

FINANCIAL REPORT 2007

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REVIEW OF
FINANCIAL
POSITION,
OPERATING
RESULTS, RISK
MANAGEMENT
AND
EVALUATION

Analysis of Financial Position

In thousand NTD

	2007	2006	DIFFERENCE	% CHANGE
Current assets	68,252,759	118,430,216	(50,177,457)	(42)
Funds and investments	81,429,006	82,746,430	(1,317,424)	(2)
Property, plant and equipment	129,814,652	142,647,435	(12,832,783)	(9)
Other assets	7,521,028	7,659,590	(138,562)	(2)
Total assets	290,762,567	355,228,793	(64,466,226)	(18)
Current liabilities	43,152,807	30,060,546	13,092,261	44
Long-term liabilities	7,495,304	30,383,076	(22,887,772)	(75)
Total liabilities	54,295,678	64,063,922	(9,768,244)	(15)
Capital	132,144,949	191,323,332	(59,178,383)	(31)
Additional paid-in capital	66,126,806	67,707,287	(1,580,481)	(2)
Retained earnings	31,651,091	34,795,993	(3,144,902)	(9)
Total equity	236,466,889	291,164,871	(54,697,982)	(19)

Explanations for significant changes (over 20%) in financial position include:

1. The decrease in current assets resulted from the decrease of cash and cash equivalents due to capital reduction.
2. The increase in current liabilities is mainly due to the reclassification from bonds payable redeemed in next year to current portion of long-term liabilities.
3. The decrease in long-term liabilities is mainly due to the reclassification from bonds payable redeemed in next year to current portion of long-term liabilities.
4. The decrease in capital mainly resulted from capital reduction in 2007.

Analysis of Operating Results

In thousand NTD

	2007	2006	DIFFERENCE	% CHANGE
Sales revenues	104,996,317	102,023,597	2,972,720	3
Sales returns and discounts	(987,120)	(710,191)	(276,929)	39
Net sales	104,009,197	101,313,406	2,695,791	3
Other operating revenues	2,761,854	2,785,205	(23,351)	(1)
Net operating revenues	106,771,051	104,098,611	2,672,440	3
Operating costs	(84,285,534)	(83,419,400)	(866,134)	1
Gross profit	22,485,517	20,679,211	1,806,306	9
Realized (unrealized) intercompany profit	20,349	14,261	6,088	43
Gross profit-net	22,505,866	20,693,472	1,812,394	9
Operating expenses	(15,701,144)	(14,569,334)	(1,131,810)	8
Operating (loss) income	6,804,722	6,124,138	680,584	11
Non-operating income	16,493,757	33,871,592	(17,377,835)	(51)
Non-operating expenses	(3,732,130)	(2,979,691)	(752,439)	25
Income from continuing operations before income tax	19,566,349	37,016,039	(17,449,690)	(47)
Income tax expense	(2,604,587)	(3,208,211)	603,624	(19)
Cumulative effect of changes in accounting principles	-	(1,188,515)	1,188,515	-
Net income	16,961,762	32,619,313	(15,657,551)	(48)

Explanations for significant changes (over 20%) in operating results include:

(a) Net operating revenues

The increase in net operating revenues primarily resulted from the recovery of the semiconductor industry, and then the increased number of orders received.

(b) Gross profit analysis

The increase in gross profit for 2007 was due primarily to increases in sales quantity and increases in the capacity utilization rate, and a decrease in the product unit cost. Reasons for difference in gross profit are as follows:

In thousand NTD

Reasons for Difference	Gross Profit
Average selling price	(8,529,488)
Unit cost	7,999,681
Product mix	-
Quantity	2,208,048
Others	128,065
Difference	1,806,306

(c) Non-operating income

Mainly resulted from the greater amounts of gain on disposal of investment in 2006.

(d) Non-operating expenses

Mainly resulted from the increase in valuation loss on financial assets.

(e) Cumulative effect of changes in accounting principles

Mainly resulted from the implementation of ROC SFAS No.34, "Financial Instruments: Recognition and Measurement" to account for the financial instruments effective on January 1, 2006.

Estimated Sales Quantities

With the industry shifting towards the vertical disintegration business model, UMC, with its position as an industry leader and pioneer in 300mm manufacturing and SoC (System-on-Chip) technologies, should be able to reach a revenue growth rate higher than that of the overall semiconductor industry. Based on our capacity and customers' demand forecast, the estimated sales quantity for 2008 is approximately 3.96 million 200mm wafer equivalents.

Liquidity Analysis

Analysis of Cash Flows for 2007

In thousand NTD

CASH BALANCE AT BEGINNING OF YEAR	NET CASH PROVIDED BY OPERATING ACTIVITIES	NET CASH USED IN INVESTING AND FINANCING ACTIVITIES	CASH BALANCE AT END OF YEAR	SOURCE OF FUNDING IN CASE OF CASH SHORTFALL	
				INVESTING PLAN	FINANCING PLAN
83,394,802	46,783,545	(92,725,718)	37,452,629	-	-

Note Net cash used in investing and financing activities includes factoring for currency exchange, which amounts to (147,671) thousand.

(a) Cash inflows from operating activities are the result of net income reconciled to net cash with depreciation as the largest adjustment.

(b) Cash outflows from investing activities are attributed to the increase of capital expenditures, while cash inflows from investing activities are attributed to proceeds from

available-for-sale financial assets and long-term investments accounted for under the equity method, and proceeds from maturity of held-to-maturity financial assets.

(c) Cash outflows from financing activities resulted from the capital reduction, payment of cash dividends and employee bonus and repayment of bonds payable.

Projected Cash Flows for 2008

In thousand NTD

CASH BALANCE AT BEGINNING OF YEAR	PROJECTED CASH INFLOWS FROM OPERATING ACTIVITIES	PROJECTED CASH OUTFLOWS FROM INVESTING AND FINANCING ACTIVITIES	PROJECTED CASH BALANCE AT END OF YEAR	SOURCE OF FUNDING IN CASE OF CASH SHORTFALL	
				INVESTING PLAN	FINANCING PLAN
37,452,629	37,594,296	(48,067,941)	26,978,984	-	-

Impact on the Company's Financial Operations and Contingency Action Regarding Major Capital Expenditures

Execution Status of Major Capital Expenditures and Sources of Funding

In thousand NTD

PROJECT	ACTUAL OR EXPECTED SOURCES OF FUNDING	COMPLETION STATUS (UP TO 2007)	TOTAL AMOUNT (UP TO 2007)	CAPITAL EXPENDITURES PLAN	
				2007	2006
Production Equipment	Cash flows generated from operations, bank loans and issuance of bonds	Completed	51,509,273	23,376,309	28,132,964
R&D Equipment	Cash flows generated from operations, bank loans and issuance of bonds	Completed	7,807,230	4,735,775	3,071,455

Expected Benefit from Capital Expenditures

Starting from 2008, production capability for the Company's 0.25-micron and below technologies will increase to 70% or

more as a percentage of total production capacity due to the above mentioned capital expenditures.

Investment Policy, Causes of Profit /Loss and Future Investment Plans

The resolution to invest the equity of Unimicron Holding Limited, an indirect investment of Unimicron Technology (Suzhou) Corp. was passed in the Company's board meeting and annual shareholders' meeting on March 15, 2007 and

June 11, 2007, respectively. This investment was approved by the Investment Commission of MOEA, and the Company has invested USD 20 million in Unimicron Holding Limited for the year ended December 31, 2007.

Risk Management and Evaluation

Impact on Corporate Profitability from Fluctuating Interest Rates, Exchange Rates, and Inflation

The impact on the Company from fluctuating interest rates, exchange rates, and inflation has been minimal due to effective monitoring and control. The Company will continue to watch market movement with regard to interest and exchange rates to avoid losses.

Profit or Loss from Activities in High Risk and Highly Leveraged Investments, Loans Provided to Others, Endorsements and Guarantees, and Derivatives

The Company has not engaged in any transaction of high risk and highly leveraged investments. Any derivatives transaction is to elevate the Company's operating performance and reduce operating and financial risks.

Upcoming R&D Plans and Their Status

UMC's SoC Solution Foundry strategy is based on the strength of the company's advanced technologies, which include production proven 90/80-nanometer, 65/55-nanometer, 45-nanometer, mixed signal/RF CMOS, a wide range of specialty technologies and rich design support services to provide leading-edge technology design reference flows and IP. In addition, UMC's extensive volume production experience for advanced logic technologies will enable the foundry to quickly ramp its customers' products once they reach the manufacturing stage. The successful stories can be seen across multiple market sectors including base-band communication chips, network applications, mobile applications, consumer handheld devices, DTV applications, and high-performance computing graphic chips.

The overwhelming number of 65-nanometer customers engaged during 2007 is the best illustration of UMC's R&D development success. The 55-nanometer technology node has also passed qualification and is ready for customers' product migration. 2008 will be the key year to ready

45-nanometer lines for UMC's strategic partners to launch their pioneering 45-nanometer products. The development work of 32-nanometer is an ongoing challenge and should converge after the completion of high k/Metal gate materials and integration scheme selection. In addition to following its normal technology migration path, UMC is actively engaged in a joint development with Elpida to produce advanced DRAM commodity with copper low-k backend, as well as for future PRAM development.

UMC is strengthening its design support by continuously enhancing its on-going Foundry Design Kits (FDKs) with up-to-date DFM capabilities, verified design reference flows and a silicon validated intellectual property portfolio to help designers accelerate silicon-accurate SoC design integration with multiple digital, analog, mixed-signal and RF devices. For advanced technology design support, the foundation will be built upon DFM compliance libraries, memory compilers and reference design flows. State-of-the-art analog mixed-signal IP will further complement customers' SoC design needs, especially those supporting industry standards (such as PCI-E, SATA, HDMI, etc.) and advanced video, audio and consumer applications. UMC is committed to delivering the most comprehensive design services by expanding its own in-house library design capability, and exploiting its partnership base with worldwide EDA and IP communities to provide the best SoC foundry design solution.

Over the years, UMC has established itself as a leading global semiconductor foundry that manufactures advanced System-on-Chip (SoC) designs for applications spanning every major sector of the IC industry. UMC's success is built upon its top management's commitment to invest for the most advanced R&D development capabilities. UMC is looking forward to continuing its leading SoC foundry support to address the exciting semiconductor technology challenges of the future.

*Risk Management and Evaluation (cont.)***Impact on the Company's Financial Operations and Contingency Action Regarding Recent Changes in Domestic and International Policies and Regulations**

The Company strictly follows governing policies and regulations. All of the related departments constantly monitor any changes in related policies and regulations, and adjust internal operating procedures and business activities accordingly so that business operations continue smoothly.

Impact on the Company's Financial Operations and Contingency Action Regarding Recent Changes in Technology

The Company has been sharply focused on the development of advanced technology. In 2007, the Company's R&D expenses were approximately NTD 9.5 billion. The Company has taken the lead position in the foundry industry in both volume production of 90-nanometer and 65-nanometer technologies and achieved the scheduled progress of 45-nanometer technologies development. The Company has migrated 90-nanometer chips to mainstream volume production; 90-nanometer and below chips represented 26% of total revenue in Q4 2007; 65-nanometer chips represented 2% of total revenue in 2007. The Company's current financial situation is sound and cash on hand is sufficient for future technology development.

Impact on the Company's Risk Management and Contingency Action Regarding Recent Changes in Corporate Image

To ensure the long-term success of the Company and to further the corporate goal of building long-term partnerships with our customers and our community, the Company holds Shareholder Meetings and Investor Conferences regularly

to maintain a high-level of financial transparency. The Company consistently meets its obligations as an exemplary corporate citizen by participating in a wide range of public activities that benefit the community and society as a whole. In addition, the Company has established a comprehensive and robust set of response procedures aimed at addressing the needs of a highly diverse range of emergency conditions, reducing management uncertainty to the lowest achievable level.

Risk from the Company Encountering an Economic Downturn during Expansion by Acquisition or Merger

None.

Risk of Excess Capacity from Fluctuating Economic Conditions

The Company increases its production capabilities through fab expansion in order to accommodate more customer orders, thus providing the means to increase revenue, profits and market share. When production capacity reaches economies of scale, manufacturing costs can be dramatically reduced. However, the significant potential for fluctuations in the semiconductor industry economic cycle creates financial risk, as any excess capacity still must be accounted for under depreciation of plants and equipment during demand softening caused by economic conditions. This risk would be considered a burden to the Company.

The Company's capacity expansion is under deliberate capital expenditure plans, which focus on satisfying customers' needs while optimizing capital utilization. Disciplined capital expenditure can help to develop a healthy industry environment.

Risk and Countermeasures of the Company Encountering Material Shortage from Suppliers Failing to Provide Materials due to Circumstances Created by Natural or Unnatural Factors

The Risk of Material Shortage:

Material shortage may result from suppliers encountering situations such as insufficient capacity, industrial accidents in factories or natural disasters.

Solution for Material Shortage:

UMC currently uses consignment contracts to offset its risk.

Risk of Profit Loss if Sales are Concentrated on a Single or a Few Customers, and a Major Customer Reduces its Orders

UMC has established long-term and steady partnerships with numerous world-class customers. The combined strengths of both UMC and these customers will ensure the long-term steady growth of the company. The ten largest customers of UMC accounted for 89% of net operating revenue in 2007. UMC mitigates its risk through dispersed sales to lower the potentially significant impact that a single or a few customers may cause.

Risk of Change of Control and Stock Price Fluctuation from Large Scale Transfer of Shares

If Company directors, supervisors or major shareholders holding more than 10% of issued and outstanding shares transfer a significant portion of their shareholdings in the Company, then a change of control may occur. Furthermore, such transfer may give rise to investor concerns on the operation of the Company and may cause the market price of Company shares to fluctuate.

The share withholding status of the Company's directors, supervisors and managers have been reported based on official regulations and laws. Meanwhile, there has been no significant share transfer activity.

Risk of the Company Losing One or More Key Personnel without Adequate Replacement Due to Any Change of Company Control

UMC's future success depends to a large extent on the continued service of the Company's Chairman and key executive officers. If the Chairman or key executive officers leave their positions as a result of a change in Company control, and qualified replacement personnel cannot be found and integrated in a short period of time, operations may be adversely affected.

The Company's management focuses its operations with the intent to maximize value for its shareholders, thus gaining their trust and recognition. If there were a replacement of management, the succeeding personnel would have to recognize corporate culture, be qualified to assume professional duties, and be able to execute the Company's policy.

Litigation and Non-litigated Incidents

On February 15, 2005, Taiwan's Hsinchu District Court Prosecutor's Office conducted a search at UMC offices, assertively investigating whether there was any evidence of violation of Taiwan Securities and Exchange Act. On the afternoon of January 9, 2006, Taiwan's Hsinchu District Court Prosecutor's Office announced that UMC's former Chairman, Mr. Robert H.C. Tsao and former Vice Chairman, Mr. John Hsuan had been prosecuted due to their violations of Article 71 of the Business Entity Accounting Act and Article 342 paragraph 1 of Criminal Law. In actuality, Mr. Robert H.C. Tsao and Mr. John Hsuan had both resigned from their director positions from the Board of Directors on the morning of the same day. This case was reviewed in Taiwan Hsinchu District Court. Mr. Robert H.C. Tsao and Mr. John Hsuan were pronounced not guilty on October 26, 2007. On November 15, 2007, Taiwan's Hsinchu District Court Prosecutor's Office appealed, and this case is now being reviewed by Taiwan High Court.

Risk Management and Evaluation (cont.)

On February 13, 2006, Taiwan Hsinchu District Court delivered a notice to UMC and informed UMC that Taiwan Power Company (“TPC”) had filed a civil litigation case against UMC and other Taiwan companies. TPC claimed: (1) UMC and the other Taiwan companies should collectively pay NTD 13,348,056 with interest to TPC for electrical fees, and (2) UMC should pay NTD 21,210,000 to TPC for the electrical line’s fees. Up until this Annual Report’s editing deadline, UMC had provided the defense documents. This case is under Taiwan Hsinchu District Court’s trial.

On February 15, 2006, Taiwan Ministry of Economic Affairs, Executive Yuan (MOEA) fined UMC NTD 5 million for UMC’s alleged violation of Governing Relations between Peoples of the Taiwan Area and the Mainland Area Act (Article 35, failure to gain government’s approval for conducting investment in Mainland China). UMC had filed an administrative appeal against MOEA on March 16, 2006. On October 19, 2006, Executive Yuan denied the administrative appeal filed by UMC. UMC had filed an administrative litigation case against MOEA on December 8, 2006. On July 24, 2007, Taiwan Taipei High Court ruled in favor of UMC. MOEA appealed on August 10, 2007. This case is now being reviewed by Taiwan Supreme Administrative Court.

UMCi Ltd., as the operating company (and a subsidiary of UMC) prior to the transfer of the operating business to UMC Singapore Branch, as plaintiffs issued a Writ of Summons against Tokio Marine & Fire Insurance Company (Singapore) Pte. Ltd. as defendants on June 6, 2005 under a marine cargo insurance policy for the replacement cost of a 300mm Endura System damaged in transit. UMCi believes a chamber of that equipment was damaged in shipment, incurring a cost of approximately USD 1.2 million to replace the damaged chamber. UMCi filed suit to recover under the insurance policy on the grounds that the equipment was damaged in shipment as a result of rough handling or condi-

tions. Tokio Marine has denied the incident was a covered event under the policy. Discovery and the first phase of the trial have been completed and the parties are preparing for what is expected to be the final phase of the trial, expected in April 2008. Based on results to date, UMCi feels it has a meritorious case. Although it is too early to determine the possible outcome, the maximum exposure to UMCi would be the loss of its claim for reimbursement plus no more than a few hundred thousand dollars more in assessments, fees and costs.

Mr. C.F. Shih, a workman of a subcontractor hired by Yih-Shin Construction Co., Ltd. (“Yih-Shin”), one of companies engaged by UMC for Fab 12A dormitory construction, was severely injured during construction. Mr. C.F. Shih’s wife filed a request to Taiwan Tainan Prosecutors’ Office to file charges against UMC and other related parties for personal injury. Taiwan Tainan Prosecutor’s Office denied this request. On March 30, 2006, Mr. C.F. Shih also filed a civil litigation case against Yih-Shin, UMC and other related parties. Mr. C.F. Shih claimed that Yih-Shin, UMC and other related parties should collectively pay NTD 20,967,400. Mr. C.F. Shih’s mother and wife each requested for compensatory damages in the amount of NTD 300,000 and Mr. C.F. Shih’s three children each requested for compensatory damages in the amount of NTD 100,000. Mr. Shih and his families also claimed that an annual interest rate of 5% to be accrued for the claimed damages. This case is waiting for Taiwan Tainan District Court’s trial.

Other Significant Risks

None.

Other Necessary Supplements

None.