

Dear Shareholders,

Return to Profitability 2002 was an extremely challenging year for the high technology industry due to a contraction of the global semiconductor market and a lingering surplus of production capacity. Despite the challenges, UMC managed a return to

profitability in 2002 by fine-tuning our foundry marketing strategy, optimizing resource allocation, and reorganizing to enhance our customer-oriented services and solutions. These moves have led to a much more competitive UMC, and will enable us to maximize profitability in the future. UMC revenues in 2002 were NT\$67.4 billion, and we achieved earnings of NT\$0.48 per share.

UMC remains focused on maximizing return on investment while maintaining a strategy of rational capacity expansion and timely process technology development. Our goal is to maximize our customers' competitiveness by providing the best possible foundry services, and to deliver the greatest possible return to our shareholders. In 2002, the Company remained cash flow positive, and our solid financial structure over the years has enabled us to maintain our competitiveness and technology advantages through one of the worst slowdowns in the history of the semiconductor industry. We strongly believe that our consistent investment in technology development will lead to better profitability in the years to come.

The Partnership Foundry Success in the semiconductor industry largely depends on a company's ability to adjust business strategies to an ever-changing business environment. The lessons of the last several years have shown us that the "traditional foundry" model no longer delivers optimal benefits to our partners and shareholders. By "traditional foundry" model, we mean the strategy of developing generic process technologies for use by any and all companies that require wafer manufacturing. With the increased complexity of advanced process technology and system-on-chip applications, customization has become the trend, rather than standardization. In response to these challenges, we believe that UMC will maximize its competitive advantages by developing comprehensive customized solutions for a select group of foundry customers through long-term synergistic partnerships that generate higher added value. Our belief is that by delivering the best service to a limited number of partners, we will be able to gain a higher percentage of their business. With this approach, we expect to steadily grow our business as we become more active in assisting our partners to win market share. A fundamental part of our partnership strategy will be our ability to provide solutions, technologies, and services so beneficial that our partners will not look elsewhere for foundry sources. We expect this strategy to differentiate UMC as a foundry in the years to come, and we believe that each UMC partner will quickly recognize the added value a long-term partnership with UMC offers in comparison with alternatives from our competition.

In line with our new emphasis on enhanced partnerships, UMC continues to fine-tune its customer portfolio. We maintain a healthy level of diversification in terms of region (America, Europe, Asia,



Japan), market segment (consumer, communications, computer) and customer type (Fabless and IDM). We continue to believe that we must leverage our ability to serve leaders in all of these areas to achieve extraordinary growth in the years to come.

Continuing to Lead in the Transition to 300mm Wafer Manufacturing Technology leadership remains an important cornerstone of UMC's foundry strategy. In 2002, UMC continued its drive to bring 300mm foundry services to the mainstream, clearly leading the industry in terms of number of 300mm wafers shipped to customers. This leadership was achieved through the successful production ramp-up at UMC's 300mm facility in southern Taiwan, Fab 12A. UMC was the earliest foundry company to initiate 300mm production and this has put us well ahead of the competition on the learning curve for this new manufacturing technology.

By the end of the year, yields for products on 300mm were actually better than those of similar products fabricated on 200mm wafers. UMC's ability to bring 300mm into the mainstream and deliver the economic advantages of the larger wafer size to our customers has surpassed the expectations of many people in the industry.

UMC's leadership in 300mm manufacturing was further advanced with the completion of construction on our affiliate fab in Singapore, UMCi. This is the second of UMC's 300mm mega-fabs, and the combined capacity of these two facilities will enable UMC to respond rapidly to any industry expansion that may occur in the foreseeable future.

Advanced Technology Solutions Drive Growth In 2002, we saw significant breakthroughs in moving our leading-edge 0.13-micron technology into large-scale volume production. Several of our customers

UMC Board of Directors and Key Management Staff



Left to right: S.W. Sun, Stan Hung, Peter Courture, H.J. Wu, John Hsuan, Robert Tsao, Peter Chang, Ching-Chang Wen, Chris Chi, Fu-Tai Liou, Jackson Hu



started to take shipments of products built on our leading-edge process technology. By the end of the year, 0.13-micron shipments accounted for 6% of our revenues. 0.18-micron and 0.15-micron shipments also experienced significant growth as these technologies became firmly positioned in the mainstream. We believe that 0.13-micron production will be one of the major drivers of revenue growth for the Company in 2003. UMC is well positioned to meet the requirements of our customers future System-on-Chip products due to our industry-leading technology portfolio. We are making great progress in our development programs for 90-nanometer and beyond process generations, and in the delivery of comprehensive solutions that include mixed signal and RF CMOS components, embedded memories, silicon verified IP, design support tools, and online resources.

Positioned for Growth in 2003 We strongly believe that UMC's response to the extreme challenges of 2002 have made us a more competitive company. In 2003, we will be positioned to benefit greatly from any economic recovery due to our success in developing the best technology along with a comprehensive package of value-added customer solutions. We believe that our partnership strategy, deep technology portfolio, and position as an industry leader are all factors that should help us to outperform other companies in the high technology industry in coming years. We will continue to work to maximize the benefits of our customers, shareholders, and employees in 2003.



Robert H.C. Tsao
Chairman, UMC



John Hsuan
CEO, UMC





UMC's objective is to be the foundry of choice for our customers, creating a network of partnerships where synergy is generated through long-term alliances and added value can be shared among the partner companies.