

UNITED MICROELECTRONICS CORP
Form 6-K
May 23, 2005

1934 Act Registration No. 1-15128

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Dated May 23, 2005

United Microelectronics Corporation

(Translation of Registrant's Name into English)

No. 3 Li Hsin Road II

Science Park

Hsinchu, Taiwan, R.O.C.

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(Address of Principal Executive Office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

United Microelectronics Corporation

Date: 5/23/2005

By /s/ Stan Hung

Stan Hung
Chief Financial Officer

Exhibit

Exhibit	Description
99.1	UNITED MICROELECTRONICS CORPORATION FINANCIAL STATEMENTS WITH REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
99.2	UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS WITH REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

UNITED MICROELECTRONICS CORPORATION

FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED

DECEMBER 31, 2004 AND 2003

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPORT OF INDEPENDENT AUDITORS

English Translation of a Report Originally Issued in Chinese

To the Board of Directors and Shareholders of

United Microelectronics Corporation

We have audited the accompanying balance sheets of United Microelectronics Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As described in Note 4(7) to the financial statements, certain long-term investments were accounted for under the equity method based on the 2004 and 2003 financial statements of the investees, which were audited by other auditors. Our opinion insofar as it relates to the investment income amounting to NT\$631 million and NT\$233 million for the years ended December 31, 2004 and 2003, respectively, and the related long-term investment balances of NT\$5,380 million and NT\$5,048 million as of December 31, 2004 and 2003, respectively, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements", which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of United Microelectronics Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of United Microelectronics Corporation as of and for the years ended December 31, 2004 and 2003, and have expressed an unqualified opinion with explanatory paragraph on such financial statements.

January 21, 2005

Taipei, Taiwan

Republic of China

Notice to Readers

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The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

BALANCE SHEETS

December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

	Notes	As of December 31,	
		2004	2003
Assets			
Current assets			
Cash and cash equivalents	2, 4(1)	\$ 83,347,329	\$ 92,865,557
Marketable securities, net	2, 4(2)	3,058,579	1,456,402
Notes receivable	4(3)	1,771	8,756
Notes receivable - related parties	5	39,034	101,753
Accounts receivable, net	2, 4(4)	2,431,416	5,016,767
Accounts receivable - related parties, net	2, 5	8,223,503	8,995,850
Other receivables	2, 5	506,195	523,579
Other financial assets, current	2, 4(5), 10	453,845	2,446,603
Inventories, net	2, 4(6)	8,543,462	7,367,759
Prepaid expenses		244,230	676,145
Deferred income tax assets, current	2, 4(19)	3,524,289	2,847,663
Total current assets		110,373,653	122,306,834
Funds and long-term investments			
	2, 4(7)		
Long-term investments accounted for under the equity method		64,251,399	59,883,831
Long-term investments accounted for under the cost method		7,316,603	12,334,648
Total funds and long-term investments		71,568,002	72,218,479
Other financial assets, noncurrent			
	2, 4(5), 10		
		1,303,644	869,240
Property, plant and equipment			
	2, 4(8), 5, 6, 7		
Land		1,132,576	1,367,344
Buildings		13,133,658	12,095,043
Machinery and equipment		301,773,287	247,164,445
Transportation equipment		79,610	80,684
Furniture and fixtures		1,976,487	1,906,651

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Leased assets		47,783	47,783
Total cost		318,143,401	262,661,950
Less : Accumulated depreciation		(202,373,050)	(153,364,906)
Add : Construction in progress and prepayments		21,584,900	7,887,705
Property, plant and equipment, net		137,355,251	117,184,749
Intangible assets			
Patents	2		6,956
Goodwill	2, 4(21)	1,214,956	
Total intangible assets		1,214,956	6,956
Other assets			
Deferred charges	2	1,860,419	1,640,285
Deferred income tax assets, noncurrent	2, 4(19)	3,811,615	4,363,241
Other assets - others	2, 4(9)	2,075,951	1,524,054
Total other assets		7,747,985	7,527,580
Total assets		\$ 329,563,491	\$ 320,113,838
Liabilities and Stockholders Equity			
Current liabilities			
Short-term loans	4(10)	\$ 1,904,400	\$
Accounts payable		2,992,924	3,325,689
Accounts payable - related parties	5	1,450,302	789,988
Income tax payable	2	60,389	49,693
Accrued expenses		8,185,618	4,532,562
Other payables		4,704,299	4,057,940
Current portion of long-term interest-bearing liabilities	4(11), 4(12),5,6	2,820,003	18,524,077
Other current liabilities	7	1,159,096	1,471,414
Total current liabilities		23,277,031	32,751,363
Long-term interest-bearing liabilities			
Bonds payable	2,4(7),4(11)	33,607,029	48,311,847
Long-term loans	4(12), 5, 6		240,508
Total long-term interest-bearing liabilities		33,607,029	48,552,355
Other liabilities			
Accrued pension liabilities	2, 4(13)	2,690,511	2,252,491
Deposits-in		21,891	7,845
Deferred credits - intercompany profits	2	3,584,275	4,307,860
Total other liabilities		6,296,677	6,568,196
Total liabilities		63,180,737	87,871,914
Capital	2, 4(14),4(15),4(21)		
Common stock		177,919,819	161,407,435
Capital collected in advance		4,040	
Capital reserve	2, 4(15),4(21)		
Premiums		47,117,227	41,729,589
Change in equities of long-term investments		20,807,013	21,192,141

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Excess from merger		17,008,955	17,152,454
Retained earnings	4(17)		
Legal reserve		12,812,501	11,410,475
Special reserve		90,871	1,346,994
Unappropriated earnings		29,498,329	14,036,822
Adjusting items in stockholders equity	2		
Unrealized loss on long-term investments		(9,871,086)	(9,537,237)
Cumulative translation adjustment		(1,319,452)	913,877
Treasury stock	2, 4(16)	(27,685,463)	(27,410,626)
		<hr/>	<hr/>
Total stockholders equity		266,382,754	232,241,924
		<hr/>	<hr/>
Total liabilities and stockholders equity		\$ 329,563,491	\$ 320,113,838
		<hr/>	<hr/>

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF INCOME

For the years ended December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Notes	For the year ended December 31,	
		2004	2003
Operating revenues	2, 5		
Sales revenues		\$ 115,165,087	\$ 81,977,207
Less : Sales returns and discounts		(1,170,521)	(499,177)
Net sales		113,994,566	81,478,030
Other operating revenues		3,317,274	3,384,040
Net operating revenues		117,311,840	84,862,070
Operating costs	4(18)		
Cost of goods sold	5	(79,249,792)	(62,862,392)
Other operating costs		(2,193,389)	(2,519,265)
Operating costs		(81,443,181)	(65,381,657)
Gross profit		35,868,659	19,480,413
Unrealized intercompany profit	2	(154,417)	(106,702)
Realized intercompany profit	2	106,702	68,558
Net		35,820,944	19,442,269
Operating expenses	4(18)		
Sales and marketing expenses		(2,197,181)	(1,633,353)
General and administrative expenses		(2,644,595)	(2,175,815)
Research and development expenses		(6,524,176)	(5,696,767)
Subtotal		(11,365,952)	(9,505,935)
Operating income		24,454,992	9,936,334
Non-operating income			

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Interest revenue		871,598	966,973
Dividend income		1,041,415	791,259
Gain on disposal of property, plant and equipment	2, 5	137,267	202,242
Gain on disposal of investments	2, 4(11)	12,513,933	6,573,588
Exchange gain, net	2		253,906
Other income		331,238	245,212
		<u> </u>	<u> </u>
Subtotal		14,895,451	9,033,180
		<u> </u>	<u> </u>
Non-operating expenses			
Interest expense	4(8), 5	(1,179,145)	(1,234,134)
Investment loss accounted for under the equity method, net	2, 4(7)	(2,509,287)	(629,404)
Other investment loss	2	(84,968)	(713,122)
Loss on disposal of property, plant and equipment	2, 5	(224,049)	(147,195)
Loss on decline in market value and obsolescence of inventories	2	(844,906)	(973,651)
Financial expenses		(371,751)	(365,606)
Exchange loss, net	2, 10	(1,081,949)	
Other losses	2, 4(11)	(1,177,098)	(91,033)
		<u> </u>	<u> </u>
Subtotal		(7,473,153)	(4,154,145)
		<u> </u>	<u> </u>
Income before income tax		31,877,290	14,815,369
Income tax expense	2, 4(19)	(33,909)	(795,112)
		<u> </u>	<u> </u>
Net income		\$ 31,843,381	\$ 14,020,257
		<u> </u>	<u> </u>
Earnings per share-basic (NTD)			
Income before income tax	2, 4(20)	\$ 1.89	\$ 0.89
		<u> </u>	<u> </u>
Net income		\$ 1.89	\$ 0.84
		<u> </u>	<u> </u>
Earnings per share-diluted (NTD)			
Income before income tax	2, 4(20)	\$ 1.87	\$ 0.87
		<u> </u>	<u> </u>
Net income		\$ 1.86	\$ 0.83
		<u> </u>	<u> </u>
Pro forma information on earnings as if subsidiaries investment in the Company is not treated as treasury stock			
Net income	2, 4(20)	\$ 31,843,381	\$ 14,020,257
		<u> </u>	<u> </u>
Earnings per share-basic (NTD)		\$ 1.83	\$ 0.81
		<u> </u>	<u> </u>
Earnings per share-diluted (NTD)		\$ 1.80	\$ 0.80
		<u> </u>	<u> </u>

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

	Capital		Retained Earnings				Unrealized Loss	Cumulative	Treasury	Total
	Common Stock	Capital Collected in Advanced Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Long-term Investments	Translation Adjustment	Stock		
Balance as of January 1, 2003	\$ 154,748,456	\$ 81,875,491	\$ 10,686,225	\$ 631,982	\$ 8,685,847	\$ (10,795,621)	\$ 728,851	\$ (29,127,868)	\$ 217,433,363	
Appropriation of 2002 retained earnings										
Legal reserve			724,250		(724,250)					
Special reserve				715,012	(715,012)					
Stock dividends	6,079,252				(6,079,252)					
Directors and supervisors remuneration					(5,650)				(5,650)	
Employees bonus	579,727				(579,727)					
Purchase of treasury stock								(2,056,064)	(2,056,064)	
Treasury stock transferred to employees					(565,716)			3,773,306	3,207,590	
Net income in 2003					14,020,257				14,020,257	
Transfer of capital reserve arising from gain on disposal of property, plant and equipment of investees to retained earnings			(325)		325					

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Adjustment of capital reserve accounted for under the equity method			(1,800,982)							(1,800,982)
Changes in unrealized loss on long-term investments of investees							1,258,384			1,258,384
Changes in cumulative translation adjustment								185,026		185,026
Balance as of December 31, 2003	161,407,435		80,074,184	11,410,475	1,346,994	14,036,822	(9,537,237)	913,877	(27,410,626)	232,241,924
Appropriation of 2003 retained earnings										
Legal reserve				1,402,026		(1,402,026)				
Special reserve					(1,256,123)	1,256,123				
Stock dividends	12,224,284					(12,224,284)				
Directors and supervisors remuneration							(12,618)			(12,618)
Employees bonus	1,111,273					(1,111,273)				
Transfer of capital reserve to common stock	661,298		(661,298)							
Stock issued for merger	3,571,429		6,100,571							9,672,000
Purchase of treasury stock								(5,198,020)		(5,198,020)
Cancellation of treasury stock	(1,497,280)		(538,107)			(2,887,796)			4,923,183	
Exercise of employees stock options	441,380	4,040	342,973							788,393
Net income in 2004						31,843,381				31,843,381
Adjustment of capital reserve accounted for under the equity method			(385,128)							(385,128)
Changes in unrealized loss on long-term investments of investees							(333,849)			(333,849)
Changes in cumulative translation adjustment								(2,233,329)		(2,233,329)
Balance as of December 31, 2004	\$ 177,919,819	\$ 4,040	\$ 84,933,195	\$ 12,812,501	\$ 90,871	\$ 29,498,329	\$ (9,871,086)	\$ (1,319,452)	\$ (27,685,463)	\$ 266,382,754

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

	For the year ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 31,843,381	\$ 14,020,257
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	38,595,954	35,855,265
Amortization	1,181,379	1,556,282
Bad debt expenses	107,404	82,389
Loss on decline in market value and obsolescence of inventories	844,906	973,651
Cash dividends received under the equity method	439,514	232,167
Investment loss accounted for under the equity method	2,509,287	629,404
Impairment loss on long-term investments	84,968	713,122
Write-off of deferred charges	269,325	
Transfer of property, plant and equipment to losses and expenses	2,059	22,584
Gain on disposal of investments	(12,513,933)	(6,573,588)
Loss (gain) on disposal of property, plant and equipment	86,782	(55,047)
Gain on settlement of exchangeable bonds	(295,100)	(519,544)
Amortization of bond premiums	(10,050)	(19,386)
Loss on reacquisition of bonds	59	5,098
Changes in assets and liabilities:		
Notes receivable	69,704	(25,138)
Accounts receivable	3,059,813	(5,391,660)
Other receivables	32,434	977,875
Inventories	(1,326,015)	(649,132)
Prepaid expenses	488,734	128,434
Other financial assets	54,374	(128,539)
Deferred income tax assets		804,243
Accounts payable	(17,577)	1,563,186
Income tax payable	10,696	(13,588)
Accrued expenses	3,198,386	1,027,902
Other current liabilities	134,847	45,124
Compensation interest payable	(126,111)	67,938
Capacity deposits	(143,127)	(50,179)
Accrued pension liabilities	432,879	318,332

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Net cash provided by operating activities	69,014,972	45,597,452
<hr/>		
Cash flows from investing activities:		
Decrease (increase) in marketable securities, net	(1,418,762)	1,041,707
Cash proceeds from merger	70,383	
Decrease in other financial assets, net	1,503,980	1,970,717
Acquisition of long-term investments	(11,427,179)	(17,994,271)
Proceeds from disposal of long-term investments	6,028,428	8,830,794
Acquisition of property, plant and equipment	(48,503,388)	(12,582,596)
Proceeds from disposal of property, plant and equipment	283,803	1,326,646
Increase in deferred charges	(978,741)	(683,685)
Decrease in other assets, net	1,065,478	65,024
<hr/>		
Net cash used in investing activities	(53,375,998)	(18,025,664)
<hr/>		

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

(continued)

	For the year ended December 31,	
	2004	2003
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	\$ 1,504,400	\$ (100,000)
Repayment of long-term loans	(5,866,537)	(11,870,397)
Proceeds from bonds issued		22,217,589
Redemption of bonds	(16,336,941)	(1,139,998)
Reacquisition of bonds	(41,392)	(2,156,908)
Remuneration paid to directors and supervisors	(12,618)	(5,650)
Increase in deposits-in, net	5,513	5,147
Purchase of treasury stock	(5,198,020)	(2,056,063)
Treasury stock transferred to employees		3,207,590
Exercise of employees' stock options	788,393	
Net cash provided by (used in) financing activities	(25,157,202)	8,101,310
Net (decrease) increase in cash and cash equivalents	(9,518,228)	35,673,098
Cash and cash equivalents at beginning of year	92,865,557	57,192,459
Cash and cash equivalents at end of year	\$ 83,347,329	\$ 92,865,557
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,877,234	\$ 1,513,463
Cash paid for income tax	\$ 67,683	\$ 76,545
Investing activities partially paid by cash:		
Acquisition of property, plant and equipment	\$ 49,065,072	\$ 9,624,628
Add: Payable at beginning of year	4,057,940	7,015,908

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Add: Payable proceeds from merger	84,675	
Less: Payable at end of year	(4,704,299)	(4,057,940)
	<u> </u>	<u> </u>
Cash paid for acquiring property, plant and equipment	\$ 48,503,388	\$ 12,582,596
	<u> </u>	<u> </u>
Investing and financing activities not affecting cash flows:		
Principal amount of exchangeable bonds exchanged by bondholders	\$ 11,614,141	\$ 194,304
Book value of reference shares delivered for exchange	(3,898,638)	(75,505)
Elimination of related balance sheet accounts	90,983	4,348
	<u> </u>	<u> </u>
Recognition of gain on disposal of investments	\$ 7,806,486	\$ 123,147
	<u> </u>	<u> </u>

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

UNITED MICROELECTRONICS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

United Microelectronics Corporation (the Company) was incorporated in May 1980 and commenced operations in April 1982. The Company is a full service semiconductor wafer foundry, and provides a variety of services to fit individual customer needs. These services include intellectual property, embedded IC design, design verification, mask tooling, wafer fabrication, and testing. The Company's common shares were publicly listed on the Taiwan Stock Exchange (TSE) in July 1985 and its American Depositary Shares (ADSs) were listed on the New York Stock Exchange (NYSE) in September 2000.

Based on the resolution of the board of directors' meeting on February 26, 2004, the effective date of the merger with SiS Microelectronics Corp. (SiSMC) was July 1, 2004. The Company was the surviving company, and SiSMC was the dissolved company. The merger was approved by the relevant government authorities. All the assets, liabilities, rights, and obligations of SiSMC have been fully incorporated into the Company since July 1, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC).

Summary of significant accounting policies is as follows:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that will affect the amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Foreign Currency Transactions

The accounts of the Company are maintained in New Taiwan Dollars, the functional currency. Transactions denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rates prevailing at the transaction dates. Receivables, other monetary assets, and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in the current year's results. However, exchange gains or losses from investments in foreign entities are recorded as cumulative translation adjustments in stockholders' equity.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates, including commercial paper with original maturities of 3 months or less.

Marketable Securities

Marketable securities are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. Cash dividends are recorded as dividend income when received. Costs of money market funds and short-term notes are identified specifically while other marketable securities are determined on the weighted average method. The market values of listed debt, equity securities, and closed-end funds are determined by the average closing price during the last month of the fiscal year. The market value of open-end funds is determined by the net asset value at the balance sheet date. The amount by which the aggregate cost exceeds the market value is reported as a loss in the current year. In subsequent periods, recoveries of the market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on management's judgment and on the evaluation of collectibility and aging analysis of accounts and other receivables.

Inventories

Inventories are accounted for on a perpetual basis. Raw materials are recorded at actual purchase costs, while the work in process and finished goods are recorded at standard costs and adjusted to actual costs using the weighted average method at the end of each month. Inventories are stated at the lower of aggregate cost or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost while the work in process and finished goods are determined by net realizable values. An allowance for loss on decline in market value and obsolescence is provided, when necessary.

Long-term Investments

Long-term investments are recorded at cost when acquired. Investments acquired by contribution of technological know-how are credited to deferred credits with affiliates, which will be amortized to income over a period of 5 years.

Investments of less than 20% of the outstanding voting shares in listed investees, where significant influence on operating decisions of the investees does not reside with the Company, are accounted for by the lower of aggregate cost or market value method. The unrealized loss resulting from the decline in market value of investments that are held for long-term investment purpose is deducted from the stockholders equity. The market value is determined by the average closing price during the last month of the fiscal year. Investments of less than 20% of the outstanding voting shares in unlisted investees are accounted for under the cost method. Impairment losses for the investees will be recognized if an other than temporary impairment is evident and the book value after recognizing the losses shall be treated as a new cost basis of such investment.

Investment income or loss from investments in both listed and unlisted investees is accounted for under the equity method provided that the Company owns at least 20% of the outstanding voting shares of the investees and has significant influence on operating decisions of the investees. The difference of the acquisition cost and the underlying equity in the investee's net assets is amortized over 5 years.

The change in the Company's proportionate share in the net assets of its investee resulting from its subscription to additional shares of stock, issued by such investee, at the rate not proportionate to its existing equity ownership in such investee, is charged to the capital reserve and long-term investments account.

Unrealized intercompany gains and losses arising from downstream transactions with investees accounted for under the equity method are eliminated in proportion to the Company's ownership percentage while those from transactions with majority-owned (above 50%) subsidiaries are eliminated entirely. Unrealized intercompany gains and losses arising from upstream transactions with investees accounted for under the equity method are eliminated in proportion to the Company's ownership percentage. Unrealized intercompany gains and losses arising from transactions between investees accounted for under the equity method are eliminated in proportion to the multiplication of the Company's ownership percentages; while those arising from transactions between majority-owned subsidiaries are eliminated in proportion to the Company's ownership percentage in the subsidiary that incurs a gain or loss.

Consolidated financial statements including the accounts of the Company and certain majority-owned subsidiaries are prepared at the end of the fiscal year. If the total assets and operating revenues of a subsidiary are less than 10% of the total non-consolidated assets and operating revenues of the Company, respectively, the subsidiary's financial statements may, at the option of the Company, not be consolidated. Irrespective of the above test, when the total

combined assets or operating revenues of all such non-consolidated subsidiaries account for more than 30% of the Company's total non-consolidated assets or operating revenues, then each individual subsidiary with total assets or operating revenues reaching 3% of the Company's total non-consolidated assets or operating revenues has to be included in the consolidation. Such subsidiaries are included in the consolidated financial statements, unless the percentage of the combined total assets or operating revenues for all such subsidiaries drops below 20% of the Company's respective non-consolidated amount.

Property, Plant and Equipment

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

Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are treated as capital expenditure and are depreciated accordingly. When property, plant and equipment are disposed, their original cost and accumulated depreciation are written off and the related gain or loss is classified as non-operating income or expenses. Idle assets are transferred to other assets according to the lower of net book or net realizable value, with the difference charged to non-operating expenses. The corresponding depreciation expenses provided are also classified as non-operating expenses.

Depreciation is provided on the straight-line basis using the estimated economic life of the assets less salvage value, if any. When the estimated economic life expires, property, plant and equipment, which are still in use, are depreciated over the newly estimated remaining useful life using the salvage value. The estimated economic life of the property, plant and equipment is as follows: buildings 20 to 55 years; machinery and equipment 5 years; transportation equipment 5 years; furniture and fixtures 5 years; leased assets the lease period, or estimated economic life, whichever is shorter.

Intangible Assets

Patents are stated at cost and amortized over their estimated economic life using the straight-line method. Goodwill arising from the merger is amortized using the straight-line method over 15 years.

At each balance sheet date, the Company assesses whether there is any indication of impairment other than temporary. If any such indication exists, the recoverable amount is estimated and provision for impairment loss is provided accordingly. The book value after recognizing the impairment loss is recorded as the new cost.

Deferred Charges

Deferred charges are stated at cost and amortized on a straight-line basis as follows: bonds issuance costs - over the life of the bonds, patent license fees the term of contract or estimated economic life of the related technology, and software 3 years.

At each balance sheet date, the Company assesses whether there is any indication of impairment other than temporary. If any such indication exists, the recoverable amount is estimated and provision for impairment losses is provided accordingly. The book value after recognizing the impairment loss is recorded as the new cost.

Convertible and Exchangeable Bonds

The issuance costs of convertible and exchangeable bonds are classified as deferred charges and amortized over the life of the bonds.

The excess of the stated redemption price over the par value is accrued as compensation interest payable over the redemption period, using the effective interest method.

When convertible bondholders exercise their conversion rights, the book value of bonds is credited to common stock at an amount equal to the par value of the common stock and the excess is credited to the capital reserve; no gain or loss is recognized on bond conversion.

When exchangeable bondholders exercise their rights to exchange for the reference shares, the book value of the bonds is to be offset against the book value of the investments in reference shares and the related stockholders' equity accounts, with the difference recognized as gain or loss on disposal of investments.

Pension Plan

The Company has a funded defined benefit pension plan covering all regular employees that is managed by an independently administered pension fund committee. The net pension cost is computed based on an actuarial valuation in accordance with the provision of the Statements of Financial Accounting Standards of the Republic of China (ROC SFAS) No. 18, which requires consideration of pension cost components such as service cost, interest cost, expected return on plan assets, and the amortization of net obligation at transition, pension gain or loss, and prior service cost.

Employee Stock Option Plan

The Company applies intrinsic value method to recognize the difference between the market price of the stock and the exercise price of its employee stock option as compensation cost. Starting January 1, 2004, the Company also discloses pro forma net income and earnings per share under the fair value method for only these options granted since January 1, 2004.

Treasury Stock

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The Company adopted the ROC SFAS No. 30, which requires that treasury stock held by the Company itself to be accounted for under the cost method. Cost of treasury stock is shown as a deduction to stockholders' equity, while gain or loss from selling treasury stock is treated as an adjustment to the capital reserve. The Company's stock held by its subsidiaries is also treated as treasury stock in the Company's account.

Revenue Recognition

The main sales term of the Company is Free on Board (FOB) or Free Carrier (FCA). Revenue is recognized when ownership and liability for risk of loss or damage to the products have been transferred to customers, usually upon shipment. Sales returns and discounts taking into consideration customers' complaints and past experiences are accrued in the same year of sales.

Capital Expenditure versus Operating Expenditure

An expenditure is capitalized when it is probable that future economic benefits associated with the expenditure will flow to the Company and the expenditure amount exceeds a predetermined level. Otherwise it is charged to expense when incurred.

Income Tax

The Company adopted the ROC SFAS No. 22 Accounting for Income Taxes for inter-period and intra-period income tax allocation. Provision for income tax includes deferred income tax resulting from temporary differences, loss carry-forward and investment tax credits. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.

According to the ROC SFAS No. 12, the Company recognized the tax benefit from the purchase of equipment and technology, research and development expenditure, employee training, and certain equity investments.

Income tax (10%) on unappropriated earnings is recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

Earnings per Share

Earnings per share is computed according to the ROC SFAS No. 24. Basic earnings per share is computed by dividing net income (loss) by weighted average number of shares outstanding during the year. Diluted earnings per share is computed by taking basic earnings per share into consideration plus additional common shares that would have been outstanding if the dilutive share equivalents had been issued. The net income (loss) would also be adjusted for the interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted average outstanding shares are adjusted retroactively for stock dividends and bonus share issues.

Derivative Financial Instruments

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The interest rate swap agreements entered into for hedging purposes are accounted for on a net accrual basis in accordance with the contractual interest rate as an adjustment to the interest income or expense of the hedged items.

Foreign exchange forward contracts are held to hedge the exchange rate risk arising from net assets or liabilities denominated in foreign currency. These forward contracts are translated and recorded using the spot rate at the inception of the contracts, and the discount or premium of the forward contracts is amortized over their lifespan. The difference between the spot rate at the inception of a forward contract and the spot rate at the balance sheet date is reflected in the statement of income. The receivables and payables of the foreign exchange forward contracts are offset and the resulting balances are recorded as either assets or liabilities. Exchange gains or losses from the settlement of forward contracts are included in the current period's earnings.

Merger

The Company merged with SiSMC and recognized the sum of the difference between the acquisition costs, which are the market price of equity stocks issued and other related costs, and the fair value of the identifiable net assets acquired as goodwill in compliance with the ROC SFAS No. 25 Enterprise Mergers Accounting of Purchase Method. The fair value of identifiable net assets and goodwill deducted from the par value of the equity stocks issued and other related costs is recognized as capital reserve.

3. ACCOUNTING CHANGE

None.

4. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	<u>As of December 31,</u>	
	<u>2004</u>	<u>2003</u>
Cash:		
Cash on hand	\$ 1,401	\$ 1,415
Checking and savings accounts	420,333	586,523
Time deposits	75,011,070	82,501,065
Subtotal	75,432,804	83,089,003
Cash equivalents:		
Commercial paper	7,914,525	9,776,554
Total	\$ 83,347,329	\$ 92,865,557

(2) MARKETABLE SECURITIES, NET

As of December 31,

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	<u>2004</u>	<u>2003</u>
Convertible bonds	\$ 1,756,248	\$ 268,783
Listed equity securities	1,302,331	1,187,619
Total	\$ 3,058,579	\$ 1,456,402

(3) NOTES RECEIVABLE

	As of December 31,	
	2004	2003
Notes receivable	\$ 1,771	\$ 8,756

(4) ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2004	2003
Accounts receivable	\$ 2,739,117	\$ 5,194,434
Less: Allowance for sales returns and discounts	(233,359)	(86,159)
Less: Allowance for doubtful accounts	(74,342)	(91,508)
Net	\$ 2,431,416	\$ 5,016,767

(5) OTHER FINANCIAL ASSETS, CURRENT

	As of December 31,	
	2004	2003
Credit-linked deposits and repackage bonds	\$ 1,683,324	\$ 3,187,304
Interest rate swaps	35,532	128,539
Forward contracts	38,633	
Total	1,757,489	3,315,843
Less: Non-current portion	(1,303,644)	(869,240)
Net	\$ 453,845	\$ 2,446,603

Please refer to Note 10 for disclosures on risks of other financial assets.

(6) INVENTORIES, NET

As of December 31,	
2004	2003

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Raw materials	\$ 202,272	\$ 172,964
Supplies and spare parts	1,922,374	1,332,944
Work in process	6,216,769	6,070,918
Finished goods	1,395,450	178,710
	<hr/>	<hr/>
Total	9,736,865	7,755,536
Less: Allowance for loss on decline in market value and obsolescence	(1,193,403)	(387,777)
	<hr/>	<hr/>
Net	\$ 8,543,462	\$ 7,367,759
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- a. The insurance coverage for inventories was sufficient as of December 31, 2004 and 2003, respectively.
- b. Inventories were not pledged.

(7) LONG-TERM INVESTMENTS

a. Details of long-term investments are as follows:

(Equity securities refer to common shares unless otherwise stated)

Investee Company	As of December 31,			
	2004		2003	
	Amount	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights
<u>Investments accounted for under the equity method:</u>				
UMC Group (USA)	\$ 720,500	100.00	\$ 451,046	100.00
United Foundry Service, Inc.	103,881	100.00	95,484	100.00
United Microelectronics (Europe) B.V.	284,568	100.00	244,869	100.00
UMC Capital Corporation	1,310,493	100.00	1,265,822	100.00
United Microelectronics Corp. (Samoa)	5,854	100.00	7,463	100.00
UMCi Ltd. (Note A)	26,582,778	100.00	20,972,846	75.05
Fortune Venture Capital Corporation	2,354,878	99.99	2,280,265	99.99
Hsun Chieh Investment Co., Ltd. (Hsun Chieh)	10,296,356	99.97	10,622,554	99.97
United Microdisplay Optronics Corp.	441,618	83.48	659,198	83.48
Pacific Venture Capital Co., Ltd.	304,810	49.99	313,298	49.99
UMC Japan	8,842,456	47.42	9,531,141	47.48
DuPont Photomasks Taiwan Ltd.	1,058,515	45.35	1,069,669	45.35
Unitech Capital Inc.	730,930	42.00	757,050	42.00
Holtek Semiconductor Inc.	731,442	25.23	624,432	25.44
Integrated Technology Express Inc.	281,313	22.23	341,310	24.38
Unimicron Technology Corp.	3,465,809	21.43	3,214,325	21.93
Faraday Technology Corp. (Note C)	794,298	18.38	729,058	19.10
Novatek Microelectronics Corp. (Note B)	1,615,328	18.30	1,285,319	20.44
Applied Component Technology Corp. (Note B)	19,874	16.44	43,872	21.42
Silicon Integrated Systems Corp. (Note D)	4,226,303	16.16	5,288,088	16.18
AMIC Technology Corporation (Note C)	79,395	11.83	86,722	11.83
Subtotal	64,251,399		59,883,831	
<u>Investments accounted for under the cost method or the lower of cost or market value method:</u>				
MediaTek Incorporation	969,048	10.06	1,055,237	11.13
United Industrial Gases Co., Ltd.	146,250	8.11	146,250	8.27
Industrial Bank of Taiwan Corp.	1,139,196	4.95	1,150,000	5.00
Subtron Technology Co., Ltd.	172,800	4.92	172,800	5.47
Billionton Systems Inc.	30,948	2.77	30,948	3.05
AU Optronics Corp. (Note E)	959,082	1.44	5,991,447	9.74
Mega Financial Holding Company	3,108,656	0.84	3,108,656	0.84
Premier Image Technology Corporation	27,964	0.59	27,964	0.62
Pacific Technology Partners, L.P. (Note F)	336,099		282,086	
Pacific United Technology, L.P. (Note F)	126,560		69,260	
Taiwan High Speed Rail Corporation (Note G)	300,000		300,000	
Subtotal	7,316,603		12,334,648	

Total	<u>\$ 71,568,002</u>	<u>\$ 72,218,479</u>
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- Note A: During 2004, the Company acquired an additional 24.95% of interests in UMCi Ltd., totalling 227,938 thousand shares amounting to NT\$10,762 million. Based on the resolution of the board of directors meeting on August 26, 2004, the Company plans to transfer all (or part of) business, operations, and assets of UMCi Ltd. to the newly established branch of the Company in Singapore.
- Note B: The Company held the highest percentage of the outstanding voting shares and had significant influences on operating decisions of the investees. Therefore, the equity method was applied.
- Note C: The percentage of ownership directly and indirectly held by the Company was over 20%, and the equity method was applied.
- Note D: During the first quarter of 2003, the Company acquired additional shares of Silicon Integrated Systems Corp. from the open market, an investee previously accounted for under the lower of cost or market value method. After the acquisition, the percentage of voting rights held by the Company was the highest among shareholders and significant influences were exercised. Therefore, the equity method was applied.
- Note E: As of December 31, 2004 and 2003, 71,215 thousand shares and 337,455 thousand shares with the book values of NT\$959 million and NT\$4,772 million, respectively, held by the Company in AU Optronics Corp. were utilized as reference shares for the Company's zero coupon exchangeable bonds.
- Note F: The amounts represented the investments in limited partnership without voting rights. As the Company was not able to exercise significant influences, the investments were accounted for under the cost method.
- Note G: The amount represented the investment in 30 million preferred shares. As the Company did not possess voting rights or significant influences, the cost method was applied.
- b. Investment loss accounted for under the equity method, which were based on the audited financial statements of the investees, were NT\$2,509 million and NT\$629 million for the years ended December 31, 2004 and 2003, respectively. Among which, investment income amounting to NT\$631 million and NT\$233 million for the years ended December 31, 2004 and 2003, respectively, and the related long-term investment balances of NT\$5,380 million and NT\$5,048 million as of December 31, 2004 and 2003, respectively, were determined based on the investees' financial statements audited by other auditors.
- c. The long-term investments were not pledged.
- d. The total assets and operating revenues of each following subsidiary including Fortune Venture Capital Corporation, Unitruth Investment Corp. (100% owned subsidiary of Hsun Chieh), UMC Capital Corporation, United Microelectronics Corp. (Samoa), and United Foundry Service, Inc. are each less than 10% of the total non-consolidated assets and operating revenues of the Company. The total combined assets or operating revenues for the above mentioned subsidiaries account for less than 30% of the Company's total non-consolidated assets or revenues. Therefore, the above mentioned subsidiaries are not included in the consolidated financial statements.

(8) PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2004			
	Accumulated		
	Cost	Depreciation	Book Value
Land	\$ 1,132,576	\$	\$ 1,132,576
Buildings	13,133,658	(3,849,418)	9,284,240
Machinery and equipment	301,773,287	(197,186,064)	104,587,223
Transportation equipment	79,610	(52,336)	27,274
Furniture and fixtures	1,976,487	(1,237,449)	739,038
Leased assets	47,783	(47,783)	
Construction in progress and prepayments	21,584,900		21,584,900
Total	\$ 339,728,301	\$ (202,373,050)	\$ 137,355,251

As of December 31, 2003			
	Accumulated		
	Cost	Depreciation	Book Value
Land	\$ 1,367,344	\$	\$ 1,367,344
Buildings	12,095,043	(3,082,067)	9,012,976
Machinery and equipment	247,164,445	(149,213,023)	97,951,422
Transportation equipment	80,684	(45,112)	35,572
Furniture and fixtures	1,906,651	(992,849)	913,802
Leased assets	47,783	(31,855)	15,928
Construction in progress and prepayments	7,887,705		7,887,705
Total	\$ 270,549,655	\$ (153,364,906)	\$ 117,184,749

- a. Total interest expense before capitalization amounted to NT\$1,402 million and NT\$1,676 million for the years ended December 31, 2004 and 2003, respectively.

Details of capitalized interest are as follows:

	For the year ended December 31,	
	2004	2003
Machinery and equipment	\$ 218,554	\$ 435,878
Other property, plant and equipment	3,926	5,795

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Total interest capitalized	\$ 222,480	\$ 441,673
Interest rates applied	2.30%~3.38 %	3.18%~3.50 %

- b. The insurance coverage for property, plant and equipment was sufficient as of December 31, 2004 and 2003, respectively.
- c. Please refer to Note 6 for property, plant and equipment pledged as collateral.

(9) OTHER ASSETS-OTHERS

	As of December 31,	
	2004	2003
Leased assets	\$ 1,382,090	\$ 681,742
Deposits-out	571,701	721,721
Others	122,160	120,591
Total	\$ 2,075,951	\$ 1,524,054

The insurance coverage for leased assets was sufficient as of December 31, 2004 and 2003, respectively.

(10) SHORT-TERM LOANS

	As of December 31,	
	2004	2003
Unsecured bank loans	\$ 1,904,400	\$
Interest rates	2.52%~2.77%	

The Company's unused short-term lines of credits amounted to NT\$6,487 million and NT\$13,828 million as of December 31, 2004 and 2003, respectively.

(11) BONDS PAYABLE

	As of December 31,	
	2004	2003
Secured domestic bonds payable	\$ 570,003	\$ 1,710,002
Unsecured domestic bonds payable	32,750,000	40,000,000
Convertible bonds payable		8,188,954
Exchangeable bonds payable	3,107,029	14,804,484
Premiums on exchangeable bonds		187,360
Compensation interest payable		126,763

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Total	36,427,032	65,017,563
Less: Current portion	(2,820,003)	(16,705,716)
Net	\$ 33,607,029	\$ 48,311,847

- a. On April 27, 2000, the Company issued five-year secured bonds amounting to NT\$3,990 million. The interest is paid semi-annually with a stated interest rate of 5.6%. The bonds are repayable in installments every six months from April 27, 2002 to April 27, 2005.

- b. During the period from April 16 to April 27, 2001, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 5.1195% through 5.1850% and 5.2170% through 5.2850%, respectively. The five-year bonds and seven-year bonds are repayable starting from April 2004 to April 2006 and April 2006 to April 2008, respectively, both in three yearly installments at the rates of 30%, 30% and 40%.
- c. During the period from October 2 to October 15, 2001, the Company issued three-year and five-year unsecured bonds totaling NT\$10,000 million, each with a face value of NT\$5,000 million. The interest is paid annually with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds were repaid at 100% of its principal amount during the period from October 2 to October 15, 2004. The five-year bonds will be repayable in October 2006, upon the maturity of the bonds.
- d. On December 12, 2001, the Company issued zero coupon convertible redeemable bonds amounting to US\$302.4 million on the Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:
 - (a) Final Redemption

Unless previously redeemed, repurchased, cancelled or converted, the bonds can be redeemed at 101.675% of their principal amount on March 1, 2004.

- (b) Redemption at the Option of the Company

The Company may redeem all, but not some only, of the bonds, subject to giving no less than 30 nor more than 60 days advance notice, at the early redemption amount, provided that:

- i. On or at any time after June 13, 2003, the closing price of the ADSs on the NYSE or other applicable securities exchange on which the ADSs are listed on any ADS trading day for 20 out of 30 consecutive ADS trading days ending at any time within the period of 5 ADS trading days prior to the date of the redemption notice shall have been at least 130% of the conversion price or last adjusted conversion price, as the case may be, on each such day, or
 - ii. At any time prior to maturity at least 90% in principal amount of the bonds have already been redeemed, repurchased, cancelled or converted.
- (c) Conversion Period

- i. In respect of the common shares, on or after January 22, 2002 and on or prior to February 20, 2004, or

- ii. In respect of the ADSs, on or after the later of January 22, 2002 and the date on which the shelf registration statement covering the resale of certain ADSs issuable upon conversion of the bonds has been declared effective by the U.S. Securities and Exchange Commission, on or prior to February 20, 2004.

(d) Conversion Price

- i. In respect of the common shares, will be NT\$66.67 per share, and
- ii. In respect of the ADSs, will be US\$9.673 per ADS.

The applicable conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(e) Reacquisition of the Bonds

As of December 31, 2004, the Company has reacquired a total amount of US\$63 million of the bonds from the open market. The corresponding loss on the reacquisition amounting to NT\$0.06 million for the year ended December 31, 2004 was recognized as other losses. As of December 31, 2003, the Company had reacquired a total amount of US\$62 million of the bonds from the open market. The corresponding loss on the reacquisition amounting to NT\$5 million for the year ended December 31, 2003 was recognized as other losses.

(f) Redemption of the Bonds

On February 27, 2004, the remaining balance of bonds was redeemed.

- e. On May 10, 2002, the Company issued LSE listed zero coupon exchangeable bonds exchangeable for common shares or ADSs of AU Optronics Corp. (AUO) with an aggregate principal amount of US\$235 million. The terms and conditions of the bonds are as follows:

(a) Final Redemption

Unless previously redeemed, exchanged or purchased and cancelled, the bonds must be redeemed at their principal amount in US Dollars on May 10, 2007.

(b) Redemption at the Option of the Company

The Company may redeem the bonds, in whole or in part, in principal amount thereof, on or after August 10, 2002 and prior to May 10, 2007 at their principal amount, if the closing price of the AUO common shares on the TSE, translated into US Dollars at the prevailing exchange rate, for a period of 20 consecutive trading days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 120% of the exchange price then in effect translated into US Dollars at the rate of NT\$34.645=US\$1.00.

The Company may also redeem the bonds, in whole, but not in part, if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.

(c) Redemption at the Option of Bondholders

The Company will, at the option of the holders, redeem such bonds on February 10, 2005 at its principal amount.

(d) Tax Redemption

The Company may redeem all, but not part, of the bonds, at any time, in the event of certain changes in the ROC's tax rules which would require the Company to gross up for payments of principal, or to gross up for payments of interest or premium.

(e) Terms of Exchange

Subject to prior permitted redemption and as otherwise provided in the offering, the bonds are exchangeable at any time on or after June 19, 2002 and prior to April 10, 2007, into AUO shares or AUO ADSs at an exchange price of NT\$51.30 per share, determined on the basis of a fixed exchange rate of NT\$34.645=US\$1.00; provided however, that if the exercise date falls within 5 business days from the beginning of, and during, any closed period, the right of the exchanging holder of the bonds to vote with respect to the shares it receives will be subject to certain restrictions.

The exchange price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(f) Exchange of the Bonds

As of December 31, 2004, certain bondholders have exercised their rights to exchange their bonds with the total principal amount of US\$137 million into AUO shares. The corresponding gain on the exchange amounting to NT\$3,457 million for the year ended December 31, 2004 was recognized as a gain on disposal of investments.

- f. During the period from May 21 to June 24, 2003, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 4.0% minus USD 12-Month LIBOR and 4.3% minus USD 12-Month LIBOR, respectively. Stated interest rates are reset annually based on the prevailing USD 12-Month LIBOR. The five-year bonds and seven-year bonds are repayable in 2008 and 2010, respectively, upon the maturity of the bonds.

- g. On July 15, 2003, the Company issued its second LSE listed zero coupon exchangeable bonds exchangeable for common shares of AUO with an aggregate principal amount of US\$206 million. The issue price was set at 103.0% of the principal amount. The terms and conditions of the bonds are as follows:

(a) Final Redemption

Unless previously redeemed, exchanged or purchased and cancelled, the bonds must be redeemed at their principal amount in US Dollars on July 15, 2008.

(b) Redemption at the Option of the Company

The Company may redeem the bonds, in whole or in part, in principal amount thereof, on or after January 15, 2004 and on or prior to July 15, 2005, at their principal amount plus a certain premium (the Early Redemption Amount) and thereafter until July 15, 2008 at their principal amount, if the closing price of the AUO common shares on the TSE, translated into US Dollars at the prevailing exchange rate, for a period of 20 consecutive trading days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 125% of the exchange price then in effect translated into US Dollars at the rate of NT\$34.390=US\$1.00.

The Company may also redeem the bonds, in whole, but not in part, if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.

(c) Redemption at the Option of Bondholders

The Company will, at the option of any bondholder, redeem such bonds starting on July 15, 2005 at their principal amount.

(d) Tax Redemption

The Company may redeem all, but not part, of the bonds, at any time, in the event of certain changes in the ROC's tax rules which would require the Company to gross up for payments of principal, or to gross up for payments of interest or premium.

(e) Terms of Exchange

Subject to prior permitted redemption and as otherwise provided in the offering, the bonds are exchangeable at any time on or after August 14, 2003 and prior to June 30, 2008, into AUO shares at an exchange price of NT\$36.387 per share, determined on the basis of a fixed exchange rate of NT\$34.390=US\$1.00; provided however, that if the exercise date falls within 5 business days from the beginning of, and during, any closed period, the right of the exchanging holder of the bonds to vote with respect to the shares it receives will be subject to certain restrictions.

The exchange price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(f) Exchange of the Bonds

As of December 31, 2004, all bondholders have exercised their rights to exchange their bonds into AUO shares. The corresponding gain on the exchange amounting to NT\$4,349 million for the year ended December 31, 2004 was recognized as a gain on disposal of investments.

As of December 31, 2003, certain bondholders had exercised their rights to exchange their bonds with the total principal amount of US\$6 million into AUO shares. The corresponding gain on the exchange amounting to NT\$123 million for the year ended December 31, 2003 was recognized as a gain on disposal of investments.

h. Repayments of the above bonds in the future years are as follows:

(assuming the convertible bonds and exchangeable bonds are both paid off upon maturity)

<u>Bonds repayable in</u>	<u>Amount</u>
2005	\$ 2,820,003
2006	10,250,000
2007	5,357,029
2008	10,500,000
2009 and thereafter	7,500,000
Total	\$ 36,427,032

(12) LONG-TERM LOANS

	<u>As of December 31,</u>	
	<u>2004</u>	<u>2003</u>
Secured long-term loans	\$	\$2,058,869
Less: Current portion		(1,818,361)
Net	\$	\$ 240,508
Interest rates		1.82%~2.53%

a. The Company's long-term loans denominated in foreign currency amounted to US\$28 million as of December 31, 2003.

b. Assets pledged as collateral to secure these loans are detailed in Note 6.

(13) PENSION FUND

- a. All of the regular employees of the Company are covered by the pension plan. Pension benefits are generally based on the units of service years and the average salary in the last month of the service year. Two units per year are entitled for the first 15 years of services while one unit per year is entitled after the completion of the fifteenth year. The total units shall not exceed 45 units.

Under the plan, as prescribed by local labor standards law, the Company contributes an amount equal to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Central Trust of China. Retirement benefits are paid from fund previously provided. The unrecognized net asset or obligation at transition based on actuarial valuation is amortized on a straight-line basis over 15 years.

b. Change in benefit obligation during the year:

	For the year ended December 31,	
	2004	2003
Projected benefit obligation at beginning of year	\$ (3,205,466)	\$ (2,829,736)
Service cost	(410,619)	(421,332)
Interest cost	(112,191)	(113,189)
Benefits paid	15,053	
Gain (loss) on projected benefit obligation	(77,076)	158,791
Projected benefit obligation at end of year	\$ (3,790,299)	\$ (3,205,466)

c. Change in pension assets during the year:

	For the year ended December 31,	
	2004	2003
Fair value of plan assets at beginning of year	\$ 845,006	\$ 737,911
Actual return on plan assets	21,964	15,653
Contributions from employer	103,705	91,442
Benefits paid	(15,053)	
Transferred in from merger with SiSMC	3,703	
Fair value of plan assets at end of year	\$ 959,325	\$ 845,006

d. The funding status of the pension plan is as follows:

	As of December 31,	
	2004	2003
Benefit obligation		
Vested benefit obligation	\$ (14,551)	\$ (9,071)
Non-vested benefit obligation	(1,363,332)	(1,195,467)
Accumulated benefit obligation	(1,377,883)	(1,204,538)
Effect from projected salary increase	(2,412,416)	(2,000,928)

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Projected benefit obligation	(3,790,299)	(3,205,466)
Fair value of plan assets	959,325	845,006
	<u> </u>	<u> </u>
Funded status	(2,830,974)	(2,360,460)
Unrecognized net transitional benefit obligation	169,004	197,171
Unrecognized gain	(28,541)	(89,202)
	<u> </u>	<u> </u>
Accrued pension liabilities recognized in the balance sheet	\$ (2,690,511)	\$ (2,252,491)
	<u> </u>	<u> </u>

- e. The components of the net periodic pension cost are as follows:

	For the year ended December 31,	
	2004	2003
Service cost	\$ 410,619	\$ 421,332
Interest cost	112,191	113,189
Expected return on plan assets	(23,238)	(23,982)
Amortization of unrecognized transitional net benefit obligation	28,167	28,167
Transferred from SiSMC in the merger	8,844	
Net periodic pension cost	\$ 536,583	\$ 538,706

The actuarial assumptions underlying are as follows:

	For the year ended December 31,	
	2004	2003
Discount rate	3.50%	3.50%
Rate of salary increase	5.00%	5.00%
Expected return on plan assets	3.50%	2.75%

(14) CAPITAL STOCK

- a. As recommended by the board of directors and approved by the shareholders' meeting on June 9, 2003, the Company issued 665,898 thousand new shares from the capitalization of retained earnings, of which NT\$6,079 million were stock dividends and NT\$580 million were employees' bonus.
- b. As of December 31, 2003, 22,000,000 thousand common shares were authorized to be issued and 16,140,744 thousand common shares were issued, each at a par value of NT\$10.
- c. Based on the resolution of the board of directors' meeting on February 26, 2004, the Company merged with SiSMC on July 1, 2004, the effective date, through the issuance of 357,143 thousand new shares at a par value of \$10 each. 2.24 shares of SiSMC were exchanged to 1 share of the Company, the surviving company.
- d. As recommended by the board of directors and amended by the shareholders' meeting on June 1, 2004, the Company issued 1,399,685 thousand new shares from the capitalization of retained earnings that amounted to NT\$13,335 million and capital reserve that amounted to NT\$661 million, of which NT\$12,224 million were stock dividends and NT\$1,111 million were employees' bonus.
- e. On July 22, 2004, the Company wrote off 149,728 thousand shares of treasury stock, which were bought back during the period from August 1 to September 28, 2001 and the period from August 14 to September 25, 2002 for conversion of the convertible bonds.
- f. The employee stock options issued by the Company on October 7, 2002 were exercised into 44,138 thousand shares during 2004. The effective date of issuance of new shares was December 28, 2004.

- g. As of December 31, 2004, 22,000,000 thousand common shares were authorized to be issued and 17,791,982 thousand common shares were issued, each at a par value of NT\$10.
- h. The Company has issued a total of 231,497 thousand ADSs which were traded on the NYSE as of December 31, 2004. The total number of common shares represented by all issued ADSs is 1,157,486 thousand shares (One ADS represents five common shares).

(15) EMPLOYEE STOCK OPTIONS

On September 11, 2002, October 8, 2003, and September 30, 2004, the Company was authorized by the relevant government authorities to issue Employee Stock Options with a total number of 1 billion, 150 million, and 150 million units, respectively. Each unit entitles an optionee to subscribe to 1 share of the Company's common stock. Settlement upon the exercise of the options will be made through the issuance of new shares by the Company. The exercise price of options was set at the closing price of the Company's common stock on the date of grant. The grant period of the options is 6 years and an optionee may exercise the options in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. Detailed information relevant to the Employee Stock Options is disclosed as follows:

<u>Date of grant</u>	<u>Total number of options granted (in thousands)</u>	<u>Total number of options outstanding (in thousands)</u>	<u>Exercise price (NTD)</u>
October 7, 2002	939,000	773,498	\$ 17.7
January 3, 2003	61,000	50,920	\$ 19.9
November 26, 2003	57,330	50,810	\$ 27.8
March 23, 2004	33,330	28,570	\$ 25.7
July 1, 2004	56,590	51,140	\$ 23.2
October 13, 2004	20,200	18,920	\$ 20.0

- a. A summary of the Company's stock option plans, and related information for the years ended December 31, 2004 and 2003 are as follows:

	<u>For the year ended December 31,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Option (in thousands)</u>	<u>Weighted-average Exercise Price (NTD)</u>	<u>Option (in thousands)</u>	<u>Weighted-average Exercise Price (NTD)</u>
Outstanding at beginning of year	980,664	\$ 18.4	928,059	\$ 17.7
Granted	110,120	\$ 23.4	118,330	\$ 23.7
Exercised	(44,138)	\$ 17.7		
Forfeited	(72,788)	\$ 19.3	(65,725)	\$ 18.4
Outstanding at end of year	<u>973,858</u>	<u>\$ 18.9</u>	<u>980,664</u>	<u>\$ 18.4</u>
Exercisable at end of year	<u>368,896</u>			
	<u>\$ 3.8</u>		<u>\$ 3.0</u>	

Weighted-average fair value of options granted
during the year (NTD)

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- b. The information of the Company's outstanding stock options as of December 31, 2004 is as follows:

Authorization Date	Outstanding Stock Options				Exercisable Stock Options	
	Range of Exercise Price	Option (in thousands)	Weighted-average		Option (in thousands)	Weighted-average Exercise Price (NTD)
			Expected Remaining Years	Exercise Price (NTD)		
91.09.11	\$17.7~\$19.9	824,418	2.1	\$ 17.8	368,896	\$ 17.7
92.10.08	\$23.2~\$27.8	130,520	3.6	\$ 25.5		
93.09.30	\$20.0	18,920	4.2	\$ 20.0		
		<u>973,858</u>	2.4	\$ 18.9	<u>368,896</u>	\$ 17.7

- c. The Company has used the intrinsic value method to recognize compensation costs for its employee stock options issued since January 1, 2004. The compensation cost for the year ended December 31, 2004 is NT\$0. Pro forma information using the fair value method on net income and earnings per share is as follows:

	For the year ended December 31, 2004	
	Basic earnings per share	Diluted earnings per share
Net Income	\$ 31,843,381	\$ 31,873,101
Earnings per share (NTD)	\$ 1.89	\$ 1.86
Pro forma net income	\$ 31,761,407	\$ 31,791,127
Pro forma earnings per share (NTD)	\$ 1.89	\$ 1.86

The fair value of the options granted after January 1, 2004 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the year ended December 31, 2004: expected dividend yields of 11.40%; volatility factors of the expected market price of the Company's common stock of 0.49%, 0.49%, and 0.48%, respectively; risk-free interest rate of 2.70%, 2.85%, and 2.70%, respectively; and a weighted-average expected life of the option of 4.4 years.

(16) TREASURY STOCK

- a. The Company bought back its own shares from the open market during the years ended December 31, 2004 and 2003. Details of the treasury stock transactions are as follows:

For the year ended December 31, 2004
(In thousands of shares)

Purpose	As of			As of
	January 1, 2004	Increase	Decrease	December 31, 2004
For transfer to employees	49,114	192,067		241,181

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For conversion of the convertible bonds into shares	<u>149,728</u>	<u> </u>	<u>149,728</u>	<u> </u>
Total shares	<u>198,842</u>	<u>192,067</u>	<u>149,728</u>	<u>241,181</u>

For the year ended December 31, 2003*(In thousands of shares)*

<u>Purpose</u>	<u>As of</u>			<u>As of</u>
	<u>January 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2003</u>
For transfer to employees	86,539	99,195	136,620	49,114
For conversion of the convertible bonds into shares	149,728			149,728
Total shares	236,267	99,195	136,620	198,842

- b. On July 22, 2004, the Company wrote off 149,728 thousand shares of treasury stock, amounting to NT\$4,923 million, which were bought back for conversion of the convertible bonds into shares from August 1 to September 28, 2001 and from August 14 to September 25, 2002.
- c. According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of the Company's stock issued. Total purchase amount shall not exceed the sum of the retained earnings, capital reserve-premiums, and realized capital reserve. As such, the maximum number of shares of treasury stock that the Company could hold as of December 31, 2004 and 2003 was 1,779,198 thousand shares and 1,614,074 thousand shares while the ceiling of the amount was NT\$89,425 million and NT\$67,177 million, respectively. As of December 31, 2004 and 2003, the Company held 241,181 thousand shares and 198,842 thousand shares of treasury stock, which amounted to NT\$7,376 million and NT\$7,101 million, respectively.
- d. Treasury stock shall not be pledged, nor does it entitle voting rights or receive dividends, in compliance with Securities and Exchange Law of the ROC.
- e. As of December 31, 2004, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Corporation, held 543,732 thousand shares and 19,808 thousand shares of the Company's stock, with a book value of NT\$20.08 and NT\$8.68 per share, respectively. The average closing price during December 2004 was NT\$20.08.

As of December 31, 2003, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Corporation, held 503,456 thousand shares and 18,340 thousand shares of the Company's stock, with a book value of NT\$29.32 and NT\$9.37 per share, respectively. The average closing price during December 2003 was NT\$29.32.

(17) RETAINED EARNINGS AND DIVIDEND POLICIES

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

- Payment of all taxes and dues;
- Offset prior years' operation losses;
- Set aside 10% of the remaining amount after deducting items (a) and (b) as a legal reserve;

- d. Set aside 0.1% of the remaining amount after deducting items (a), (b), and (c) as directors and supervisors remuneration; and
- e. After deducting items (a), (b) and (c) above from the current year's earnings, no less than 5% of the remaining amount together with the prior years unappropriated earnings is to be allocated as employees bonus which will be settled through issuance of new Company shares. Employees of the Company's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees bonus.
- f. The distribution of the remaining portion, if any, will be recommended by the board of directors and approved through the shareholders meeting.

The Company is currently in its growth stage; the policy for dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the benefit of shareholders, share bonus equilibrium, and long-term financial planning. The board of directors shall make the distribution proposal annually and present it at the shareholders meeting. The Company's Articles of Incorporation further provide that at least 50% of the dividends to shareholders, if any, must be paid in the form of stock dividends. Accordingly, no more than 50% of the dividends can be paid in the form of cash.

The appropriation of 2004 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on the board of directors recommendation and shareholders approval can be obtained from the Market Observation Post System on the website of the TSE.

Details of the 2003 employee bonus settlement and directors and supervisors remuneration are as follows:

		For the year ended December 31, 2003		
		As approved by	As recommended	
		the shareholders	by the board of	
		meeting	directors	Differences
1.	Settlement of employees bonus by issuance of new shares			
a.	Number of shares (in thousands)	111,127	111,127	
b.	Amount	\$ 1,111,273	\$ 1,111,273	
c.	Percentage on total number of outstanding shares at year end (%)	0.70	0.70	
2.	Remuneration paid to directors and supervisors	\$ 12,618	\$ 12,618	
3.	Effect on earnings per share before retroactive adjustments			
a.	Basic and diluted earnings per share (NTD)	\$ 0.92/ 0.90	\$ 0.92/ 0.90	
b.	Pro forma basic and diluted earnings per share taking into consideration employees bonus and directors and supervisors remuneration (NTD)	\$ 0.84/ 0.83	\$ 0.84/ 0.83	

Pursuant to Article 41 of the Securities and Exchange Law of the ROC, a special reserve is set aside from the current net income and prior unappropriated earnings for items that are accounted for as deductions to stockholders' equity such as unrealized loss on long-term investments and cumulative translation adjustments. However, there are the following exceptions for the Company's investees' unrealized loss on long-term investments arising from the merger which was recognized by the Company in proportion to the Company's ownership percentage:

- a. According to the explanatory letter No. 101801 of the Securities and Futures Commission (SFC), if the Company recognizes the investees' capital reserve excess from the merger in proportion to the ownership percentage then the special reserve is exempted for the amount originated from the acquisition of the long-term investments.
- b. However, if the Company and its investees transfer a portion of the capital reserve to increase capital, a special reserve equal to the amount of the transfer shall be provided according to the explanatory letter No.101801-1 of the SFC.
- c. In accordance with the explanatory letter No.170010 of the SFC applicable to listed companies, when the market value of the Company's stock held by its subsidiaries at year-end is lower than the book value, a special reserve shall be provided for in the Company's accounts in proportion to its ownership percentage.

For the 2003 appropriations approved by the shareholders' meeting on June 1, 2004, unrealized loss on long-term investments exempted from the provision of special reserve pursuant to the above regulations amounted to NT\$14,826 million.

(18) OPERATING COSTS AND EXPENSES

The Company's personnel, depreciation, and amortization expenses are summarized as follows:

	For the year ended December 31,					
	2004			2003		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salaries	\$ 6,804,389	\$ 2,148,418	\$ 8,952,807	\$ 4,857,636	\$ 1,523,111	\$ 6,380,747
Labor and health insurance	382,323	100,524	482,847	320,460	89,985	410,445
Pension	387,675	148,908	536,583	263,362	146,412	409,774
Other personnel expenses	72,600	40,032	112,632	35,062	19,005	54,067
Depreciation	36,691,504	1,892,675	38,584,179	34,060,531	1,794,734	35,855,265
Amortization	74,603	1,051,031	1,125,634	132,336	1,255,284	1,387,620

The numbers of employees as of December 31, 2004 and 2003 were 10,642 and 8,897, respectively.

(19) INCOME TAX

- a. Reconciliation between the income tax expense and the income tax calculated on pre-tax financial statement income based on the statutory tax rate is as follows:

	For the year ended December 31,	
	2004	2003
Income tax on pre-tax income at statutory tax rate	\$ 7,969,313	\$ 3,703,842
Permanent differences	(6,003,077)	(2,296,723)
Change in investment tax credit	(4,382,861)	(1,719,302)
Decrease in deferred income tax assets and liabilities		804,243
Temporary differences	2,446,010	296,703
Income tax on interest revenue separately taxed	4,524	6,349
Income tax expense	\$ 33,909	\$ 795,112

- b. Significant components of deferred income tax assets and liabilities are as follows:

	As of December 31,			
	2004		2003	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Investment tax credit		\$ 22,150,454		\$ 20,051,808
Loss carry-forward	\$ 16,861,498	4,215,375	\$ 14,953,722	3,738,431
Pension	2,564,784	641,196	2,140,749	535,187
Allowance on sales returns and discounts	1,074,859	268,715	369,579	92,395
Allowance for loss on obsolescence of inventories	1,193,403	298,351	387,777	96,944
Compensation interest payable			122,347	30,587
Others	163,666	40,916	132,730	33,182
Total deferred income tax assets		27,615,007		24,578,534
Valuation allowance		(15,561,210)		(12,100,032)
Net deferred income tax assets		12,053,797		12,478,502
Deferred income tax liabilities				
Unrealized exchange gain	(998,937)	(249,734)	(1,497,414)	(374,353)
Depreciation	(17,872,634)	(4,468,159)	(19,572,978)	(4,893,245)
Total deferred income tax liabilities		(4,717,893)		(5,267,598)
Total net deferred income tax assets		\$ 7,335,904		\$ 7,210,904

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Deferred income tax assets - current	\$ 9,660,216	\$ 9,015,802
Deferred income tax liabilities - current	(249,734)	(374,353)
Valuation allowance	(5,886,193)	(5,793,786)
Net	<u>3,524,289</u>	<u>2,847,663</u>
Deferred income tax assets - noncurrent	17,954,791	15,562,732
Deferred income tax liabilities - noncurrent	(4,468,159)	(4,893,245)
Valuation allowance	(9,675,017)	(6,306,246)
Net	<u>3,811,615</u>	<u>4,363,241</u>
Total net deferred income tax assets	<u>\$ 7,335,904</u>	<u>\$ 7,210,904</u>

- c. The Company's income tax returns for all the fiscal years through 1999 and 2002 have been assessed and approved by the Tax Authority.
- d. Pursuant to the Statute for the Establishment and Administration of Science Park of ROC, the Company was granted several four-year income tax exemption periods with respect to income derived from the expansion of operations. The starting date of the exemption period attributable to the expansion in 2000 had not yet been decided by the Company. The income tax exemption for other periods will expire on December 31, 2009.
- e. The Company earns investment tax credits for the amount invested in production equipment, research and development, and employee training.

As of December 31, 2004, the Company's unused investment tax credit was as follows:

<u>Expiration Year</u>	<u>Investment tax credits earned</u>	<u>Balance of unused investment tax credits</u>
2004	\$ 8,097,450	\$ 3,714,589
2005	5,338,222	5,338,222
2006	3,954,369	3,954,369
2007	1,518,904	1,518,904
2008	7,624,370	7,624,370
Total	\$ 26,533,315	\$ 22,150,454

- f. Under the rules of the Income Tax Law of the ROC, net loss can be carried forward for 5 years. As of December 31, 2004, the unutilized accumulated loss was as follows:

<u>Expiration Year</u>	<u>Accumulated loss</u>	<u>Unutilized accumulated loss</u>
2006	\$ 11,096,582	\$ 11,096,582
2007	3,857,140	3,857,140
2008 (Transferred in from merger with SiSMC)	105,683	105,683
2009 (Transferred in from merger with SiSMC)	1,802,093	1,802,093
Total	\$ 16,861,498	\$ 16,861,498

- g. The balance of the Company's imputation credit accounts as of December 31, 2004 and 2003 were NT\$0.4 million and NT\$10.4 million, respectively. The actual creditable ratio for 2003 and 2002 was 0.69% and 1.24%, respectively.

- h. The ending balances of unappropriated earnings as of December 31, 2004 and 2003 were as follows:

	As of December 31,	
	2004	2003
Prior to January 1, 1998	\$	\$ 64,220
After January 1, 1998	29,498,329	13,972,602
Total	\$ 29,498,329	\$ 14,036,822

(20) EARNINGS PER SHARE

- a. The Company held zero coupon convertible bonds and employee stock options during 2004, and thus has a complex capital structure. The calculation of basic and diluted earnings per share, for the years ended December 31, 2004 and 2003, was disclosed as follows:

	For the year ended	
	December 31,	
	2004	2003
<i>(shares expressed in thousands)</i>		<i>(retroactively adjusted)</i>
Income before income tax	\$ 31,877,290	\$ 14,815,369
Effect of dilution:		
Employee stock options		
Convertible bonds	39,626	67,939
Adjusted income before income tax assuming dilution	\$ 31,916,916	\$ 14,883,308
Net income	\$ 31,843,381	\$ 14,020,257
Effect of dilution:		
Employee stock options		
Convertible bonds	29,720	50,954
Adjusted net income assuming dilution	\$ 31,873,101	\$ 14,071,211
Weighted average of shares outstanding	16,828,205	16,644,032
Effect of dilution:		
Employee stock options	245,983	228,762
Convertible bonds	20,660	152,565
Adjusted weighted average of shares outstanding assuming dilution	17,094,848	17,025,359
Earnings per share-basic (NTD)		
Income before income tax	\$ 1.89	\$ 0.89

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Net income	\$	1.89	\$	0.84
		<u> </u>		<u> </u>
Earnings per share-diluted (NTD)				
Income before income tax	\$	1.87	\$	0.87
		<u> </u>		<u> </u>
Net income	\$	1.86	\$	0.83
		<u> </u>		<u> </u>

- b. Pro forma information on earnings as if subsidiaries investment in the Company is not treated as treasury stock is set out as follows:

<i>(shares expressed in thousands)</i>	2004	
	Basic	Diluted
Net income	\$ 31,843,381	\$ 31,873,101
Weighted average of shares outstanding:		
Beginning balance	15,941,901	15,941,901
Stock dividends and employees bonus at 8.7% in 2004	1,385,341	1,385,341
Purchase of 192,067 thousand shares of treasury stock in 2004	(132,214)	(132,214)
Issuance of 357,143 thousand shares of stocks from merger with SiSMC	195,150	195,150
Exercise of 44,138 thousand units of employees stock options	5,166	5,166
Dilutive shares of employee stock options accounted for under treasury stock method		245,983
Dilutive shares issued assuming conversion of bonds		20,660
Ending balance	17,395,344	17,661,987
Earnings per share		
Net income (NTD)	\$ 1.83	\$ 1.80
2003 (retroactively adjusted)		
<i>(shares expressed in thousands)</i>	Basic	Diluted
Net income	\$ 14,020,257	\$ 14,071,211
Weighted average of shares outstanding:		
Beginning balance	15,238,579	15,238,579
Stock dividends and employees bonus at 4.4% in 2003	670,497	670,497
Stock dividends and employees bonus at 8.7% in 2004	1,382,488	1,382,488
Purchase of 99,195 thousand shares of treasury stock in 2003	(87,216)	(87,216)
Treasury stock transferred to employees of 136,620 thousand shares in 2003	8,950	8,950
Dilutive shares of employee stock options accounted for under treasury stock method		228,762
Dilutive shares issued assuming conversion of bonds		152,565
Ending balance	17,213,298	17,594,625
Earnings per share		
Net income (NTD)	\$ 0.81	\$ 0.80

(21) MERGER

In order to integrate resources, reduce operating costs, enlarge business scales, and improve its financial structure, profitability and global competitiveness, based on the resolution of the board of directors' meeting on February 26, 2004, the Company merged with SiSMC, the dissolved company, on July 1, 2004. The merger was approved by the relevant government authorities. All the assets, liabilities, rights, and obligations of SiSMC have been fully incorporated into the Company since July 1, 2004. The accounting treatment regarding the merger is in compliance with the ROC SFAS No. 25 Enterprise Mergers Accounting of Purchase Method.

Relevant information required by ROC SFAS No. 25 is disclosed as follows:

a. Information of the dissolved company:

SiSMC was split from Silicon Integrated Systems Corp. on December 15, 2003. It was mainly engaged in manufacturing of integrated circuits and components of semiconductors.

b. Effective date, percentage of acquisition and accounting treatment:

Based on the agreement and the resolution of the board of directors' meeting, the effective date of the merger was July 1, 2004. All the stocks of the dissolved company were exchanged by the surviving company's newly issued shares, and the merger was accounted for under the purchase method.

c. The period of combining the dissolved company's operating result:

The operating result for the period from July 1, 2004 to December 31, 2004 of the dissolved company was integrated into the operating result of the Company.

d. Acquisition cost and the types, quantities, and amount of securities issued for the merger:

According to the agreement, 357,143 thousand common shares, amounting to NT\$3,571 million, were newly issued by the Company for the merger. The newly issued shares were allocated to the dissolved company's shareholders in proportion to their ownership. 2.24 common shares were to be exchanged for 1 new share. Since SiSMC was not a public company, there is no market value. Thus, the acquisition cost was determined based on the appraisal made by China Property Appraising Center Co., Ltd.

e. Amortization method and useful lives for goodwill or deferred credit:

The difference between the acquisition cost and the fair value of identifiable net assets was recognized as goodwill, which was to be amortized under the straight-line method for 15 years according to the Article 35 of Enterprise Mergers and Acquisitions Law of the ROC.

- f. Contingent price, warrants, or commitments and accounting treatments in the merger contracts:

None.

g. Decisions of disposal of significant assets from the merger:

None.

h. Pro forma information on operating results:

The operating result for the period from July 1, 2004 to December 31, 2004 of the dissolved company was consolidated into the financial statements of the Company.

Since SiSMC was split from Silicon Integrated Systems Corp. on December 15, 2003, the pro forma operating results from January 1, 2003 to December 14, 2003 of SiSMC are included in the following pro forma information. The pro forma information on the operating results stated below is based on the assumption that the Company merged with SiSMC on January 1, 2004 and 2003.

	For the year ended December 31,	
	2004	2003
<i>(Shares expressed in thousands)</i>		
Net operating revenues	\$ 119,567,347	\$ 91,666,999
Net income	\$ 30,669,982	\$ 12,968,078
Weighted average of shares outstanding	17,021,234	17,032,221
Earnings per share-basic (NTD)	\$ 1.80	\$ 0.76

5. RELATED PARTY TRANSACTIONS

(1) Name and Relationship of Related Parties

<u>Name of related parties</u>	<u>Relationship with the Company</u>
UMC Group (USA) (UMC-USA)	Equity investee
United Foundry Service, Inc.	Equity investee
United Microelectronics (Europe) B.V. (UME BV)	Equity investee
UMC Capital Corporation	Equity investee
United Microelectronics Corp. (Samoa)	Equity investee
Fortune Venture Capital Corporation	Equity investee
Hsun Chieh Investment Co., Ltd.	Equity investee
UMCi Ltd.	Equity investee
United Microdisplay Optronics Corp. (UMO)	Equity investee
UMC Japan (UMCJ)	Equity investee
DuPont Photomasks Taiwan Ltd. (DPT)	Equity investee
Holtek Semiconductor Inc. (Holtek)	Equity investee
Integrated Technology Express Inc.	Equity investee
Unimicron Technology Corp.	Equity investee
Applied Component Technology Corp.	Equity investee
Novatek Microelectronics Corp.	Equity investee
Faraday Technology Corp. (Faraday)	Equity investee
Silicon Integrated Systems Corp.	Equity investee

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AMIC Technology Corporation
Pacific Venture Capital Co., Ltd.

Equity investee
Equity investee

<u>Name of related parties</u>	<u>Relationship with the Company</u>
MediaTek Incorporation (MediaTek)	The Company is its supervisor
AU Optronics Corp. (Discharged on April 22, 2004)	The Company is its director and supervisor
Industrial Bank of Taiwan Corp. (IBT) (Holding shares were below 5% in the 3 rd quarter of 2004)	The Company is its major shareholder
Chiao Tung Bank Co., Ltd. (Chiao Tung)	The Company is its parent company's director and supervisor
Davicom Semiconductor, Inc.	Subsidiary's equity investee
Aptos (Taiwan) Corp.	Subsidiary's equity investee
United Radiotek Incorporation	Subsidiary's equity investee
UCA Technology, Inc.	Subsidiary's equity investee
AFA Technologies, Inc.	Subsidiary's equity investee
Harvatek Corp.	Subsidiary's equity investee
Thintek Optronics Corp.	Subsidiary's equity investee
Star Semiconductor Corp.	Subsidiary's equity investee
AEVOE Inc.	Subsidiary's equity investee
Ubit Technology Inc.	Subsidiary's equity investee
Smedia Technology Corp.	Subsidiary's equity investee
U-Media Technology, Inc.	Subsidiary's equity investee
Averlogic Corporation	Subsidiary is its director and supervisor
Epitech Corp.	Subsidiary is its director and supervisor
Coretronic Corporation	Subsidiary is its director and supervisor
Printech International, Inc.	Subsidiary is its director and supervisor
Fortune Semiconductor Corporation	Subsidiary is its director
Princeton Technology Corporation	Subsidiary is its director
Silicon 7, Inc.	Subsidiary is its director
Shin-Etsu Handotai Taiwan Co., Ltd. (Shin-Etsu)	Subsidiary is its director
Kits Online Technology Corp.	Subsidiary is its director
Giga Solution Tech. Co., Ltd.	Subsidiary is its director
Pixart Imaging, Inc.	Subsidiary is its director
InComm Technologies Co., Ltd.	Subsidiary is its director
Trendchip Technologies Corp.	Subsidiary is its director
Programmable Microelectronics (Taiwan) Corp.	Subsidiary is its director
LighTuning Tech., Inc.	Subsidiary is its director and supervisor
Cion Technology Corp.	Subsidiary is its director
VastView Technology Inc.	Subsidiary is its director and supervisor
XGI Technology Inc.	Affiliate Company

(2) Significant Related Party Transactions

a. Operating revenues

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$ 53,751,976	46	\$ 35,062,132	41
UME BV	19,685,139	17	6,447,584	7
MediaTek	7,692,163	6	8,185,306	10
Others	12,938,569	11	9,155,048	11
Total	\$ 94,067,847	80	\$ 58,850,070	69

The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for overseas sales was net 45~60 days for the related parties and 30~60 days for third-party customers, while the terms for domestic sales were month-end 45~60 days for the related parties and 30~60 days for the third-party customers.

b. Purchases

	For the year ended December 31,			
	2004		2003	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$ 3,952,085	14	\$ 2,698,980	15
UMCi	2,987,721	11	1,756	
Others	116,452		185,004	1
Total	\$ 7,056,258	25	\$ 2,885,740	16

The purchases from the above related parties were dealt with in the ordinary course of business similar to those from third-party suppliers. The payment terms for purchase from overseas were net 60 days for the related parties and net 30~90 days for the third-party suppliers, while the terms for domestic purchases were month-end 60 days for the related parties and month-end 30~90 days for the third-party suppliers.

c. Notes receivable

As of December 31,

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	2004		2003	
	Amount	Percentage	Amount	Percentage
Holtek	\$ 39,034	96	\$ 101,203	92
Others			550	
Total	\$ 39,034	96	\$ 101,753	92

d. Accounts receivable, net

	As of December 31,			
	2004		2003	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$ 4,389,514	36	\$ 4,366,183	31
UME BV	1,875,964	16	1,406,079	10
MediaTek	784,279	7	1,713,842	12
Others	2,222,280	18	1,894,019	14
Total	9,272,037	77	9,380,123	67
Less: Allowance for sales returns and discounts	(841,500)		(283,420)	
Less: Allowance for doubtful accounts	(207,034)		(100,853)	
Net	\$ 8,223,503		\$ 8,995,850	

e. Accounts payable

	As of December 31,			
	2004		2003	
	Amount	Percentage	Amount	Percentage
UMCi	\$ 800,805	18	\$	
Shin-Etsu	628,641	14	754,354	18
Others	20,856		35,634	1
Total	\$ 1,450,302	32	\$ 789,988	19

f. Loans

	For the year ended December 31, 2004			
	Maximum balance	Ending	Interest	Interest
	Amount	Month	balance	rate
Chiao Tung	\$ 282,547	January	\$	1.83%~2.53%
				\$ 2,453

For the year ended December 31, 2003

	<u>Maximum balance</u>		<u>Ending balance</u>	<u>Interest rate</u>	<u>Interest expense</u>
	<u>Amount</u>	<u>Month</u>			
Chiao Tung	\$ 865,796	January	\$ 282,557	1.66%~2.68%	\$ 15,840
IBT	783,296	January		2.54%~2.89%	2,535
Total			\$ 282,557		\$ 18,375

g. Property, plant and equipment transactions

For the year ended December 31, 2004

	<u>Item</u>	<u>Amount</u>
UMCJ	Purchase of UMCi stocks	\$ 3,947,580
UMCi	Purchase of machinery and equipment	165,703
		\$ 4,113,283

For the year ended December 31, 2003

	Item	Amount	Gain
UMCJ	Disposal of machinery and equipment	\$ 523,574	\$ 11,564

In 2004, the Company acquired 90,000 thousand shares of UMCi from UMCJ amounting to approximately NT\$3,948 million. The purchase price of US\$1.3 per share was based on UMCi's net asset value, considerations of future industry competition and operating strategies. The Company has complied with Regulations Governing the Acquisition or Disposition of Assets by Public Companies to obtain fairness opinions from a security expert and a Certified Public Accountant to evaluate the reasonableness of the purchase price. Gains arising from the upstream transaction amounting to NT\$475 million were recognized by UMCJ, and the Company eliminated NT\$254 million in proportion to its ownership percentage while recognizing the investment gain or loss of UMCJ.

h. Other transactions

The Company has made several other transactions, including service charges, joint development expenses of intellectual property, subcontract expenses, and commissions etc., with related parties totaling approximately NT\$692 million and NT\$495 million for the years ended December 31, 2004 and 2003, respectively.

The Company has purchased approximately NT\$442 million and NT\$524 million of masks from DPT during the years ended December 31, 2004 and 2003, respectively.

As of December 31, 2004, the joint development contracts of intellectual property entered into with Faraday have amounted to approximately NT\$2,185 million, and a total amount of NT\$1,142 million has been paid. As of December 31, 2003, the joint development contracts of intellectual property entered into with Faraday have amounted to approximately NT\$1,589 million, and a total amount of NT\$584 million has been paid.

As of December 31, 2004 and 2003, other receivables arising from usage of facilities and rental revenues from related parties are both NT\$31 million.

6. ASSETS PLEDGED AS COLLATERAL

As of December 31, 2004

	Amount	Financial institution that assets were pledged to	Purpose of pledge
Machinery and equipment	\$ 2,907,092	The International Commercial Bank of China	Bonds payable

Total	\$ 2,907,092
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As of December 31, 2003

	Amount	Financial institution that assets were pledged to	Purpose of pledge
Land	\$ 452,916	Taiwan Corporation Bank	Long-term loans
Buildings	1,201,678	Chiao Tung Bank Co., Ltd. etc.	Long-term loans
Machinery and equipment	11,127,841	Chiao Tung Bank Co., Ltd. etc.	Long-term loans and bonds payable
Total	\$ 12,782,435		

7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) The Company has entered into several patent license agreements and joint development contracts of intellectual property for a total contract amount of approximately NT19 billion. Royalties and joint development fees for the future years are set out as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2005	\$ 3,267,197
2006	1,421,768
2007	1,521,573
2008	293,444
2009	127,449
Total	\$ 6,631,431

- (2) The Company signed several construction contracts for the expansion of its factory space. As of December 31, 2004, these construction contracts have amounted to approximately NT\$0.55 billion and the unpaid portion of the contracts was approximately NT\$0.42 billion.
- (3) Oak Technology, Inc. (Oak) and the Company entered into a settlement agreement on July 31, 1997 concerning a complaint filed with the United States International Trade Commission (ITC) by Oak against the Company and others, alleging unfair trade practices based on alleged patent infringement regarding certain CD-ROM controllers. On October 27, 1997, Oak filed a civil action in a California federal district court, alleging claims for breach of the settlement agreement and fraudulent misrepresentation. The Company has formally denied the material allegations of the Complaint, and asserted counterclaims against Oak for breach of contract, intentional interference with economic advantage and rescission and restitution based on fraudulent concealment and/or mistake. The Company also asserted declaratory judgment claims for invalidity and unenforceability of the relevant Oak patent. On May 2, 2001, the United States Court of Appeals for the Federal Circuit upheld the ITC's findings of no patent infringement and no unfair trade practice arising out of a second ITC case filed by Oak against the Company and others. Based on the Federal Circuit's opinion and on a covenant not to sue filed by Oak, the declaratory judgment patent counterclaims were disclaimed from the district court case. However, in connection with its breach of contract and other claims, Oak seeks damages in excess of US\$750 million. The district court has not yet set dates for dispositive motions or for trial. The Company believes that Oak's claims are meritless, and intends to vigorously defend the suit, and to pursue its counterclaims. As with all litigation, however, the Company cannot predict the outcome with certainty.

- (4) The Company entered into several operating lease contracts for land. These operating leases expire in various years through 2023 and are renewable. Future minimum lease payments under those leases are as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2005	\$ 145,781
2006	146,205
2007	132,080
2008	129,255
2009 and thereafter	1,086,212
Total	\$ 1,639,533

- (5) The Company entered into several wafer-processing contracts with its customers. According to the contracts, the Company shall guarantee processing capacity, while these customers make deposits to the Company.

8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

None.

10. OTHERS

- (1) Certain comparative amounts have been reclassified to conform to the current year's presentation.

- (2) Financial instruments

	<u>As of December 31,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Non-derivative Financial Instruments				
Financial assets				
Cash and cash equivalents	\$ 83,347,329	\$ 83,347,329	\$ 92,865,557	\$ 92,865,557
Marketable securities	3,058,579	3,091,258	1,456,402	1,896,798
Notes and accounts receivables	11,201,919	11,201,919	14,646,705	14,646,705
Long-term investments	71,568,002	100,923,635	72,218,479	116,675,828

As of December 31,					
		2004		2003	
		Book Value	Fair Value	Book Value	Fair Value
Non-derivative Financial Instruments					
Financial liabilities					
Short-term loans					
		\$ 1,904,400	\$ 1,904,400	\$	\$
Payables					
		17,393,532	17,393,532	12,755,872	12,755,872
Bonds payable (current portion included)					
		36,427,032	37,433,884	65,017,563	67,907,346
Long-term loans (current portion included)					
				2,058,869	2,058,869
Derivative Financial Instruments					
Credit-linked deposits and repackage bonds		Non-trading purpose		\$ 1,683,324	\$ 1,683,324
		\$ 3,187,304	\$ 3,187,304		
Interest rate swaps		Non-trading purpose		35,532	(416,149)
		128,539	(18,882)		
Forward contracts		Non-trading purpose		38,633	38,633

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

- a. The book values of short-term financial instruments and other financial assets (credit-linked deposits and repackage bonds) approximate fair values due to their short maturities. The majority of investment portfolios of the credit-linked deposits and repackage bonds are either corporate bonds of maturity within one year, or highly liquidable secondary market bonds. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable, short-term loans, and payables.
- b. The fair values of marketable securities and long-term investments are based on the quoted market value. If the market values of marketable securities and long-term investments are unavailable, the net assets values of the investees are used as fair values.
- c. The fair values of bonds payable are determined by the market value. The book values of long-term loans approximate the fair values as the loans bear floating rates.
- d. The fair values of derivative financial instruments are based on the amount the Company expects to receive (positive) or to pay (negative) assuming that the contracts are settled early at the balance sheet date.

- (3) The Company and its subsidiary, UMCJ, held credit-linked deposits and repackaged bonds for the earning of interest income. Details are disclosed as follows:

- a. Principal amount in original currency

As of December 31, 2004

The Company

<u>Credit-linked deposits and repackaged bonds referenced to</u>	<u>Amount</u>	<u>Due Date</u>
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds and Loans	NTD 400 million	2007.02.05
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds and Loans	NTD 200 million	2007.02.05
Chi Feng Blinds Industry Co., Ltd. European Convertible Bonds	USD 2 million	2005.12.19
HannStar Display Corporation European Convertible Bonds	USD 5 million	2005.10.19
UMC Japan European Convertible Bonds	JPY 640 million	2007.03.28
UMC Japan European Convertible Bonds	JPY 600 million	2007.11.29
UMC Japan European Convertible Bonds	JPY 400 million	2007.11.29
Cathay Financial Holding Co., Ltd. European Convertible Bonds	USD 3 million	2005.05.23
Cathay Financial Holding Co., Ltd. European Convertible Bonds	USD 2 million	2005.05.23
Advanced Semiconductor Engineering Inc. European Convertible Bonds and Loans	NTD 200 million	2007.09.25

UMCJ

<u>Credit-linked deposits and repackaged bonds referenced to</u>	<u>Amount</u>	<u>Due Date</u>
UMC Japan European Convertible Bonds	JPY 1,000 million	2007.03.29
UMC Japan European Convertible Bonds	JPY 2,000 million	2007.11.28
UMC Japan European Convertible Bonds	JPY 1,100 million	2007.03.29

As of December 31, 2003

The Company

<u>Credit-linked deposits and repackaged bonds referenced to</u>	<u>Amount</u>	<u>Due Date</u>
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds and Loans	USD 5 million	2004.07.30
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds and Loans	USD 5 million	2004.07.30
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds	USD 5 million	2004.07.28
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds	USD 10 million	2004.08.02

The Company

<u>Credit-linked deposits and repackage bonds referenced to</u>	<u>Amount</u>	<u>Due Date</u>
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds	USD 5 million	2004.08.01
Siliconwave Precision Industries Co., Ltd. European Convertible Bonds and Loans	NTD 210 million	2004.07.30
King Yuan Electronics Co., Ltd. European Convertible Bonds	USD 4.2 million	2004.04.18
Chi Feng Blinds Industry Co., Ltd. European Convertible Bonds	USD 2 million	2005.12.19
Stark Technology, Inc. European convertible Bonds	USD 5 million	2004.07.10
UMCi Ltd. Loans	USD 15 million	2004.03.10
UMC Japan European Convertible Bonds	JPY 1,000 million	2007.03.28
UMC Japan European Convertible Bonds	JPY 600 million	2007.11.29
UMC Japan European Convertible Bonds	JPY 400 million	2007.11.02
The Company's Convertible Bonds	NTD 100 million	2004.03.05
Cathay Financial Holding Co., Ltd. European Convertible Bonds	USD 3 million	2005.05.23
Cathay Financial Holding Co., Ltd. European Convertible Bonds	USD 2 million	2005.05.23
Fubon Holding Co., Ltd., Siliconwave Precision Industries Co., Ltd. and the Company's European Convertible Bonds	USD 5 million	2004.07.30

UMCJ

<u>Credit-linked deposits and repackage bonds referenced to</u>	<u>Amount</u>	<u>Due Date</u>
UMC Japan European Convertible Bonds	JPY 1,000 million	2007.03.29
UMC Japan European Convertible Bonds	JPY 2,000 million	2007.11.28
UMC Japan European Convertible Bonds	JPY 1,100 million	2007.03.29

b. Credit risk

The counterparties of the above investments are major international financial institutions. The repayment in full of these investments is subject to the non-occurrence of one or more credit events, which are referenced to the entities' fulfillment of their own obligations as well as repayment of their corporate bonds. Upon the occurrence of one or more of such credit events, the Company and its subsidiary UMCJ may receive nil or less than full amount of these investments. The Company and its subsidiary UMCJ have selected reference entities with high credit ratings to minimize the credit risk.

c. Liquidity risk

Early withdrawal is not allowed for the above investments unless called by the issuer. However, the anticipated liquidity risk is low since most of the investments will be matured within 1 year or are relatively liquid in the secondary market.

d. Market risk

There is no market risk for the above investments except for the fluctuations in the exchange rates of US Dollars and Japanese Yen to NT Dollars at the balance sheet date and the settlement date.

(4) The Company entered into interest rate swap and forward contracts and its subsidiaries, UMCi and UMCJ, entered into forward contracts for hedging the interest rate risks arising from the counter-floating rate of domestic bonds and for hedging the exchange rate risks arising from the net assets or liabilities denominated in foreign currency. The hedging strategy was developed with the objective to reduce the market risk, and not for trading purpose. The relevant information on the derivative financial instruments entered into by the Company and its subsidiaries, UMCi and UMCJ, is as follows:

- a. The Company utilized interest rate swap agreements to hedge its interest rate risks on its counter-floating rate domestic bonds issued from May 21 to June 24, 2003. The periods of the interest rate swap agreements are the same as those of the domestic bonds, which are five and seven years. The floating rate is reset annually. The details of interest rate swap agreements are summarized as follows:

As of December 31, 2004, and 2003, the Company had the following interest rate swap agreements in effect:

<u>Notional Amount</u>	<u>Contract Period</u>	<u>Interest Rate Received</u>	<u>Interest Rate Paid</u>
NT\$7,500 million	May 20, 2003 to May 20, 2008	4.0% minus USD	1.52%
		12-month LIBOR	
NT\$7,500 million	May 20, 2003 to May 20, 2010	4.3% minus USD	1.48%
		12-month LIBOR	

- b. The details of forward contracts entered into by the Company and its subsidiaries, UMCi and UMCJ, are summarized as follows:

As of December 31, 2004

The Company

<u>Type</u>	<u>Notional Amount</u>	<u>Contract Period</u>
Forward contracts	Sell USD 77 million	December 23, 2004 to January 20, 2005

UMCJ

<u>Type</u>	<u>Notional Amount</u>	<u>Contract Period</u>
Forward contracts	Sell USD 10 million	December 30, 2004 to January 4, 2005

As of December 31, 2003

UMCi

<u>Type</u>	<u>Notional Amount</u>	<u>Contract Period</u>
-------------	------------------------	------------------------

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Forward contracts

Buy EUR 67 million
Sell USD 84 million

December 31, 2003 to January 26, 2004

c. Transaction risk

(a) Credit risk

There is no significant credit risk exposure with respect to the above transactions because the counterparties are reputable financial institutions with good global standing.

(b) Liquidity and cash flow risk

The cash flow requirements on the interest rate swap agreements are limited to the net interest payables or receivables arising from the differences in the swap rates. The cash flow requirements on forward contracts are limited to the net difference between the forward and spot rates at the settlement date. Therefore, no significant cash flow risk is anticipated since the working capital is sufficient to meet the cash flow requirements.

(c) Market risk

Interest rate swap agreements and forward contracts are intended for hedging purposes. Gains or losses arising from the fluctuations in interest rates and exchange rates are likely to be offset against the gains or losses from the hedged items. As a result, no significant exposure to market risk is anticipated.

d. The presentation of derivative financial instruments on financial statements

The net receivables or payables resulting from interest rate swap and forward contracts were recorded under current assets or current liabilities.

As of December 31, 2004 and 2003, the balances of current assets arising from interest rate swap were NT\$36 million and NT\$129 million, respectively.

As of December 31, 2004, the balance of current assets arising from forward contracts was NT\$39 million and related exchange loss in NT\$260 million was recorded under non-operating expenses for the year ended December 31, 2004.

11. ADDITIONAL DISCLOSURES

(1) The following are additional disclosures for the Company and its affiliates pursuant to SFC requirements:

a. Financing provided to others for the year ended December 31, 2004 : Please refer to Attachment-1.

b. Endorsement/Guarantee provided to others for the year ended December 31, 2004 : Please refer to Attachment-2.

- c. Securities held as of December 31, 2004 : Please refer to Attachment-3.
- d. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2004 : Please refer to Attachment-4.
- e. Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2004 : Please refer to Attachment-5.
- f. Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2004 : Please refer to Attachment-6.
- g. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2004 : Please refer to Attachment-7.
- h. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock as of December 31, 2004 : Please refer to Attachment-8.
- i. Names, locations and related information of investee companies as of December 31, 2004 : Please refer to Attachment-9.
- j. Derivative financial instruments: Please refer to Note 10.

(2) Investment in Mainland China

None.

12. SEGMENT INFORMATION

(1) Operations in different industries

The Company operates principally in one industry, and the major business is operating as a full service semiconductor foundry.

(2) Operations in different geographic areas

The Company has no foreign operations.

(3) Export sales

Area	For the year ended December 31,	
	2004	2003
North America	\$ 50,821,309	\$ 33,456,822
Europe	19,021,413	12,438,120
Asia, excluding Taiwan	9,936,353	6,882,560
Total export sales	\$ 79,779,075	\$ 52,777,502

(4) Major customers

Individual customers accounting for at least 10% of net sales for the years ended December 31, 2004 and 2003 are as follows:

Customers	For the year ended December 31,			
	2004		2003	
	Sales amount	Percentage	Sales amount	Percentage
Customer A	\$ 53,751,976	46	\$ 35,062,132	41
Customer B	19,685,139	17	6,447,584	7
Customer C	7,692,163	6	8,185,306	10
Total	\$ 81,129,278	69	\$ 49,695,022	58

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ATTACHMENT-1 (Financing provided to others for the year ended December 31, 2004)

(Amount in thousand; Currency denomination in NTD unless otherwise specified)

	Counterparty	Financial statement account	Maximum balance for the period	Ending balance	Interest rate	Nature of financing	Amount of sales to (purchases from) counterparty	Reason for financing	Allowance for doubtful accounts	Collateral		Limit of financing amount
										Item	Value	
(USA)	Former Employees	Receivable from employees loans	USD 986	USD 986	7%	Note	None	Employee loan	USD295	Securities	Lower	N

Note : Need for short-term financing.

ATTACHMENT-2 (Endorsement/Guarantee provided to others for the year ended December 31, 2004)

(Amount in thousand; Currency denomination in NTD unless otherwise specified)

Endorsor/Guarantor	Counterparty	Relationship	Limit of guarantee/endorsement amount for individual counterparty	Maximum balance for the period	Ending balance	Amount of collateral guarantee/endorsement	Ratio of accumulated guarantee amount to net assets value from the latest financial statement	Limit of total guarantee/endorsement amount
UMCi Ltd.	UMCi Ltd. employees	Employees	N/A	USD 5,268				N

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ATTACHMENT-3 (Securities held as of December 31, 2004)

(Amount in thousand; Currency denomination in NTD unless otherwise specified)

United Microelectronics Corporation

									December 31, 2004				
Type of securities	Name of securities	Relationship	Financial statement account	Units(thousand)/		Percentage of	Market		Shares as				
				bonds/	shares(thousand)		Book value	ownership(%)		value/	Net assets	value	collateral
Convertible bonds	King Yuan Electronics Co., Ltd.		Short-term investment	800	\$ 271,600		\$ 242,395		None				
Convertible bonds	EPISTAR Corporation		Short-term investment	100	34,140		31,640		None				
Convertible bonds	Ching Feng Home Fashions Co., Ltd.		Short-term investment	2,000	68,300		63,280		None				
Convertible bonds	International Semiconductor Technology Ltd.		Short-term investment	4,000	135,800		113,271		None				
Convertible bonds	Everlight Electronics Co., Ltd.		Short-term investment	100	33,745		31,640		None				
Convertible bonds	Siliconware Precision Industries		Short-term investment	8,000	270,120		230,656		None				
Convertible bonds	Mega Financial Holding Company	The Company is its director and supervisor	Short-term investment	5,000	166,650		160,573		None				
Convertible bonds	Quanta Storage Inc.		Short-term investment	4,500	152,778		131,702		None				
Convertible bonds	L & K Engineering Co., Ltd.		Short-term investment	3,000	98,925		94,920		None				
Convertible bonds	EDOM Technology Co., Ltd.		Short-term investment	60	201,990		189,840		None				
Convertible bonds	Action Electronics Co., Ltd.		Short-term investment	10,000	322,200		316,400		None				
Stock	SpringSoft, Inc.		Short-term investment	8,183	415,728		537,754		None				
Stock	King Yuan Electronics Co., Ltd.		Short-term investment	20,076	356,781		440,634		None				
Stock	SerComm Corporation	Subsidiary s equity investee	Short-term investment	129	3,093		3,497		None				
Stock	Yang Ming Marine Transport Corp.		Short-term investment	3,254	128,057		97,526		None				
Stock	Micronas Semiconductor		Short-term investment	280	398,672		405,530		None				

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	Holding AG							
Stock	UMC Group (USA)	Investee company	Long-term investment	16,438	720,500	100.00	720,500	None
Stock	United Foundry Service, Inc.	Investee company	Long-term investment	2,005	103,881	100.00	103,881	None
Stock	United Microelectronics (Europe) B.V.	Investee company	Long-term investment	9	284,568	100.00	271,242	None
Stock	UMC Capital Corporation	Investee company	Long-term investment	55,000	1,310,493	100.00	1,310,493	None
Stock	United Microelectronics Corp. (Samoa)	Investee company	Long-term investment	700	5,854	100.00	5,854	None
Stock	UMCi Ltd.	Investee company	Long-term investment	880,006	26,582,778	100.00	23,076,037	None
Stock	Fortune Venture Capital Corporation	Investee company	Long-term investment	299,994	2,354,878	99.99	2,543,963	None
Stock	Hsun Chieh Investment Co., Ltd.	Investee company	Long-term investment	1,417,294	10,296,356	99.97	21,212,798	None
Stock	United Microdisplay Optronics Corp.	Investee company	Long-term investment	104,345	441,618	83.48	441,618	None
Stock	Pacific Venture Capital Co., Ltd.	Investee company	Long-term investment	30,000	304,810	49.99	304,873	None
Stock	UMC Japan	Investee company	Long-term investment	484	8,842,456	47.42	6,577,631	None
Stock	DuPont Photomasks Taiwan Ltd.	Investee company	Long-term investment	106,621	1,058,515	45.35	1,058,439	None
Stock	Unitech Capital Inc.	Investee company	Long-term investment	21,000	730,930	42.00	730,930	None
Stock	Holtek Semiconductor Inc.	Investee company	Long-term investment	48,980	731,442	25.23	1,704,077	None
Stock	Integrated Technology Express Inc.	Investee company	Long-term investment	24,229	281,313	22.23	294,702	None
Stock	Unimicron Technology Corp.	Investee company	Long-term investment	185,626	3,465,809	21.43	4,057,221	None
Stock	Faraday Technology Corp.	Investee company	Long-term investment	47,682	794,298	18.38	2,307,615	None
Stock	Novatek Microelectronics Corp.	Investee company	Long-term investment	72,775	1,615,328	18.30	7,402,632	None
Stock	Applied Component Technology Corp.	Investee company	Long-term investment	8,848	19,874	16.44	76,228	None
Stock	Silicon Integrated Systems Corp.	Investee company	Long-term investment	219,092	4,226,303	16.16	2,634,800	None

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ATTACHMENT-3 (Securities held as of December 31, 2004)

(Amount in thousand; Currency denomination in NTD unless otherwise specified)

United Microelectronics Corporation

				December 31, 2004					
Type of securities	Name of securities	Relationship	Financial statement account	Units(thousand)/ bonds/ shares(thousand)	Book value	Percentage of ownership(%)	Market value/ Net assets value	Shares as collateral (thousand)	
Stock	AMIC Technology Corporation	Investee company	Long-term investment	16,200	\$ 79,395	11.83	\$ 112,753	None	
Stock	MediaTek Incorporation	The Company is its supervisor	Long-term investment	77,428	969,048	10.06	16,384,438	None	
Stock	United Industrial Gases Co., Ltd.		Long-term investment	13,185	146,250	8.11	Note	None	
Stock	Industrial Bank of Taiwan Corp.		Long-term investment	118,303	1,139,196	4.95	Note	None	
Stock	Subtron Technology Co., Ltd.		Long-term investment	11,520	172,800	4.92	Note	None	
Stock	Billionton Systems Inc.	The Company is its director	Long-term investment	1,826	30,948	2.77	33,209	None	
Stock	AU Optronics Corp.		Long-term investment	71,215	959,082	1.44	3,136,529	None	
Stock	Mega Financial Holding Company	The Company is its director and supervisor	Long-term investment	95,577	3,108,656	0.84	2,034,161	None	
Stock	Premier Image Technology Corporation		Long-term investment	3,395	27,964	0.59	93,468	None	
Fund	Pacific Technology Partners, L.P.		Long-term investment		336,099		Note	None	
Fund	Pacific United Technology, L.P.		Long-term investment		126,560		Note	None	
Stock-Preferred stock	Taiwan High Speed Rail Corporation		Long-term investment	30,000	300,000				