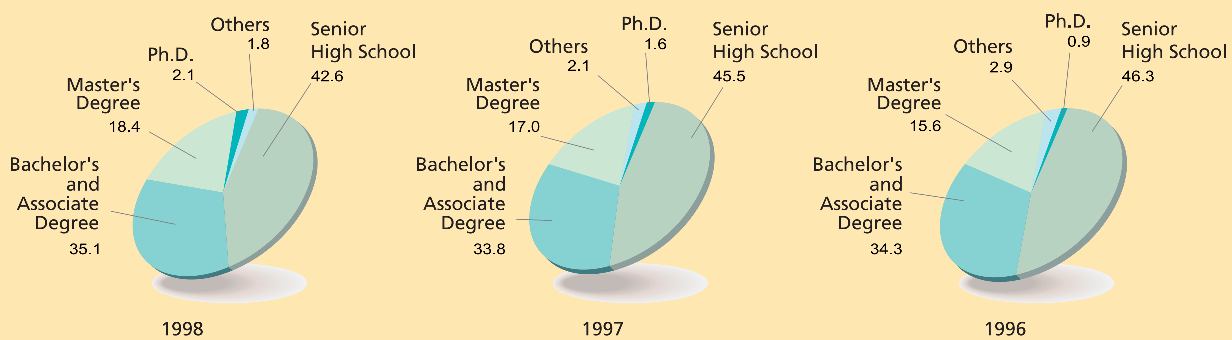
Average Age



Average Years of Employment



Level of Education (%)



Intercompany Holdings

Affiliated Companies	Investment Shares		Investment in UMC	
	Common Stock		Common Stock	
	Number of Shares	Share Percentage	Number of Shares	Share Percentage
United Semiconductor Corp.	468,015,698	35.01	69,198,180	1.263
United Integrated Circuits Corp.	622,014,938	41.47	19,028,274	0.347
United Silicon Inc.	581,811,289	38.79	1,665,390	0.030
Unipac Optoelectronics Corp.	71,965,184	18.94	29,021,742	0.530
National Securities Corp.	10,610,572	1.46	389,845	0.007
TECO Electric & Machinery Co., Ltd.	56,389,644	4.08	164,109,262	2.995
SAMPO Corporation	29,958,180	3.06	45,370,866	0.828
TECO Information Systems Co., Ltd.	57,500,000	7.99	451,500	0.008
Chiao Tung Bank	13,775,000	0.90	233,586,511	4.262

Note

Present shareholding is based on actual holding shares, December 31, 1998.

Major Agreements

Company Names	Major Contents
TRI Technology Inc.	42 Pin SOJ Memory & 100/208 Pin QFT/TQFP Technology Cooperation
Motorola Inc.	Patent License Agreement
Hitachi Ltd.	Patent Cross License and Settlement Agreement
International Business Machines Corporation	Patent Cross License and Settlement Agreement

Analysis of Convertible Bond Issues

The 1997 Euro convertible bonds were used to help finance the expansion of Fab 3, for operating capital, and for investment in other companies. The investment project will ultimately require a total of NT$10.8 billion. There are three funding resources for this project: (a) Euro convertible bonds (US$300 million, around NT$8.3 billion), (b) the Company's own resources, and (c) other financial instruments (b+c=NT$2.5 billion). The whole plan has been completed in the fourth quarter of 1998.

The 1998 domestic convertible bonds were used at Fab 5 first stage construction for plant, machinery, and equipment. The investment project will ultimately require a total of NT$16.5 billion. There are three funding resources for this project: (a) domestic convertible bonds (NT$15 billion), (b) the Company's own resources, and (c) other financial instruments (b+c=NT$1.5 billion). According to the original schedule, we expected to complete 38.79% of the expenditure by the end of 1998, but only 4.74% was actually completed. The Company is running behind of schedule due to the unexpected slow down in market. UMC will properly slow or expedite its expenditure plan according to economic conditions.

Litigation and Non-litigated Incidents

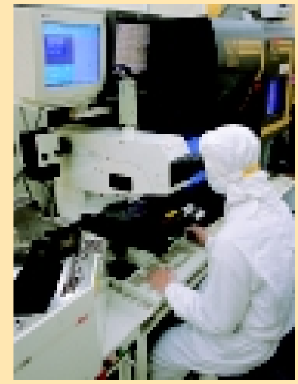
In February 1997, Micron Technology Inc. filed an antidumping petition regarding Static Random Access Memory (SRAM) made in Taiwan. An antidumping order was issued in April 1998, which imposes various dumping duties on SRAMs made in Taiwan if and when those are imported into the United States. In June 1998, contesting parties including Taiwan Semiconductor Industry Association (TSIA), Taiwan Semiconductor Manufacturing Company Ltd (TSMC), Winbond Electronics Corporation (WEC), and two US based fabless companies jointly filed a civil action in the United States Court of International Trade (CIT) for relief against that SRAM dumping order. Whatever the outcome of the CIT action will be, UMC believes that the SRAM dumping order will have no material effect on its business or financial performance.

Oak Technology Inc. (OAKT) filed a complaint at the United States International Trade Commission (ITC) in July 1997 against UMC and some other respondents in Taiwan asserting patent infringement regarding certain CD-ROM controllers. A settlement agreement was concluded on July 31, 1997 between UMC and OAKT. In December 1997, OAKT brought a civil action in a federal district court in California against UMC, asserting breach of settlement. In April 1998, OAKT filed again an ITC complaint against UMC claiming the same patent issue. On August 28, 1998, the ITC judge issued an initial determination ruling that OAKT failed to show any production, sales or importation by UMC other than which was pursuant to the agreement. The ITC claim against UMC was dismissed on two separate occasions, but after each, the ITC sent the matter back to the Administrative Law Judge for him to enter a determination after the evidence at the hearing, rather than before. Whatever the outcome of the ITC case or the District Court case, UMC believes that the eventual orders from those proceedings will not have any material adverse effect on its business or financial performance.

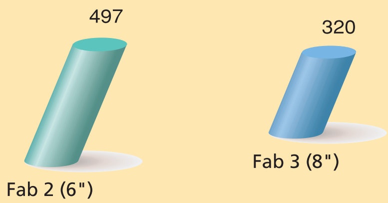
Micron Technology Inc. filed another antidumping petition against Taiwan on October 22, 1998. This time the accused product is Dynamic Random Access Memory (DRAM). On December 7, 1998, United States International Trade Commission (ITC) determined that there was reasonable likelihood of injury to the US DRAM industry and an investigation was therefore commenced. As a dedicated wafer manufacturing company, UMC has only a small portion of DRAM business. It is estimated that the antidumping proceeding will not materially affect UMC in its business or financial performance.

We believe that by working to benefit others
we will in turn benefit ourselves.

Production and Sales Projections



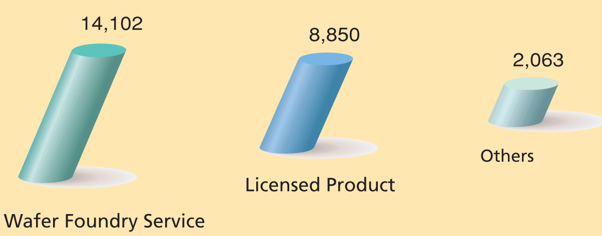
A. Production Plan (1999)



Unit: Wafers (thousand pcs)

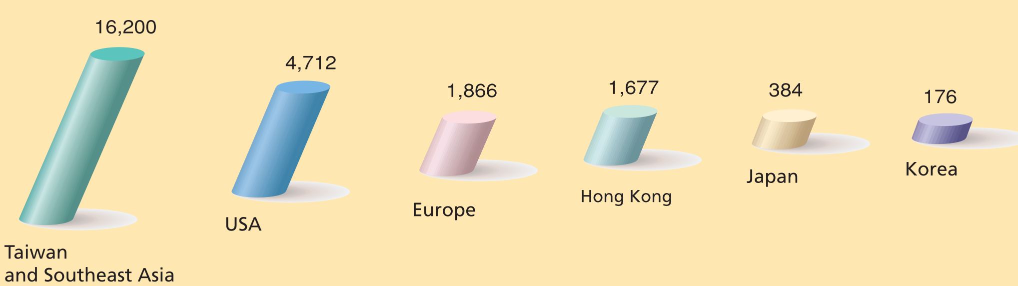
B. Sales Projection (1999)

1. Sales Analysis by Product Type: (Total amount: NT$ 25,015 million)



Unit: Million NTD

2. Sales Analysis by Region: (Total amount: NT$25,015 million)



Unit: Million NTD

Capital Expenditure Plans

In 1999, UMC's capital expenditure budget will be devoted mainly to purchasing new production equipment and for the research and development of new process technology, as well as for FAB 5 construction. Capital expenditure will be funded by company profits, convertible bonds, and syndicated loans. Return from these spending projects is expected to increase sales revenue by 8%.

1999 capital expenditure plan is outlined as follows:

Unit: Thousand NTD

Item	Amount	Item	Amount
Fab 2 Equipment	352,720	Testing Equipment	642,723
Fab 3 Equipment	1,014,282	R&D Equipment	1,406,779
Fab 5 Equipment	19,199,677	Testing Tower Facility	485,430
Information Technology Equipment	358,650	Others	404,260
Total			23,864,521

Remark

1999 capital expenditure for Y2K project is estimated at 98 million NTD.

Research and Development Plans

R&D Achievements:

UMC Group has led the semiconductor industry in providing 0.25um technologies to customers worldwide, with mass production in all of the UMC Group fabs. The 0.25um product run-rate reached 5,000~10,000 wafers per month in the second half of 1998, while the cycle time for 0.25um Logic products is only 20 days. Average defect densities have dropped below 0.3. Furthermore, in 1998 we successfully developed 0.18um process technology. Volume production for 0.18um is expected to start in 1999, in line with our technology roadmap. Customer interest in our 0.18um technology is high, and several customers have been test-running products in UMC Group fabs since 1998.

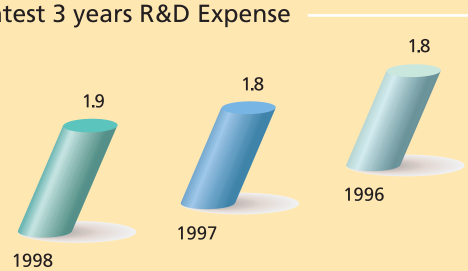
Regarding our DRAM process, we are already in mass production for 0.25um, and 0.21um products were successfully developed in 1998, with mass production to start in 1999. In embedded memories, we have provided a logic compatible process, which combines DRAM, SRAM and Logic portions in a single process for both 0.35um and 0.25um generations. The processes were silicon-proven in 1998. This is a significant achievement in the development of SOC (System-On-Chip) solutions for UMC Group customers.

At the same time, our 6-inch fab has not only produced Mask ROM, EPROM, and large capacity FLASH, but also successfully developed 5V/12V, 5V/20V, 5V/30V, 400V, and 700V high voltage processes. In CMOS sensor technology, we combined sensor, color filter, and micro-lens technology with excellent performance and yield. UMC Group is the only company in Taiwan that can offer this type of technology solution. The in-house mask shop operated by the Technology Development Dept. has continued to meet the most advanced requirements of UMC Group, delivering complete 0.18um masks sets to UMC Group fabs in 1998. The mask sets were production proven at the end of 1998. In 1999, UMC Group's in-house mask shop and DuPont Photomasks, Inc. set up a joint venture company, DuPont Photomasks Taiwan Ltd. (DPT).

Patent Disclosure and Granted:

In 1998, UMC Group submitted a total of 1,171 patent applications. Among them, 730 were from UMC, while USC, UICC, and USIC submitted 187, 128, and 126 applications respectively. The R&D department submitted 460. Of these, 185 patents were granted in the USA, 157 patents in Taiwan, and 25 in other regions.

Latest 3 years R&D Expense

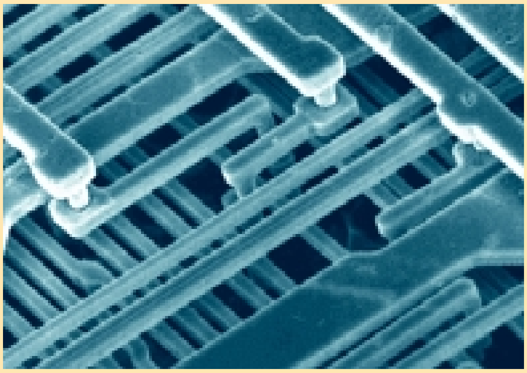


Unit: Billion NTD

Upcoming R&D Plans:

We will continue to carry out advanced technology development, working on the further development of 0.25um, 0.18um, and 0.13um technology generations. In addition, in the coming year we will introduce transistors with gate lengths of 0.12um, 0.10um and beyond. These are much smaller than the current leading edge 0.18um and 0.15um transistors. This will provide a much larger competitive edge for UMC Group's customers in the development of new products. Meanwhile, we continue to emphasize the development of advanced process modules, such as Cu interconnect, Low k dielectric, advanced lithography, and advanced materials that will greatly enhance customer product performance. In addition to Logic process offerings, we also provide a wide portfolio of other processes to our customers, such as Memory, Embedded Memory, Mixed Signal, and RF Devices. In the future, we also plan to provide more advanced CMOS Sensors to our customers. In addition, we will continue to shorten the time needed for process technology and product R&D, and reduce production cycle times. UMC Group will also continue to provide design tools (including Library and IP) and other solutions required by our customers to improve design and product introduction cycles. Moreover, technologies developed in the pilot fab will be transferred to each UMC Group fab, enhancing customer competitiveness in the global marketplace.

In the current semiconductor business environment, speed and productivity are the major competitive factors. UMC Group is fully prepared for these challenges. We are not satisfied just to be the technology and manufacturing leader. We would also like to be the technical service leader in the semiconductor industry. This is UMC Group's mission and goal.



Other Disclosures

Statement of Internal Control

Date: March 12, 1999

The self-assessment of UMC's internal control was conducted for the year ended December 31, 1998 based on UMC's internal control system. The results are described as follows:

1. UMC acknowledges that the Board of Directors and the management are responsible for establishing, executing and maintaining a sufficient internal control system, which has been already set up. The purposes of the internal control system are to provide a reasonable assurance of achieving the goals of efficiency and effectiveness of the operations, such as profitability, performance and the safeguard of the assets, the reliability of the financial reports and the compliance with the applicable laws and regulations.

2. The internal control system has its inherent constraints, and it could only provide reasonable assurance of achieving the three goals mentioned above no matter how well it has been designed. The effectiveness of the internal control system could be changed due to changes of the environment and the situations. UMC has established an internal control system with the function of self-monitoring which could undertake corrective actions whenever a shortcoming is identified.

3. UMC's assessment of the effectiveness of the design and execution of the internal control system is based on the execution points (the Points). The Points are covered by the guidelines of establishing the public company's internal control system issued by the Securities and Futures Commission of the Ministry of Finance, which specify the judgement items for evaluating the effectiveness of internal control.
   The internal control is divided into five components, based on the process of management control, according to the judgement points for internal control employed by the Items, such as: (1) Control Environment, (2) Risk Assessments, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. Each component consists of certain items, which could be referred to the Items as described.

4. UMC has employed the judgement items mentioned above to evaluate the effectiveness of the design and execution of the internal control system.

5. UMC believes that the effectiveness of the design and execution of its internal control system during the above mentioned assessment period provides reasonable assurance of achieving the goals of the efficiency and effectiveness of operations, the reliability of financial reports and the compliance with applicable laws and regulations.

6. The Statement of Internal Control will be an integral part of UMC's annual report and prospectus that are open to the public, and within which any illegal acts, such as misstatement or concealment, would subject to the legal liabilities of Code 20, Code 32, Code 171 and Code 174 of the Securities Exchange Laws.

7. UMC's Board of Directors has approved the Statement of Internal Control (the Statement) on March 12, 1999. Nine Directors attended and agreed with the content of the Statement.

UMC Chairman   UMC President

Year 2000 Computer Data Security Issue

UMC is highly computerized in every aspect. For all departments, for example, manufacturing, R&D, automation, finance, sales and facility are all managed on the base of software applications. Therefore, there is a certain level of influence on UMC operations regarding Y2K crisis. If Y2K issues could not be rectified in time, all date/time related data of UMC operation would be incorrect then.

Upon the recognition, as early as the end of 1997, the UMC Group Y2K team has been established to handle Y2K issues, and in 1998, the UMC Group Y2K committee was formed. UMC Group schedules to have Y2K problems of all computer systems resolved by June 30, 1999.

500 million NT dollars have been budgeted to resolve Y2K issues of all software applications currently supporting UMC Group operations. Of which, UMC has spent 21 million NTD on Y2K issues in 1998, and Y2K budget for 1999 is 190 million NTD.

Financial Statements

Brief Balance Sheet

Unit: Thousand NTD

Item	1998	1997	1996	1995	1994
Current assets	33,964,353	29,820,936	26,079,437	19,672,466	16,657,204
Fixed assets	25,386,540	23,503,948	22,057,420	16,781,041	7,836,810
Other assets	2,218,142	2,463,861	1,765,527	634,878	3,657,805
Current liabilities					
Before distribution	8,384,035	8,818,905	6,996,309	5,926,158	2,898,362
After distribution	-	8,905,573	7,099,153	6,068,733	3,601,715
Long-term liabilities	18,765,061	11,461,861	13,010,993	10,082,662	6,114,050
Capital	55,418,013	41,344,647	29,344,798	13,438,024	8,599,196
Capital reserve	12,869,484	12,439,900	5,804,143	2,209,416	2,969,361
Retained earnings					
Before distribution	8,591,256	12,830,383	11,357,159	16,217,848	7,570,850
After distribution	-	4,204,732	3,200,691	3,705,815	2,870,675
Total assets	104,037,448	87,385,205	66,638,344	47,875,521	28,151,819
Total liabilities					
Before distribution	27,500,699	20,622,336	20,130,644	16,009,359	9,012,412
After distribution	-	20,709,004	20,233,488	16,151,934	9,715,765
Total equity					
Before distribution	76,536,749	66,762,869	46,507,700	31,866,162	19,139,407
After distribution	-	66,676,201	46,404,856	31,723,587	18,436,054

Brief Statement of Income

Unit: Thousand NTD

Item	1998	1997	1996	1995	1994
Operating revenues	18,431,602	25,088,995	22,605,652	24,246,913	15,243,158
Gross profit	4,352,900	7,556,340	9,634,492	15,744,997	8,729,178
Operating income	392,231	3,586,394	6,119,221	12,402,936	6,651,488
Interest income	1,863,116	948,149	767,655	695,679	487,569
Interest expense	1,647,178	951,196	901,398	297,579	367,489
Income (loss) before tax	3,955,262	9,858,274	7,190,211	12,747,181	6,664,552
Net income (loss)	4,407,021	9,739,552	7,646,896	13,440,682	6,492,708
Primary earnings per share (NTD)	-	-	1.63	2.88	1.45
Fully diluted earnings per share (NTD)	-	-	1.54	2.80	1.45
Simple earnings per share (NTD)	0.81	1.91	-	-	-

Note: Earnings per share are based on retroactively adjusted outstanding common stock.

Market Price, Net Worth, Earnings and Dividends Per Share

Unit: NTD

Item	1998	1997	1996
Average market price per share			
Common stock	51.81	79.33	47.84
Preferred stock	-	72.36	37.90
Net worth per share	13.81	16.15	15.98
Primary earnings per share	-	-	1.63
Fully diluted earnings per share	-	-	1.54
Simple earnings per share	0.81	1.91	-
Dividends per share			
Cash dividends	-	-	-
Stock dividends- Retained earnings	-	1.900	2.594
Stock from capital reserve allocation	-	1.000	0.406

Auditors' Opinion

Year	CPA	Auditors' opinion
1994	Albert Hsueh, James Tsai	An unqualified opinion
1995	Albert Hsueh, James Tsai	Note 1
1996	Albert Hsueh, James Tsai	Note 2
1997	Albert Hsueh, James Tsai	An unqualified opinion
1998	Albert Hsueh, James Tsai	An unqualified opinion

Note 1: The auditors issued an unqualified opinion on the 1995 financial statements, except for the inconsistency in accounting principle applied arising from the adoption of R.O.C. GAAP No.22 for income tax beginning 1995. The auditors also consented to this change in accounting principle.

Note 2: The auditors issued an unqualified opinion on the 1996 financial statements, except for the inconsistency in accounting principle applied arising from the adoption of R.O.C. GAAP No.18 for pensions beginning 1996. The auditors also consented to this change in accounting principle.

Supervisors' Report

The Board of Directors has prepared and submitted to us the Company's 1998 balance sheets, statements of income, changes in stockholders' equity, cash flows and principal property. These statements have been audited by PricewaterhouseCoopers. The financial statements present fairly the financial position of the Company and the results of its operations and the cash flows. We, as the Supervisors of the Company, have reviewed these statements, report of operations and the proposals relating to distribution of net profit. According to the Article 219 of Company Law, we hereby submit this report.

United Microelectronics Corporation

Supervisors: Felix S.T. Chen

Ming-Jan Chen

Eric C.Y. Huang

March 12, 1999

Financial Analysis

Item	1998	1997	1996	1995	1994
Capital structure analysis (%)					
Debt ratio	26.43	23.60	30.21	33.44	32.01
Long-term funds to fixed assets	375.40	332.82	269.84	249.98	322.24
Liquidity analysis (%)					
Current ratio	405.11	338.15	372.76	331.96	574.71
Quick ratio	365.74	305.98	311.51	278.33	529.22
Interest guarantee (times)	3.03	11.36	7.70	27.13	17.75
Operating performance analysis					
Average collection turnover (times)	4.81	6.46	6.73	8.02	6.06
Average collection days	76	57	54	45	60
Average inventory turnover (times)	4.43	4.89	3.46	3.89	4.90
Average inventory turnover days	82	75	105	93	74
Fixed assets turnover (times)	0.75	1.10	1.16	1.44	1.95
Total assets turnover (times)	0.19	0.33	0.39	0.51	0.54
Return on investment analysis (%)					
Return on total assets	6.33	13.87	14.93	36.12	31.70
Return on equity	6.15	17.20	19.51	52.70	43.56
Operating income to capital	0.71	8.67	20.90	93.17	77.35
Income before tax to capital	7.14	23.84	24.56	94.86	77.50
Net income to sales	23.91	38.82	33.83	55.43	42.59
Primary earnings per share (NTD)	-	-	1.63	2.88	1.45
Fully diluted earnings per share (NTD)	-	-	1.54	2.80	1.45
Simple earnings per share (NTD)	0.81	1.91	-	-	-
Cash flow (%)					
Cash flow ratio	91.22	114.98	142.40	194.13	295.05
Cash flow adequacy ratio	118.22	119.20	112.76	122.11	138.23
Cash flow reinvestment ratio	6.87	11.23	14.35	22.53	26.14
Degree					
Degree of operating leverage	25.19	7.00	2.04	1.39	-
Degree of financial leverage	(0.31)	1.36	1.17	1.04	-

Review and Analysis of Financial Status and Operating Results

1. Liquidity Analysis

Item	December 31,1998	December 31,1997	Change %
Cash flow ratio	91.22	114.98	(20.66)
Cash flow adequacy ratio	118.22	119.20	(0.82)
Cash flow reinvestment ratio	6.87	11.23	(38.82)

2. Analysis of Operating Results

Unit: Thousand NTD

Item	1998	1997	Change amount	Change %
Operating revenues	19,530,574	25,851,656	(6,321,082)	(24.45)
Less: Sales return and allowance	(1,098,972)	(762,661)	(336,311)	44.10
Net operating revenues	18,431,602	25,088,995	(6,657,393)	(26.54)
Operating cost	(14,037,624)	(17,497,677)	3,460,053	(19.77)
Gross profit	4,393,978	7,591,318	(3,197,340)	(42.12)
Add: Realized gross profit	53,174	18,196	34,978	192.23
Less: Unrealized gross profit	(94,252)	(53,174)	(41,078)	77.25
Net gross profit	4,352,900	7,556,340	(3,203,440)	(42.39)
Operating expenses	(3,960,669)	(3,969,946)	9,277	(0.23)
Operating income	392,231	3,586,394	(3,194,163)	(89.06)
Non-operating income	6,245,264	7,867,379	(1,622,115)	(20.62)
Interest income	1,863,116	948,149	914,967	96.50
Other income	4,382,148	6,919,230	(2,537,082)	(36.67)
Non-operating expenses	(2,682,233)	(1,595,499)	(1,086,734)	68.11
Interest expenses	(1,647,178)	(951,196)	(695,982)	73.17
Other loss	(1,035,055)	(644,303)	(390,752)	60.65
Income before tax	3,955,262	9,858,274	(5,903,012)	(59.88)
Income tax	451,759	(118,722)	570,481	(480.52)
Net income	4,407,021	9,739,552	(5,332,531)	(54.75)

Report of Independent Accountants and Financial Statements

February 5, 1999
(98). U11P. 5374

To the Board of Directors of United Microelectronics Corporation

We have examined the balance sheets of United Microelectronics Corporation as of December 31, 1998 and 1997, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended. Our examinations were made in accordance with the "Rules Governing the Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As described in Note 4(6) to the financial statements, certain investments were accounted for under the equity method based on the 1998 and 1997 financial statements of the investees which were audited by other certified public accountants. Our opinion insofar as it relates to the investment income amounting to $1,089, 348,000 and $489,104,000 during the years ended December 31, 1998 and 1997, respectively, and the related long-term investment balances of $27,004,086,000 and $17,929,814,000 as of December 31, 1998 and 1997, respectively, which were included in the financial statements, is based solely on the reports of the other certified public accountants.

In our opinion, based on our audit and the other certified public accountant's audit reports, the financial statements referred to in the first paragraph above examined by us present fairly the financial position of United Microelectronics Corporation as of December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended, in conformity with the generally accepted accounting principles consistently applied in the Republic of China.

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices utilized in the Republic of China may differ from those generally accepted in countries other than the Republic of China.

PricewaterhouseCoopers

Balance Sheet

DECEMBER 31,
(EXPRESSED IN NEW TAIWAN THOUSAND DOLLARS)

	1998	1997
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 25,251,034	$ 19,046,750
Marketable securities (Note 4(2))	880,520	2,992,595
Notes receivable (Notes 4(3) and 5)		
- nonrelated parties	115,493	231,609
- related parties	252,401	588,400
Accounts receivable (Notes 4(4) and 5)		
- nonrelated parties	890,725	1,801,403
- related parties	1,933,010	1,591,215
Other receivables (Notes 4 (14) and 5)		
- nonrelated parties	310,465	284,423
- related parties	346,254	227,161
Inventories (Note 4(5))	3,119,977	2,609,686
Prepaid expenses	180,661	227,158
Other current assets (Note 4(14))	683,813	220,536
	33,964,353	29,820,936
Funds and Long-Term Investments (Notes 4(6) and 5)		
Long-term investments	42,895,561	31,551,127
Prepaid long-term investments	3,983	24,375
Allowance for loss on decline in long-term investments	(443,534)	-
	42,456,010	31,575,502
Property, Plant and Equipment (Notes 4(7), 5 and 6)		
Cost		
Land	784,070	784,070
Buildings	5,083,988	4,753,283
Machinery and equipment	32,100,086	27,250,410
Transportation equipment	36,191	30,889
Furniture and fixtures	653,039	393,790
Leasehold improvements	64,849	73,706
	38,722,223	33,286,148
Accumulated depreciation	(15,641,368)	(11,425,099)
Construction in progress and prepayments	2,305,685	1,642,899
	25,386,540	23,503,948
Intangible Assets		
Trademarks	986	1,585
Patents	11,417	19,373
	12,403	20,958
Other Assets		
Leased assets	389,078	624,653
Idle assets	5,000	64,709
Deposits out	17,859	19,554
Deferred assets	262,162	178,766
Deferred income tax assets (Note 4(14))	1,451,324	1,503,836
Others	92,719	72,343
	2,218,142	2,463,861
TOTAL ASSETS	$ 104,037,448	$ 87,385,205

	1998	1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans (Notes 4(8), 5 and 6)	$ 1,075,562	$ 1,401,237
Notes payable		
- nonrelated parties	-	378,448
- related parties	-	26,840
Accounts payable		
- nonrelated parties	1,775,524	1,241,242
- related parties (Note 5)	932,524	479,298
Accrued income tax payable (Note 4(14))	-	52,432
Accrued expenses	954,484	973,325
Other payables	1,094,564	1,219,624
Current portion of long-term loans (Notes 4(10), 5 and 6)	2,436,789	2,910,158
Other current liabilities (Note 10)	114,588	136,301
	8,384,035	8,818,905
Long-Term Liabilities		
Bonds payable (Note 4(9))	12,742,518	2,802,237
Long-term loans (Notes 4(10), 5 and 6)	6,022,543	8,659,624
	18,765,061	11,461,861
Other Liabilities		
Accrued pension payable (Note 4(11))	350,745	247,308
Deposits-in	858	408
Others	-	93,854
	351,603	341,570
Total Liabilities	27,500,699	20,622,336
Stockholders' Equity		
Capital (Note 4(12))		
Common stock	55,382,695	41,344,647
Certificates exchangeable for common shares	35,318	-
Capital reserve		
Premiums	12,417,294	11,789,034
Gain on disposal of property, plant and equipment	16,983	109,846
Change in equities of long-term investment	435,207	541,020
Retained earnings (Note 4(13))		
Legal reserve	4,140,512	3,177,542
Unappropriated earnings	4,450,744	9,652,841
Unrealized loss on long-term investments	(443,534)	-
Cumulative translation adjustment of long-term investments (Note 4(6))	101,530	147,939
Total Stockholders' Equity	76,536,749	66,762,869
Commitments and Contingent Liabilities (Notes 7 and 10)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 104,037,448	$ 87,385,205

The accompanying notes are an integral part of these financial statements.

Statement of Income

FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN NEW TAIWAN THOUSAND DOLLARS EXCEPT FOR EARNINGS PER SHARE)

	1998	1997
Operating Revenues		
Sales revenue (Note 5)	$ 18,404,728	$ 25,357,506
Sales returns	(325,379)	(196,938)
Sales allowances	(773,593)	(565,723)
Net sales	17,305,756	24,594,845
Other operating revenues	1,125,846	494,150
Net operating revenues	18,431,602	25,088,995
Operating Costs (Note 5)		
Cost of goods sold	(13,593,592)	(17,263,651)
Other operating costs	(444,032)	(234,026)
	(14,037,624)	(17,497,677)
Gross Profit	4,393,978	7,591,318
Unrealized intercompany profit	(94,252)	(53,174)
Realized intercompany profit	53,174	18,196
	4,352,900	7,556,340
Operating Expenses		
Selling expenses	(277,539)	(783,216)
Administrative expenses	(1,749,415)	(1,427,110)
Research and development expenses	(1,933,715)	(1,759,620)
	(3,960,669)	(3,969,946)
Operating Income	392,231	3,586,394
Non-operating Income		
Interest income	1,863,116	948,149
Investment income	2,458,029	2,292,333
Gain on disposal of investments (Note 5)	918,023	2,884,308
Other income	1,006,096	1,742,589
	6,245,264	7,867,379
Non-operating Expenses		
Interest expense (Note 5)	(1,647,178)	(951,196)
Other loss	(1,035,055)	(644,303)
	(2,682,233)	(1,595,499)
Income Before Income Tax	3,955,262	9,858,274
Income Tax Benefit (Expense) (Note 4 (14))	451,759	(118,722)
Net Income	$ 4,407,021	$ 9,739,552
Earnings Per Share		
Net income (NTD)	$ 0.81	$ 1.91

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Stockholders' Equity

FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN NEW TAIWAN THOUSAND DOLLARS)

1997	Capital Stock: Common Stock	Capital Stock: Preferred Stock	Capital Stock: Certificates Exchangeable for Common Shares	Capital Reserve	Retained Earnings: Legal Reserve	Retained Earnings: Unappropriated Earnings	Cumulative Translation Adjustment of Long-Term Investments	Total
Balance on January 1, 1997	$ 28,771,976	$ 500,000	$ 72,822	$ 5,804,143	$ 2,419,829	$ 8,937,330	$ 1,600	$ 46,507,700
Preferred stock converted into common stock	500,000	(500,000)	-	-	-	-	-	-
Appropriation of 1996 earnings:								
Appropriation for legal reserve	-	-	-	-	757,713	(757,713)	-	-
Dividends for preferred stock	-	-	-	-	-	(35,000)	-	(35,000)
Stock dividends	7,518,151	-	-	-	-	(7,518,151)	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(67,844)	-	(67,844)
Capitalization of employees' bonus	535,473	-	-	-	-	(535,473)	-	-
Capitalization of capital reserve	1,168,142	-	-	(1,168,142)	-	-	-	-
Net income for 1997	-	-	-	-	-	9,739,552	-	9,739,552
Transfer of gain from disposal of property, plant and equipment to capital reserve	-	-	-	109,846	-	(109,846)	-	-
Transfer of gain from disposal of property, plant and equipment of investee company to capital reserve	-	-	-	14	-	(14)	-	-
Common stock and certificates exchangeable for common shares for the conversion of convertible bonds issued	2,850,905	-	(72,822)	7,562,758	-	-	-	10,340,841
Adjustment due to change in ownership of investee companies	-	-	-	131,281	-	-	-	131,281
Cumulative translation adjustment	-	-	-	-	-	-	146,339	146,339
Balance on December 31, 1997	$ 41,344,647	$ -	$ -	$ 12,439,900	$ 3,177,542	$ 9,652,841	$ 147,939	$ 66,762,869

1998	Capital Stock: Common Stock	Capital Stock: Certificates Exchangeable for Common Shares	Capital Reserve	Retained Earnings: Legal Reserve	Retained Earnings: Unappropriated Earnings	Unrealized Loss on Long-Term Investments	Cumulative Translation Adjustment of Long-Term Investments	Total
Balance on January 1, 1998	$ 41,344,647	$ -	$12,439,900	$ 3,177,542	$ 9,652,841	$ -	$ 147,939	$66,762,869
Appropriation of 1997 earnings:								
Appropriation for legal reserve	-	-	-	962,970	(962,970)	-	-	-
Stock dividends	7,855,864	-	-	-	(7,855,864)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(86,668)	-	-	(86,668)
Capitalization of employees' bonus	683,119	-	-	-	(683,119)	-	-	-
Capitalization of capital reserve	4,134,665	-	(4,134,665)	-	-	-	-	-
Net income for 1998	-	-	-	-	4,407,021	-	-	4,407,021
Transfer of gain from disposal of property, plant and equipment to capital reserve	-	-	16,983	-	(16,983)	-	-	-
Transfer of gain from disposal of property, plant and equipment of investee company to capital reserve	-	-	1,293	-	(1,293)	-	-	-
Common stock and certificates exchangeable for common shares for the conversion of convertible bonds issued	1,364,400	35,318	4,653,079	-	-	-	-	6,052,797
Adjustment due to change in ownership of investee companies	-	-	(107,106)	-	(2,221)	-	-	(109,327)
Unrealized loss on long-term investments	-	-	-	-	-	(443,534)	-	(443,534)
Cumulative translation adjustment	-	-	-	-	-	-	(46,409)	(46,409)
Balance on December 31, 1998	$ 55,382,695	$ 35,318	$12,869,484	$ 4,140,512	$ 4,450,744	($ 443,534)	$ 101,530	$76,536,749

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN NEW TAIWAN THOUSAND DOLLARS)

	1998	1997
Operating activities:		
Net income	$ 4,407,021	$ 9,739,552
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	4,701,417	3,862,938
Amortization	109,151	183,128
(Reversal of) bad debts expense	(67,112)	89,118
Unrealized loss on decline in market value of marketable securities	41,025	145,584
Provision for loss on obsolescence of inventories	134,748	153,023
Long-term investment income accounted for under equity method	(2,448,908)	(2,437,917)
Profit on disposal of investments	(918,023)	(2,884,308)
Loss (gain) on disposal of property, plant and equipment and idle assets	16,877	(32,642)
Transfer from property, plant and equipment, and idle assets to (revenue) expense	(23,533)	46,223
Exchange (gain) loss on long-term loans	(30,801)	1,547,041
Interest saving on bonds payable transferred to capital reserve	200,126	207,357
Notes receivable	452,115	(433,148)
Accounts receivable	635,995	(706,016)
Other receivables	(145,135)	(130,013)
Inventories	(645,039)	1,269,836
Prepaid expenses	46,497	6,724
Deferred tax assets	(410,765)	(45,716)
Notes payable	(405,288)	(349,450)
Accounts payable	987,508	(730,602)
Accrued income tax payable	(52,432)	(80,822)
Accrued expenses	(18,488)	420,105
Other current liabilities	99,686	90,192
Compensation interest payable	878,050	117,411
Accrued pension payable	103,437	124,375
Net cash provided by operating activities	7,648,129	10,171,973

	1998	1997
Investing activities:		
Decrease in marketable securities, net	$ 2,080,782	$ 1,835,427
Acquisition of long-term investments	(9,539,371)	(13,912,197)
Proceeds from disposal of long-term investments	1,322,938	3,587,696
Acquisition of property, plant and equipment	(6,828,769)	(5,992,086)
Proceeds from disposal of property, plant and equipment	208,018	491,950
Increase in deferred assets	(150,000)	(251,059)
Increase in other assets	(14,900)	(12,815)
Net cash used in investing activities	(12,921,302)	(14,253,084)
Financing activities:		
Decrease in forward contracts receivable	-	49,408
(Decrease) increase in short-term loans, net	(325,675)	860,064
Proceeds from long-term loans	-	2,035,800
Repayment of long-term loans	(3,109,700)	(2,047,057)
Proceeds from bonds issued	15,000,000	8,319,000
Redemption of bonds	(940)	-
Cash payment for fraction of one share arising from bonds conversion	(10)	(7)
Increase (decrease) in deposits-in, net	450	(1)
Cash dividends paid	-	(35,000)
Directors' and supervisors' remuneration	(86,668)	(67,844)
Net cash provided by financing activities	11,477,457	9,114,363
Net increase in cash and cash equivalents	6,204,284	5,033,252
Cash and cash equivalents at the beginning of year	19,046,750	14,013,498
Cash and cash equivalents at the end of year	$ 25,251,034	$ 19,046,750
Supplemental disclosures of cash flow information		
Cash paid for interest (excluding interest capitalized)	$ 520,356	$ 648,326
Cash paid for income tax	$ 11,438	$ 245,261
Investing activities partially paid by cash		
Acquisition of property, plant and equipment	$ 6,582,310	$ 6,422,057
Add: payable at beginning of the year	1,219,261	789,290
Less: payable at year-end	(972,802)	(1,219,261)
Cash paid	$ 6,828,769	$ 5,992,086
Financing activities not affecting cash flows		
Convertible bonds converted into common stock and certificates exchangeable to common shares	$ 5,864,346	$ 10,201,319

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

DECEMBER 31, 1998 AND 1997
(EXPRESSED IN NEW TAIWAN THOUSAND DOLLARS)

1.HISTORY AND ORGANIZATION

United Microelectronics Corporation (the Company) was incorporated as a company limited by shares in May 1980 and commenced its operations in April 1982. The Company's major business activity is the manufacture of semiconductor products.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currency transactions

The accounts of the Company are maintained in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the rates of exchange prevailing on the transaction dates. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the rates of exchange prevailing at the balance sheet date. Exchange gains or losses are included in the current year's results.

Forward contracts, options and swaps

A.The foreign currency amounts on nonspeculative forward contracts are translated into New Taiwan dollars using the spot rate at the date of inception of the contract. The difference between the contract forward rate and the spot rate is amortized over the life of the forward contract. The foreign currency amounts of outstanding contracts are also translated into New Taiwan dollars at the rate of exchange prevailing at the balance sheet date. Exchange gains or losses are included in current year's results. Exchange gains or losses accounted for at the date when a forward contract has expired are also included in current year's results.
Gains and losses on forward contracts to hedge foreign currency commitments are deferred until the underlying transaction is recorded.

B.Premiums on foreign currency options are translated into New Taiwan dollars using the spot rate at the date of inception of the contract and are amortized over the life of the contract. Unrealized gains and losses for known foreign currency transaction are recognized in current year's earnings but unrealized gains and losses for foreign currency commitments are deferred until the underlying transaction is recorded.

C.Foreign currency swap contract amounts are translated into New Taiwan dollars using the spot rate at the date of inception of the contract. Amounts receivable and payable are calculated by using the agreed rates set in the foreign currency swap contract at each month end and translated into New Taiwan dollars using the spot rate.

Cash equivalents

Cash equivalents are short-term, highly liquid investments which are convertible to known amounts of cash at anytime and their maturities do not present significant risk of changes in value because of changes in interest rates.

Marketable securities

Marketable securities are recorded at cost when acquired. The carrying amount of the marketable securities portfolio is stated at the lower of its aggregate cost or market value at the balance sheet date. The market value for listed equity securities or close-ended funds is determined by the average closing prices occurred during the last month of the fiscal year. The market value for open-ended funds is determined by their equity per share at balance sheet date.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on the collectibility and aging analysis of accounts and other receivable.

Inventories

Inventories, except raw materials, are stated at standard cost which is adjusted to actual cost based on weighted average method at month end. Inventories are valued at the lower of cost or market value at the year end. An allowance for loss on obsolescence and decline in market value is provided when necessary.

Long-term investments

A.If the investee company is listed and the Company owns less than 20% of the outstanding shares and has no significant influence on operational decisions of the listed company, such investment is accounted for by the lower of cost or market value method. The unrealized loss resulting from the decline in market value of such investment is deducted from stockholders' equity. The Company's investment in a company, which is not listed, is accounted for under the cost method.

Investment income or loss from investments in both listed and unlisted companies is accounted for under equity method provided that the Company owns over 20% of the outstanding shares of the listed and unlisted companies. Consolidated financial statements are prepared if the Company owns more than 50% of the investee company's share. However, subsidiaries with negative stockholders' equity or total revenue for the current year which are less than 10% of that of the Company's total assets and operating revenues are not included in the consolidated financial statements.

B.Intercompany profit recognition under equity method:

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the subsidiary and the Company is amortized and recognized based on the assets economic service lives. Profit from other types of intercompany transactions is recognized when realized. The intercompany profit elimination is presented by debiting unrealized profit in the income statements and crediting a deferred income account in the balance sheets. The difference between the Company's cost and underlying equity in the net assets of the subsidiary at the date of investment is amortized over 5 years.

Property, plant and equipment

A.Property, plant and equipment are stated at cost. Interest incurred on loans used to finance the construction of property and plant is capitalized and depreciated accordingly.

B.Depreciation is provided on the straight-line method using the assets' economic service lives. When the economic service lives are completed, fixed assets, which are still in use, are depreciated based on the residual value. The service lives of the fixed assets are as follows: Buildings - 20 to 55 years; Leasehold improvements - the lease period or economic service lives, whichever is shorter; Other - 5 years.

C.Maintenance and repairs are charged to expenses as incurred. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. When fixed assets are disposed of their original costs and accumulated depreciation are written off and related gain or loss is booked as non-operating income or loss. Any gain (net of income tax) is transferred to capital reserve in the current year.

D.Idle assets are valued at the lower of book value or net realizable value and are reclassified to other assets. The difference between book value and net realizable value is recorded as current loss; current depreciation of idle assets is booked as non-operating expense.

Intangible assets

Intangible assets are stated at cost and amortized on a straight-line basis over the following years: patents - the legal period or economic service life whichever is shorter; trademarks - the contract period.

Deferred charges

Deferred charges are stated at cost and amortized on a straight-line basis over the following years: convertible bonds issue costs - over the life of the bonds; design expenditure - the contract period or economic service life whichever is shorter; software - 3 years.

Pension plan

The Company has a retirement plan covering all its regular employees. This plan is separately funded.

Net periodic pension cost is computed based on actuarial valuation in accordance with FASB No. 18 of the R.O.C., which requires to consider the cost components such as service cost, interest cost, expected return on plan assets and amortization of net obligation at transition.

Convertible bonds

A.When bonds are redeemed before maturity, the excess of the stated redemption price over the par value is recognized as interest expense and compensation interest payable using the effective interest method during the period from the issue date to the last day of redemption period.

B.The cost method is adopted when an investor exercises his/her conversion right. The book value of bonds is credited to common stock at an amount equal to the par value of the stock and the excess is credited to capital reserve; no gain or loss is recognized on bond conversion.

C. The related issuance costs for convertible bonds are recorded as deferred assets and are amortized over the life of the bonds.

D. For convertible bonds with redemption options, the right of redemption becomes invalid if the investor failed to exercise his/her redemption right during the redemption period. The balance of the compensation interest payable is amortized over the period from the date following the redemption period to the maturity date using the effective interest method.

Income tax

The provision for income tax includes deferred tax resulting from items reported in different periods for tax and financial reporting purposes. Over or under provision of prior year's income tax liabilities are included in the current year's income tax expense.

3.EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES

None for 1998 and 1997.

4.CONTENT OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	1998	1997
Cash:		
Cash on hand	$ 2,532	$ 3,261
Demand accounts	714,732	566,039
Checking accounts	82,654	135,043
Time deposits	21,535,206	17,717,369
	22,335,124	18,421,712
Cash equivalents:		
Commercial paper	2,915,910	625,038
	$ 25,251,034	$ 19,046,750

(2) MARKETABLE SECURITIES

	1998	1997
Mutual funds	$ 866,866	$ 1,347,777
Listed equity securities		
- Stocks	200,264	202,442
- Taiwan depositary receipt	-	27,000
Floating rate note	-	1,560,960
	1,067,130	3,138,179
Allowance for loss on decline in market value	(186,610)	(145,584)
	$ 880,520	$ 2,992,595

(3) NOTES RECEIVABLE

	1998	1997
Notes receivable	$ 115,493	$ 231,609
Allowance for doubtful notes	-	-
	$ 115,493	$ 231,609

(4) ACCOUNTS RECEIVABLE

	1998	1997
Accounts receivable	$ 931,624	$ 1,931,853
Allowance for doubtful accounts	(40,899)	(130,450)
	$ 890,725	$ 1,801,403

(5) INVENTORIES

	1998	1997
Raw materials	$ 74,443	$ 232,420
Supplies	91,105	160,377
Spare parts	357,519	363,912
Work in process	2,023,671	1,393,859
Finished goods	779,676	492,711
Inventory in-transit	45,339	127,801
	3,371,753	2,771,080
Allowance for loss on decline in market value and obsolescence	(251,776)	(161,394)
	$ 3,119,977	$ 2,609,686

(6) LONG-TERM INVESTMENTS

A. Details of long-term investments are summarized as follows:

	1998		1997	
Investee Company	Amount	Percentage of ownership	Amount	Percentage of ownership
Investments accounted for under equity method:				
Fortune Venture Capital Corporation	$ 2,018,855	99.99%	$ 1,253,521	99.99%
UMC Group (USA)	433,311	80.00%	–	–
AMIC Technology Inc.	213,156	67.26%	279,525	81.30%
United MicroMachining Corp.	32,015	60.91%	36,822	60.91%
Hung Tien Investment Corporation	7,130,749	49.99%	4,618,350	49.99%
Ta Lien Investment Corporation	7,123,607	49.99%	4,610,687	49.99%
Pacific Venture Capital Co., Ltd.	309,504	49.99%	309,857	49.99%
DuPont Photomasks Taiwan Ltd.	530,650	48.76%	–	–
United Integrated Circuits Corp.	4,681,242	41.47%	3,324,681	37.22%
Davicom Semiconductor, Inc.	291,283	40.44%	291,034	34.96%
United Silicon Inc.	4,596,192	38.79%	3,575,082	40.30%
United Semiconductor Corporation	5,763,173	35.01%	4,386,426	36.00%
Applied Component Technology Corporation	102,459	32.74%	120,889	54.74%
Novatek Microelectronics Corp.	363,294	32.15%	239,856	32.50%
Integrated Technology Express Inc.	241,234	30.05%	239,770	99.91%
Faraday Technology Corp.	186,823	29.46%	138,652	46.51%
Integrated Telecom Express, Inc.	113,126	28.56%	161,604	30.77%
World Wiser Electronics Incorporated	1,056,047	27.53%	976,432	30.72%
Focused Semiconductor Corp.	218,890	27.33%	–	–
Mediatek Incorporation	334,809	21.36%	129,372	21.82%
Unipac Optoelectronics Corp.	1,108,988	18.94%	–	–
Utek Semiconductor Corp.	423,205	2.16%	–	–
Faraday Technology Corp. (USA)	–	–	11,344	34.03%
Sub-Total	37,272,612		24,703,904	

Investee Company	1998 Amount	1998 Percentage of ownership	1997 Amount	1997 Percentage of ownership
Investments accounted for under cost method:				
Legend Venture Capital Investment Corp.	50,000	12.66%	50,000	12.66%
United Industrial Gases Co., Ltd.	146,250	11.25%	146,250	11.25%
Sino-Aerospace Investment Corp.	285,000	11.11%	285,000	11.11%
Voice of Taipei Broadcasting Co., Ltd.	8,365	10.72%	6,000	10.90%
Technology Partner Venture Capital Corp.	90,000	9.94%	–	–
TECO Information Systems Co., Ltd.	614,000	7.99%	614,000	7.99%
Capital Investment Trust Corp.	14,700	4.90%	14,700	4.90%
TECO Electric & Machinery Co., Ltd.	1,535,895	4.08%	1,535,895	4.70%
Dyna Image Corp.	28,663	3.46%	28,663	3.47%
SAMPO Corporation	450,852	3.06%	449,267	3.31%
Stark Technology Inc.	14,000	1.71%	–	–
Premier Camera Taiwan Ltd.	45,000	1.48%	45,000	1.54%
National Securities Corporation	239,316	1.46%	298,161	1.85%
Chiao Tung Bank	967,170	0.90%	967,170	0.90%
Taiwan Mask Corp.	2,291	0.21%	10,937	1.02%
Hon Hai Precision Industry Co., Ltd.	–	–	108,549	0.61%
Universal Securities Co., Ltd.	–	–	3,339	0.11%
Apex Venture Capital Corp.	–	–	200,000	18.69%
Unipac Optoelectronics Corporation	–	–	1,281,018	18.94%
APTOS Corp.	149,040	19.48%	149,040	19.48%
EPIC Technologies Inc.	34,099	10.06%	–	–
Relay Design Automation, Inc.	57,600	9.26%	–	–
Rise Technology Co.	316,525	8.99%	97,475	4.71%
PixTech, Inc.	137,750	8.08%	137,750	8.08%
Catalyst Semiconductor, Inc.	107,328	7.76%	107,328	7.76%
Monterey Design Systems, Inc.	34,200	3.23%	–	–
Tripath Technology Inc.	143,500	2.48%	143,500	2.07%
SiRF Technology, Inc.	49,875	1.53%	–	–
Power Integration Inc.	–	–	20,242	1.59%
Sub-Total	5,521,419		6,699,284	
Prepaid long-term investments	3,983		24,375	
Total	42,798,014		31,427,563	
Cumulative translation adjustment	101,530		147,939	
Allowance for loss on decline in long-term investments	(443,534)		–	
Grand-Total	$ 42,456,010		$ 31,575,502	

B. The total long-term investment income under equity method recognized by the Company for the years 1998 and 1997 based on the audited financial statements of the investees were $2,448,908 and $2,437,917, respectively. Investment income amounting to $1,089,348 and $489,104 during the years ended December 31, 1998 and 1997, respectively, and the related long-term investment balances of $27,004,086 and $17,929,814 as of December 31, 1998 and 1997, respectively, were determined based on the investees' financial statements which were audited by other certified public accountants.

C. All subsidiaries were not consolidated into the Company's financial statements since neither the total assets and operating revenues of each subsidiary exceed 10% of those of the Company, nor their combined total assets and operating revenues exceed 30% of those of the Company.

(7) PROPERTY, PLANT AND EQUIPMENT

	1998		
	Cost	Accumulated depreciation	Book value
Land	$ 784,070	$ -	$ 784,070
Buildings	5,083,988	(624,455)	4,459,533
Machinery and equipment	32,100,086	(14,740,674)	17,359,412
Transportation equipment	36,191	(17,398)	18,793
Furniture and fixtures	653,039	(225,811)	427,228
Leasehold improvements	64,849	(33,030)	31,819
Construction in progress	869,990	-	869,990
Prepayments for equipment	1,435,695	-	1,435,695
	$ 41,027,908	($ 15,641,368)	$ 25,386,540

	1997		
	Cost	Accumulated depreciation	Book value
Land	$ 784,070	$ -	$ 784,070
Buildings	4,753,283	(394,006)	4,359,277
Machinery and equipment	27,250,410	(10,812,732)	16,437,678
Transportation equipment	30,889	(13,108)	17,781
Furniture and fixtures	393,790	(165,568)	228,222
Leasehold improvements	73,706	(39,685)	34,021
Construction in progress	210,603	-	210,603
Prepayments for equipment	1,432,296	-	1,432,296
	$ 34,929,047	($ 11,425,099)	$ 23,503,948

Interest expense capitalized in 1998 and 1997 amounted to $198,909 and $186,697, respectively.

(8) SHORT-TERM LOANS

	1998	1997
Unsecured loans	$ 1,075,562	$ 1,335,118
Secured loans	-	66,119
	$ 1,075,562	$ 1,401,237
Interest rates	0.85%~6.70%	1.01%~7.00%

(9) BONDS PAYABLE

	1998	1997
Unsecured bonds payable	$ 9,474,800	$ 245,600
Euro convertible bonds payable	2,288,477	2,425,786
Add: Compensation interest payable	979,241	130,851
	$ 12,742,518	$ 2,802,237

A. The Company issued Euro convertible bonds ("The bonds") on June 8, 1994. Main terms of the issue are as follows:

(a) Total amount: up to US$160,000,000

(b) Place of trading: London

(c) Interest: 1.25% per annum net of withholding tax

(d) Maturity Date: June 8, 2004

(e) Redemption at the option of the Company:

The Company may redeem the bonds at any time beginning five years after the issuance date in accordance with the agreement.

B. The Company issued unsecured convertible bonds amounted to $6,000,000 on May 20, 1996. These convertible bonds were converted into the Company's common stocks or redeemed before October 13, 1998.

C. The Company issued the second Euro convertible bonds ("The bonds") on May 16, 1997. Main terms of the issue are as follows:

(a) Total amount: up to US$ 300,000,000

(b) Place of trading: Luxembourg

(c) Interest: 0.25% per annum net of withholding tax

(d) Maturity Date: May 16, 2004

(e) Redemption at the option of the Company:

The Company may redeem the bonds on or after May 30, 2000 at their principal amount together with accrued interest, if (i) the closing price of the shares for a period of 20 consecutive trading days is at least 145% of the conversion price or (ii) at least 90% of the bonds were converted, redeemed or purchased and canceled.

(f) Redemption at the option of the bondholders:

The Company will, at the option of the bondholders, redeem such bonds on May 16, 2002 at 141.69% of the principal amount.

D. The Company issued the third unsecured convertible bonds on January 20, 1998. Main terms of the issue are as follows:

(a) Total amount: up to $15,000,000

(b) Interest: Zero

(c) Maturity Date: January 19, 2008

(d) Redemption at the option of the bondholders:

Bondholders may request the Company to redeem the bonds with cash payment equal to par value plus compensation for interest (46.93% of the par value) on January 19, 2003.

(10) LONG-TERM LOANS

	1998	1997
Long-term loans	$ 8,459,332	$ 11,569,782
Current portion	(2,436,789)	(2,910,158)
	$ 6,022,543	$ 8,659,624
Interest rates	6.67% ~7.1%	6.45% ~7.135%

(11) PENSION FUND

A. All of the regular employees of the Company are covered by the pension plan. Under the plan, the Company contributes an amount equal to 2% of total salaries on a monthly basis to the pension fund deposited at the Central Trust of China. Pension benefits are generally based on service years (two points per year). Each employee is limited up to 45 points. Retirement benefits are paid from fund previously provided.

B. Based on actuarial assumptions for the year of 1998, the discount rate and expected rate of return on plan asset are 6.5% and 6.25%, respectively, and the rate of compensation increase is 8%. The transition obligation is amortized equally over 15 years. The funded status of pension plan is listed as follows:

	November 1,1998 (the actuarial date)	November 1,1997 (the actuarial date)
Vested Benefit Obligation	($ 4,995)	($ 2,016)
Non-vested Benefit Obligation	(151,246)	(117,189)
Accumulated Benefit Obligation	(156,241)	(119,205)
Effect on Projected Salary Increase	(547,725)	(426,809)
Projected Benefit Obligation	(703,966)	(546,014)
Market-related Value of Plan Assets	240,388	198,763
Funded Status	(463,578)	(347,251)
Unrecognized Transition Obligation	338,007	366,174
Unrecognized Gain or Loss	(225,196)	(266,176)
Accrued Pension Cost	($ 350,767)	($ 247,253)
Vested Benefit	$ 6,655	$ 2,794

C. The components of net periodic pension cost for 1998 and 1997 are as follows:

	1998	1997
Service cost	$ 89,251	$ 93,258
Interest cost	36,856	41,476
Expected return on plan assets	(12,920)	(11,643)
Amortization of transition obligation	28,167	28,167
Amortization of unrecognized gain or loss	(15,112)	(2,275)
Net periodic pension cost	$ 126,242	$ 148,983

(12) CAPITAL

A. The Company has authorized capital of 7,200,000,000 shares of stock (of which 1,500,000,000 shares are reserved for convertible bonds issued in R.O.C. or in foreign countries) with NT$10 (in dollar) par value per share. As of December 31, 1998, 5,538,269,532 common shares were issued and outstanding.

B. Preferred stocks of 50,000,000 shares were converted into equal shares of common stock on September 30, 1997.

(13) RETAINED EARNINGS

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

A. paying all taxes and dues;

B. covering prior years' operating losses, if any;

C. setting aside 10% of the remaining amount, after deducting A and B, as legal reserve;

D. allocating 1% of the remaining amount, after deducting A, B and C above from the current year's earnings, as directors' and supervisors' fees; and

E. retaining or distributing the remaining amount: 92% to common stockholders' bonus and 8% to employee as employees' bonus

(14) INCOME TAX

	1998	1997
Income tax per accounting income	$ 791,052	$ 1,971,655
Estimated permanent differences	(456,116)	(1,654,936)
Investment tax credit	(745,701)	(256,359)
Adjustment of prior year's tax expense	(52,432)	51,746
Tax on interest income subjected to separate withholding income tax	11,438	6,616
Income tax (benefit) expense	(451,759)	118,722
Net effect of deferred tax assets	410,765	45,717
Adjustment of prior year's tax expense	52,432	(51,746)
Tax on interest income subjected to separate withholding income tax	(11,438)	(6,616)
Prepaid income tax	(147,755)	(53,645)
Income tax (receivable) payable	($ 147,755)	$ 52,432

The net deferred tax assets are the effect of temporary differences, which mainly resulted from investment tax credit, depreciation and exchange gain. Current deferred tax asset is presented in the balance sheet as part of other current assets.

The Company's income tax returns through the year 1996, except for 1995 which has not been assessed yet, were assessed and approved by the Tax Authority.

Pursuant to the "Statute for the Establishment and Administration of Science-Based Industrial Park," the Company was granted several periods of tax holidays with respect to income derived from approved investments.

As of December 31, 1998, the Company's unused investment tax credits amounted to approximately $2,981,236.

5. RELATED PARTY TRANSACTION

A.Name and Relationship of Related Parties

Name of related parties	Relationship with the Company
Integrated Technology Express Inc. (ITE)	Investee.
Novatek Microelectronics Corp. (Novatek)	Investee.
United Semiconductor Corporation (USC)	Investee.
United Integrated Circuits Corp. (UICC)	Investee.
United Silicon Inc. (USIC)	Investee.
World Wiser Electronics Incorporated (WWEI)	Investee.
Hung Tien Investment Corporation (Hung Tien)	Investee.
Ta Lien Investment Corporation (Ta Lien)	Investee.
Unipac Optoelectronics Corp. (Unipac)	Investee.
Mediatek Incorporation (Mediatek)	Investee.
Davicom Semiconductor, Inc. (Taiwan) (Davicom-TWN)	Investee's subsidiary.
Hung Lien Investment Corp. (Hung Lien)	Investees' reinvestee.
Chiao Tung Bank (Chiao Tung)	A director of the Company.
Kung-Hwa Investment Holding Co., Ltd. (Kung-Hwa)	A director of the Company.
United Microelectronics (Europe) B.V. (UMC BV)	The director is the board chairman of the Company.
United Microelectronics Co., Ltd. in Hong Kong (UMCL)	The director is the board chairman of the Company.
Formosa Links Pte Ltd. (Formosa)	The director is the board chairman of the Company.
UMC Group (USA) (UMC-USA)	Investee.
Integrated Telecom Express, Inc. (ITeX)	Investee.

B.Significant Related Party Transactions

(1) Operating revenues

	1998		1997	
	Amount	Percentage of net operating revenues	Amount	Percentage of net operating revenues
UMCL	$ 1,474,454	8 %	$ 2,860,074	11 %
UMC BV	1,134,207	6 %	1,199,829	5 %
Novatek	885,706	5 %	535,856	2 %
Formosa	757,020	4 %	927,896	4 %
UMC-USA	750,175	4 %	-	-
ITE	551,392	3 %	847,011	3 %
Others	2,626,495	14 %	2,245,246	9 %
	$ 8,179,449	44 %	$ 8,615,912	34 %

The Company's selling prices for the above foreign sales are based on the market price in each related party's location. The collection period is at sight L/C or D/A 90 days. Local sales are dealt with in the ordinary course of business similar to that with other companies. The collection period is approximately 30~90 days.

(2)Purchases

	1998		1997	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
USC	$ 1,563,675	40 %	$ 2,605,333	61 %
USIC	1,068,021	28 %	–	–
Others	68,764	2 %	180,587	4 %
	$ 2,700,460	70 %	$ 2,785,920	65 %

The above purchases are dealt with in the ordinary course of business similar to those from other companies, and are paid by checks that will become due after 60 days from purchase date.

(3)Notes and accounts receivable

(a)Notes receivable:

	1998		1997	
	Amount	Percentage of notes receivable	Amount	Percentage of notes receivable
ITE	$ 63,936	17 %	$ 248,761	30 %
Mediatek	59,455	16 %	59,833	7 %
Novatek	52,974	14 %	53,699	7 %
Davicom-TWN	28,959	8 %	29,542	4 %
Others	47,077	13 %	196,565	24 %
	$ 252,401	68 %	$ 588,400	72 %

(b)Accounts receivable:

	1998		1997	
	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable
UMC-USA	$ 518,968	18 %	$ –	–
UMCL	478,144	16 %	668,148	19 %
Formosa	286,079	10 %	88,342	2 %
UMC BV	209,781	7 %	212,404	6 %
Others	492,863	17 %	655,165	19 %
	1,985,835	68 %	1,624,059	46 %
Allowance for doubtful accounts	(52,825)		(32,844)	
	$ 1,933,010		$ 1,591,215	

(c)Other receivables:

	1998		1997	
	Amount	Percentage of other receivables	Amount	Percentage of other receivables
USC	$ 104,904	16 %	$ 107,816	21 %
USIC	62,709	10 %	27,166	5 %
UICC	57,387	9 %	63,616	12 %
Unipac	55,025	8 %	10,378	2 %
Others	66,229	10 %	18,185	4 %
	$ 346,254	53 %	$ 227,161	44 %

(4)Accounts payable

	1998		1997	
	Amount	Percentage of accounts payable	Amount	Percentage of of accounts payable
USIC	$ 540,132	20 %	$ –	–
USC	291,454	11 %	297,768	15 %
Others	100,938	3 %	181,530	10 %
	$ 932,524	34 %	$ 479,298	25 %

(5)Short-term and long-term loans:

	1998				
	Maximum balance		Ending	Interest	Interest
	Amount	Month	balance	rate	expense
Chiao Tung	$ 1,184,354	January	$ 846,070	6.67%	$ 70,597

	1997				
	Maximum balance		Ending	Interest	Interest
	Amount	Month	balance	rate	expense
Chiao Tung	$ 1,531,223	January	$1,184,354	6.45%	$ 87,082

(6)Acquisition of long-term investments

Name of related party	Item	1997
Hung Tien & Ta Lien	Common stocks of Unipac	$ 336,720
ITeX	Common stocks of ITE	239,770
Chiao Tung & Kung-Hwa	Common stocks of WWEI	175,678
		$ 752,168

(7)Disposal of long-term investments

The Company sold the common stocks of USC to Hung Lien for $393,600 and recognized an unrealized income amounting to $93,854 in 1997, which was realized in 1998.

(8)Disposal of fixed assets

As of November 1998, the Company sold the plant (FAB I) to Unipac for $120,000 and generated the gain of $15,145.

(9)Other transactions

Name of related party	Item	1998	1997
USC	Facility revenues, etc.	$ 315,855	$ 240,963
UICC	Facility revenues, etc.	168,359	4,388
USIC	Facility revenues, etc.	181,645	2,912
Others	Facility revenues, etc.	305,581	119,478
		$ 971,440	$ 367,741

Name of related party	Item	1998	1997
USIC	Research fee and mask charges	$ 235,976	$ –
WWEI	Processing expenditures	263,234	367,544
Others	Service charges and processing expenditures, etc.	42,980	460,069
		$ 542,190	$ 827,613

6. ASSETS PLEDGED AS COLLATERAL

Assets	1998	1997	Subject of collateral
Building	$ 1,804,837	$ 1,932,785	Short-term and long-term loans
Machinery and equipment	9,254,058	12,292,823	Short-term and long-term loans
	$ 11,058,895	$ 14,225,608	

7. COMMITMENTS AND CONTINGENT LIABILITIES

A. The Company's unused letters of credit for import materials and machinery were approximately $866,366 and $1,118,230 at December 31, 1998 and 1997, respectively.

B. The Company has a contract with a bank for tariff credit. As of December 31, 1998 and 1997, the used line of credit for tariffs was $2,094 and $3,640, respectively.

C. The Company entered into contracts with third parties for research and development of new products or to obtain rights to use patents registered by others amounting to $1,032,383. As of December 31, 1998, the Company's outstanding obligations related to these contracts amounted to $665,341. In addition, the Company signed a memorandum of agreement with an American semiconductor corporation for obtaining rights to use patents. However, the formal contract is still in negotiation.

D. The Company signed several construction contracts with third parties for the expansion of its factory space amounting to $2,030,489. As of December 31, 1998, the Company's outstanding obligations related to these contracts amounted to $770,873.

E. A number of third parties have notified the Company has infringed on the patents held by those third parties (including EMI, Intel, NEC, etc.), and have demanded that the Company obtain a license for various semiconductor fabrication techniques and circuit designs. The Company commenced evaluation of the specific patents involved, of its defenses in each of the cases, and the preliminary discussions with the third parties regarding licensing terms. Company management indicated a willingness to obtain licenses, wherever required and necessary, to continue the Company's business.

F. Gemmy Industrial, Corp. (Gemmy) filed a lawsuit in August 1998 against the Company for alleged violation of the Copyright Law. The Company commenced preliminary discussions with Gemmy for dismissal of the case.

G. On October 22, 1998, the International Trade Commission (ITC) instituted a preliminary investigation based on a petition filed by Micron Technology (Micron). Micron's petition alleged that imports of Dynamic Random Access Memory (DRAM) manufactured in Taiwan were sold in the U.S. at prices which were less than fair market value (i.e., at "dumped prices"). Based on the allegations of the petition, the ITC conducted an investigation of the products involved. On December 7, 1998, the ITC submitted its findings to the Department of Commerce (DOC) that there was a reasonable indication that a U.S. industry incurred substantial loss as a result of DRAM manufactured in Taiwan which were sold at less than fair market value. It is not clear whether the antidumping investigation will continue. Company management believes that this investigation will not have a material adverse effect on the Company's operations or financial position, since the Company does not sell or export any significant volume of DRAM product to the U.S.

H. The Company entered into several operating lease contracts for lands and buildings. Future minimum lease payments under those leases are (i) 1999~ 2003: $228,114; (ii) 2004~ 2008: $176,681; (iii) 2009~ 2013: $142, 935; and (iv) 2014~ 2018: $46,839.

8. SIGNIFICANT DISASTER LOSS

None for 1998 and 1997.

9. SIGNIFICANT SUBSEQUENT EVENT

A. On January 6, 1999, the Company purchased the common stock of Nippon Foundry Inc. for JPY$1,318,358,000. The ownership ratio held by the Company is 48%.

B. From January 5, 1999 through February 5, 1999, the Company purchased 23,258,000 common shares of Utek Semiconductor Corporation. The total cost amounted to $583,382.

C. The Company sold its plant facility (FAB I) to Unipac Optoelectronics Corp. for $235,972 on January 27 and 28, 1999,and earned a gain amounting to $9,903.

D. The Company sold its machinery to DuPont Photomasks Taiwan Ltd. for $471,390 on January 28, 1999. The gain of disposal was $7,614.

E. Two buildings of the Company, with book value amounting to $2,612,972, were pledged as collateral for short-term and long-term loans in January 1999.

F. The Company purchased 335,000,000 common shares of Unipac Optoelectronics Corp. for $4,355,000 in February 1999.

10. COMPARATIVE FIGURES RECLASSIFICATION

Certain accounts in the 1997 financial statements have been reclassified to conform with the presentation adopted for the 1998 financial statements.

11. SEGMENT INFORMATION

A. Operations in different industries

The Company operates principally in one industry. The Company's major operation is the manufacture of semiconductor products.

B. Operations in different geographic areas

The Company has no significant foreign operations.

C. Export sales

	For the years ended December 31,	
Geographic Areas	1998	1997
Asia	$ 2,861,574	$ 5,718,032
North America and Europe	3,502,278	1,545,788
	$ 6,363,852	$ 7,263,820

D. Major customers

None for 1998.

Revenues from specific customers that have over 10% of total revenues stated in the income statement of the Company for the year 1997 are listed as below:

For the year ended December 31,1997

Customers	Sales amount	%	Sales segment
Customer B	$ 3,946,407	16%	The whole Company
Customer C	2,860,074	12%	The whole Company
	$ 6,806,481	28%	

12. INFORMATION ON DERIVATIVE TRANSACTIONS

The Company entered into three interest rate swap contracts with certain banks.
The major information is as follows:

A. Purpose: to hedge interest rate risk

B. Notional amount and contract period:

Notional amount	Contract period
US$ 10,000,000	November 28, 1996 ~ May 28, 2001
US$ 40,000,000	December 19, 1997 ~ December 19, 2000
US$ 20,000,000	December 23, 1997 ~ December 27, 2000

C. Term and characteristics of the swaps:

(a) Term: These transactions are settled on a semi-annual basis. The Company agrees to pay to the banks on each payment date, an amount that shall be equal to the notional amount multiplied by a fixed rate. The Company receives the floating rate interest, which depends on the 6 months USD-LIBOR-BBA rate on the day that is two London Banking Days preceding any reset date, from bank.

(b) Credit Risk: There is no significant credit risk with respect to the above three transactions because the banks have good global standing.

(c) Market Risk: The market risk is low due to the nature of the swaps.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

	1998	
Financial Assets	Book value	Fair value
Short-term financial assets with fair value equal to book value	$29,117,241	$29,117,241
Marketable securities	880,520	891,198
Long-term investments	42,456,010	45,867,521
	$72,453,771	$75,875,960

	1998	
Financial Liabilities	Book value	Fair value
Financial liabilities with fair value equal to book value	$14,643,593	$14,643,593
Bonds payable	12,742,518	12,475,586
	$27,386,111	$27,119,179

The methods and assumptions used to measure the fair value of financial instruments are as follows:

A. Short-term financial assets and liabilities: the carrying amounts approximate fair values due to their short maturities.

B. Marketable securities and long-term investments: if there is a market value, the fair value is the market value, otherwise the underlying equity in net assets or other financial information is under consideration.

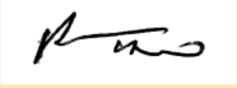
C. Bonds payable: fair value is estimated by the market value.

D. Long-term loans: due to the floating rate, fair value is measured by the book value.

UNITED MICROELECTRONICS CORPORATION

Robert Tsao

Chairman



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