

LETTER TO SHAREHOLDERS

Dear Shareholders,

UMC achieved revenues of NTD 106.77 billion in 2007, which was a 2.6% improvement over the previous year. Operating income was 11.1% above 2006. Net income for the year was NTD 16.96 billion. The positive gains can be attributed to stronger demand across all applications and a higher percentage of revenue from leading edge process technologies. We shipped a record number of wafers in 2007, totaling 3.474 million 200mm wafer equivalents. However, our revenues did not reach a record high due to strong wafer pricing pressure.

By the end of 2007, revenue from 90-nanometer and below technology was 26%, which included 65-nanometer sales. We are excited to see the continuing acceleration of the manufacture of various 65-nanometer customer products, and many of our 65-nanometer customers are those who have migrated from existing 0.13-micron and 90-nanometer production at UMC. Furthermore, we worked throughout the year with multiple partners to prepare IP for 45-nanometer technologies. Our 45-nanometer program is moving along smoothly with several customer prototypes ready. We expect to see a small amount of 45-nanometer production by the second half of 2008.

Partnering for the Future

We continue to see more and more IDMs adopting the fab-lite or fabless business model, a trend that we have been witnessing over the past several years. UMC will benefit from this trend as these IDMs outsource their business to foundries. The trend will also allow us to collaborate with our IDM customers more closely in developing future technologies such as 45-nanometer and 32-nanometer. We believe that this is a positive industry trend and a win-win situation for both IDMs and foundries, and a strong affirmation of foundry R&D capabilities. UMC has also been actively working with partners to develop technologies other than CMOS logic. One example of our efforts in this area was our decision to sign a technology cross license and joint development agreement with Elpida in Q3 2007. This is a significant development, as we will have access to Elpida's DRAM process, technology that we can offer as part of our customer SoC solutions for memory intensive applications. Furthermore, we will jointly develop PRAM (phase-change RAM) technology with Elpida for use in future SoC designs. As process scaling continues, the ability to integrate various system memories will become very important.

Jackson Hu,
Chairman and CEO



Our 32-nanometer development program remains on schedule and is progressing smoothly. In addition to joint development programs with our IDM and fab-less customers, we continue to cooperate with many of the industry's leading research organizations, such as ATDF and IME. Going forward, we do not rule out further technology development alliances, similar to our current activities with Elpida. We believe that future applications will make good use of the increasing chip density offered by 45-nanometer, 32-nanometer and beyond technologies, which will enable the integration of more and more features on a single chip. The future of the semiconductor industry will be defined by the proliferation of these SoCs. Electronic product companies will utilize these chips to roll out a continuous stream of innovative products that feature increased functionality, lower power consumption and higher performance, while current popular products such as the hottest multimedia phones and best-selling game consoles can be manufactured more cost effectively.

Strategic Expansion

In 2007, UMC opened its new R&D headquarters in Tainan Science Park next to Fab 12A, and successfully transferred UMC's R&D operations to the new site from Hsinchu. For 2008, capital expenditures will be between 500 and 700 million US dollars. The major focus of this spending will be to improve product mix for our 8 and 12-inch production lines by increasing the percentage of advanced technologies. Effective use of our capacity can support potential revenue growth in excess of 20% in 2008 provided that we see that kind of demand growth in the coming year.

Corporate Social Responsibility

As UMC expands, we also recognize that corporate social responsibility (CSR) has become a key element for sustainable growth. UMC has put CSR into practice based on the principles of LOHAS, (Lifestyles of Health and Sustainability) which focuses on healthy, sustainable living, environmental protection, personal development, and social accountability. UMC's success in CSR implementation has gained worldwide

recognition, and in 2007, CLSA's Clean and Green report ranked UMC as third in Asia for corporate governance and first among semiconductor companies in Taiwan. Furthermore, in early 2008, UMC became the first company in Taiwan to receive a Level A grade for our CSR report from Global Reporting Initiative (GRI).

Enhancing Shareholder Value

In Q3, we completed Taiwan's largest ever capital-reduction plan by canceling 30% of UMC's outstanding shares, while returning NTD 57.3 billion to shareholders. Our cash position after the capital reduction remains very healthy. This action will contribute positively to shareholders' equity through the improvement of the company's capital structure. Going forward, we will continue to pursue maximum benefits for UMC's shareholders, employees, and the many participants in the global and domestic semiconductor industry.

Moving Forward

We will continue preparing our 45-nanometer process for pilot production in 2008. Resources will be dedicated to strengthening our position as the SoC Solution Foundry, with emphasis on IP, EDA, and Design-for-Manufacturing (DFM) solutions. We are also aggressively working together with our supply chain partners on a plan to optimize our cooperation model. The plan focuses on streamlining resource movement, localizing vendor support, and breaking through cost barriers. This effort will enhance UMC's operations to improve the company's overall efficiency.

I would like to thank you for supporting UMC over the years, and look forward to continuing to build upon UMC's strengths to create better opportunities for our customers and shareholders.

Sincerely,



Chairman and CEO