



# United Microelectronics Corporation

## 2002 Annual Report

**Corporate Information**

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***Deputy Spokesperson***

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**United Microelectronics Corporation**  
**2002 Annual Report**

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## Dear Shareholders,

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

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

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

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

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



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

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

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

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

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

**UMC Board of Directors and Key Management Staff**



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

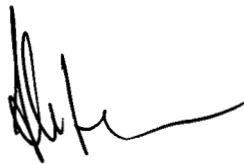


started to take shipments of products built on our leading-edge process technology. By the end of the year, 0.13-micron shipments accounted for 6% of our revenues. 0.18-micron and 0.15-micron shipments also experienced significant growth as these technologies became firmly positioned in the mainstream.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

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



Robert H.C. Tsao  
Chairman, UMC



John Hsuan  
CEO, UMC







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

# Corporate Overview

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# Corporate Profile

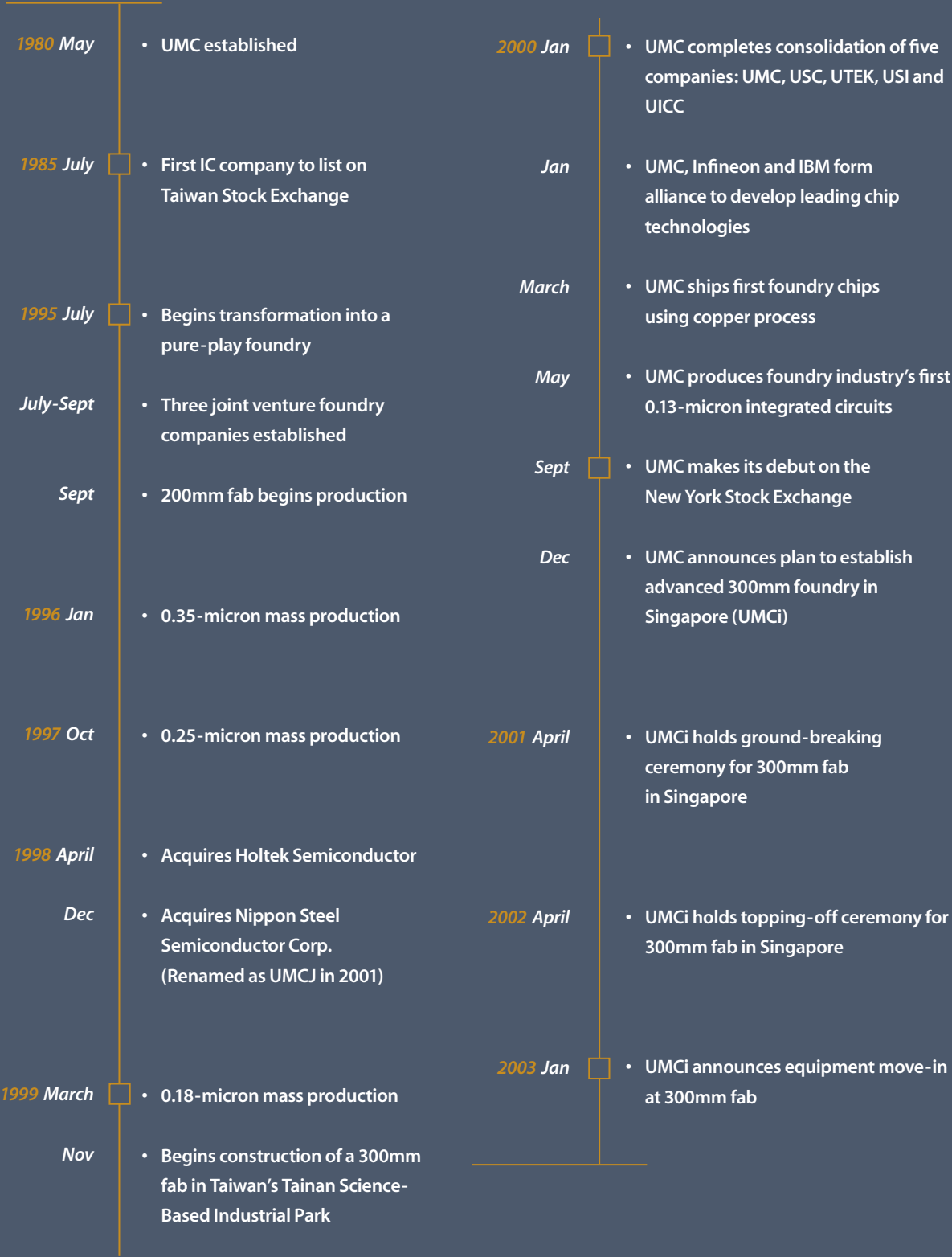
UMC is a world-leading semiconductor foundry that manufactures advanced process ICs for applications spanning every major sector of the semiconductor industry. The company's cutting-edge foundry technologies enable the creation of faster and more powerful chips to meet today's demanding applications. UMC's technology portfolio includes a wide range of advanced materials and processes, including copper interconnects, low-k dielectrics, embedded DRAM, and mixed signal/RF CMOS. As an industry pioneer, it was the first foundry to ship wafers using copper materials; the first to produce chips using 0.13-micron processes; the first to produce chips on 300mm wafers; and the first to deliver functional 90-nano-meter ICs to its customers.

UMC led the development of a commercial

semiconductor industry in Taiwan. It was the first local company to offer foundry services, as well as the first semiconductor company to list on the Taiwan Stock Exchange (1985). UMC is responsible for many local industry innovations, including the introduction of an employee share bonus system, often credited as a primary factor in the development of a prominent electronics industry in Taiwan. UMC employs over 8,500 people worldwide, and over 60% of the employees have advanced degrees. With sales offices in Taiwan, Japan, Singapore, Mainland China, Europe, and the United States, UMC has an extensive service network to meet the needs of its global clientele.

**Date of Incorporation** May 22, 1980

# Major Milestones



# Corporate Organization



## Directors' and Supervisors' Information

Name	Title	Date Elected (Date Assumed)	Term (Yrs.)	Shareholding When Elected		Present Shareholding		Spouse & Minor Shareholding	
				Common Shares	(%)	Common Shares	(%)	Common Shares	(%)
Robert H.C. Tsao	Director, Chairman	2001.5.30 (2001.6.6)	3	60,266,853	(0.53)	79,702,912	(0.52)	4,089,640	(0.03)
John Hsuan	Director	2001.5.30	3	56,275,121	(0.49)	76,688,847	(0.50)	4,813,235	(0.03)
Peter Chang	Director	2001.5.30	3	366,007,905	(3.19)	484,045,453	(3.13)	–	(–)
Peter J. Courture	Director	2001.5.30	3	23,142,600	(0.20)	30,606,088	(0.20)	–	(–)
Hong-Jen Wu	Director	2001.5.30	3	55,542,240	(0.48)	73,454,612	(0.47)	–	(–)
Ching-Chang Wen	Director	2001.5.30	3	55,542,240	(0.48)	73,454,612	(0.47)	–	(–)
Chris Chi	Director	2001.5.30	3	23,142,600	(0.20)	30,606,088	(0.20)	–	(–)
Fu-Tai Liou	Director	2001.5.30	3	35,838,584	(0.31)	47,396,526	(0.31)	–	(–)
Stan Hung	Director	2001.5.30	3	35,838,584	(0.31)	47,396,526	(0.31)	–	(–)
Tsing-Yuan Hwang	Director	2001.5.30	3	366,007,905	(3.19)	484,045,453	(3.13)	–	(–)
Tzyy-Jang Tseng	Supervisor	2001.5.30	3	366,007,905	(3.19)	484,045,453	(3.13)	–	(–)
Mao-Chung Lin	Supervisor	2001.5.30	3	10,864,632	(0.09)	14,368,474	(0.09)	718,739	(0.00)
Jack K.C. Wang	Supervisor	2001.5.30	3	16,102,632	(0.14)	21,295,729	(0.14)	189	(0.00)

**Notes** (1) Present shareholding figures are actual number of shares held on December 31, 2002. (2) Peter Chang represents Hsun Chieh Investment Co., Ltd; Peter J. Courture represents Chuin Li Investment Corporation; Hong-Jen Wu represents Chuin Tsie Investment Corporation; Ching-Chang Wen represents Chuin Tsie Investment Corporation; Chris Chi represents Chuin Li Investment Corporation; Fu-Tai Liou represents Shieh Li Investment Corporation; Stan Hung represents Shieh Li Invest-

## Officers' Information

Name	Title	Date Assumed	Present Shareholding		Spouse & Minor Shareholding	
			Common Shares	(%)	Common Shares	(%)
John Hsuan	CEO	2002.4.1	76,688,847	(0.50)	4,813,235	(0.03)
Peter Chang	President	2000.1.3	17,046,117	(0.11)	616,526	(0.00)
Hong-Jen Wu	Business Group President	1997.12.1	31,211,299	(0.20)	–	(–)
Ching-Chang Wen	Business Group President	2000.1.3	10,240,284	(0.07)	51,577	(0.00)
Chris Chi	CMO	2003.2.13	3,529,640	(0.02)	–	(–)
Fu-Tai Liou	Business Group President	2002.12.17	5,692,301	(0.04)	–	(–)
Stan Hung	CFO	2000.1.3	12,500,214	(0.08)	1,628,090	(0.01)

**Notes** (1) Shareholding figures are actual number of shares held on December 31, 2002. (2) Officers are not spouses or siblings of other managers. (3) Officers did not hold shares through other parties. (4) The remuneration amount includes the employee stock bonus and each share is calculated based on par value of NT\$10.

Experience	Also Serves Concurrently as
Chairman, UMC Group	Director, TECO Electric & Machinery Co., Ltd.; Director, Unimicron Technology Corp.; Chairman, Faraday Technology Corp.; Chairman, UMC Japan; Chairman, UMCi Pte. Ltd.; Director, Mega Financial Holding Company; Chairman, Fortune Venture Capital Corporation; Chairman, Hsun Chieh Investment Co., Ltd.
Chairman, UMC	Director, Unimicron Technology Corp.; Director, Faraday Technology Corp.; Director, UMC Japan; Director, UMCi Pte. Ltd.; Chairman, Silicon Integrated Systems Corp.; Director, Fortune Venture Capital Corporation; Director, Hsun Chieh Investment Co., Ltd.
Director, UMC	Director, UMC Japan; Director, UMCi Pte. Ltd.
Director, UMC	Director, UMC Group (USA); Director & President, United Foundry Service, Inc.; Director & President, UMC Capital (USA)
Director, UMC	Chairman, DuPont Photomasks Taiwan Limited; Director, AU Optronics Corp.; Director & President, UMC Japan
Director, UMC	Director, DuPont Photomasks Taiwan Limited
Director, UMC	Director and President, UMCi Pte. Ltd.
Director, UMC	None
CFO, UMC	Director, UMC Japan; Supervisor, TECO Electric & Machinery Co., Ltd.; Supervisor, Novatek Microelectronics Corp.; Supervisor, Springsoft Co., Ltd.; Director, Harvatek Corp.; Director, Mega Financial Holding Company; Director, Fortune Venture Capital Corporation; Supervisor, Hsun Chieh Investment Co., Ltd.
Executive Officer, Daiwa Securities SMBC Co., Ltd.	Executive Officer, Daiwa Securities SMBC Co., Ltd.; Director, President Chain Store Corp.; Director, Hon Hai Precision Industry Co., Ltd.
Chairman, Unimicron Technology Corp.	Chairman, Unimicron Technology Corp.; Director, Premier Image Technology Corporation; Chairman, Harvatek Corp.; Supervisor, Fortune Venture Capital Corp.
President, Sunrox International Inc.	President, Sunrox International Inc.
Chairman, Sen Dah Investment Co., Ltd.	Chairman, Sen Dah Investment Co., Ltd.

ment Corporation; Tsing-Yuan Hwang represents Hsun Chieh Investment Co., Ltd.; Tzyy-Jang Tseng represents Hsun Chieh Investment Co., Ltd. Hsun Chieh Investment Co., Ltd. is among the top 10 shareholders of the Company. (3) Directors and supervisors are not spouses or siblings of other managers, directors, and supervisors. (4) Directors' and supervisors' election date is the same day they assumed their positions. (5) No transportation allowances or remunerations were paid to directors and supervisors in 2002. (6) Directors and supervisors did not hold shares through other parties.

Experience	Also Serves Concurrently as	2002 Remuneration (Note 4)	Other Compensation (in thousand NTD)		Units of Stock Options Granted
			Home Rental	Automobile (Book Value)	
Chairman, UMC	As Detailed Above	Note 5	657	1,759	10,000,000
Director, UMC	As Detailed Above	Note 5	467	2,200	10,000,000
Director, UMC	As Detailed Above	Note 5	–	320	10,000,000
Director, UMC	As Detailed Above	Note 5	247	–	10,000,000
Director, UMC	As Detailed Above	Note 6	279	382	10,000,000
Director, UMC	None	Note 6	247	558	10,000,000
CFO, UMC	As Detailed Above	Note 6	–	–	10,000,000

(5) The remuneration amount of NT\$49,311 thousand is the sum of remunerations paid to John Hsuan, Peter Chang, Hong-Jen Wu, and Ching-Chang Wen. (6) The remuneration amount of NT\$26,011 thousand is the sum of remunerations paid to Chris Chi, Fu-Tai Liou, and Stan Hung.

## Directors’ and Supervisors’ Professional Knowledge and Independence Information

Name	Five or More Years Experience in Business, Law, Finance, or Corporate Business Related Fields	Independence Status (Note)							Remarks
		1	2	3	4	5	6	7	
Robert H.C. Tsao	Yes	-	✓	✓	-	-	✓	✓	-
John Hsuan	Yes	-	✓	✓	-	-	✓	✓	-
Peter Chang	Yes	-	✓	✓	✓	-	✓	-	Represents Hsun Chieh Investment Co., Ltd.
Peter J. Courture	Yes	-	✓	✓	✓	-	-	-	Represents Chuin Li Investment Corporation
Hong-Jen Wu	Yes	-	✓	✓	✓	-	✓	-	Represents Chuin Tsie Investment Corporation
Ching-Chang Wen	Yes	-	✓	✓	✓	-	✓	-	Represents Chuin Tsie Investment Corporation
Chris Chi	Yes	-	✓	✓	✓	-	✓	-	Represents Chuin Li Investment Corporation
Fu-Tai Liou	Yes	-	✓	✓	✓	✓	✓	-	Represents Shieh Li Investment Corporation
Stan Hung	Yes	-	✓	✓	-	-	✓	-	Represents Shieh Li Investment Corporation
Tsing-Yuan Hwang	Yes	-	✓	✓	✓	✓	✓	-	Represents Hsun Chieh Investment Co., Ltd.
Tzyy-Jang Tseng	Yes	-	✓	✓	✓	-	✓	-	Represents Hsun Chieh Investment Co., Ltd.
Mao-Chung Lin	Yes	✓	✓	✓	✓	✓	✓	✓	-
Jack K.C. Wang	Yes	✓	✓	✓	✓	✓	✓	✓	-

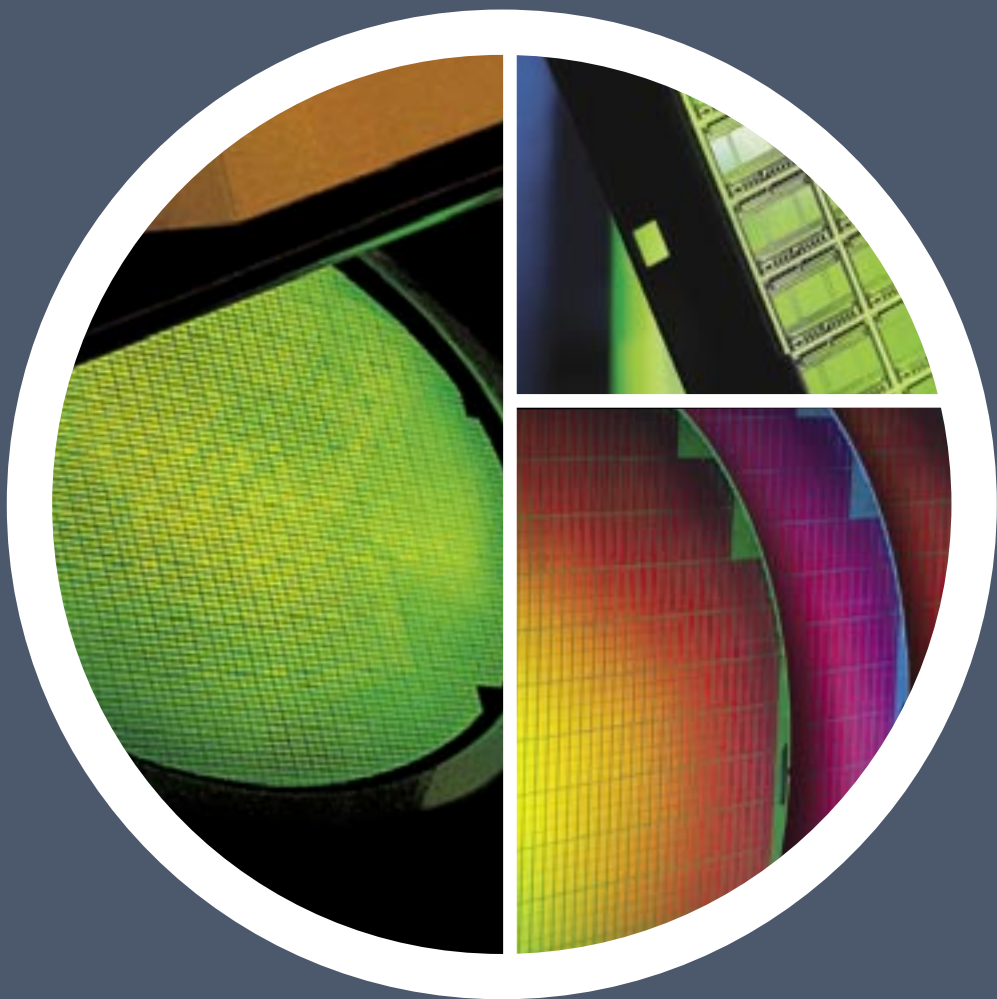
**Note** For those directors and supervisors who match the conditions listed below, " ✓ " is marked in the appropriate space. (1) Is not an employee of the Company; nor a director, supervisor, or employee of its affiliated enterprises. (2) Does not directly or indirectly own more than 1% of the Company's outstanding shares; nor is one of the top ten non-institutional shareholders of the Company. (3) Is not a spouse or immediate relation (child, parent, grandchild, grandparent, or sibling) to any person specified in the preceding two columns. (4) Is not a director, supervisor, or employee of a legal entity which directly or indirectly owns more than 5% of the Company's issued shares; nor a director, supervisor or employee of the top five legal entities which are owners of the Company's issued shares. (5) Is not a director, supervisor, or manager of a company which has a business relationship with the Company; nor a shareholder who owns more than 5% of such a company. (6) Is not an owner, partner, director, supervisor, manager or spouse of any sole proprietor business, partnership, company or institution which has provided the Company and its affiliates with financial, business consulting, or legal services in the past year. (7) Is not a legal entity owner or its representative pursuant to Article 27 of the ROC Company Law.

## List of Major Shareholders of UMC’s Major Institutional Shareholders

Major Institutional Shareholders	Major Shareholders of UMC's Major Institutional Shareholders
Hsun Chieh Investment Co., Ltd.	United Microelectronics Corporation
Chuin Tsie Investment Corporation	Robert H.C. Tsao, John Hsuan
Chuin Li Investment Corporation	Robert H.C. Tsao, John Hsuan
Shieh Li Investment Corporation	Robert H.C. Tsao, John Hsuan



**Advanced Technologies** – Advanced manufacturing technologies are key to UMC's competitiveness in the global semiconductor supply chain. UMC consistently introduces technologies ahead of the industry standard ITRS roadmap, and is unchallenged in its ability to move newly developed technologies to high volume production.



# Change in Shareholding of Directors, Supervisors, Officers and Major Shareholders

Unit: Share

Name	Title and/or Seats on Board	2002		2003	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Robert H.C. Tsao	Chairman, Director	10,396,032	–	–	–
John Hsuan	CEO, Director	10,872,458	–	–	–
Hsun Chieh Investment Co., Ltd.	Director (2), Supervisor (1)	63,136,363	–	–	–
Chuin Tsie Investment Corporation	Director (2)	9,581,036	61,654,612	–	–
Chuin Li Investment Corporation	Director (2)	3,992,098	10,801,098	–	–
Shieh Li Investment Corporation	Director (2)	6,182,155	30,876,526	–	–
Mao-Chung Lin	Supervisor	1,874,148	–	–	–
Jack K.C. Wang	Supervisor	2,777,703	–	–	–
Peter Chang	President	3,092,971	–	–	–
Hong-Jen Wu	Business Group President	4,905,821	–	–	–
Ching-Chang Wen	Business Group President	2,211,471	–	–	–
Chris Chi	CMO	1,160,040	–	–	–
Fu-Tai Liou	Business Group President	1,368,126	–	–	–
Stan Hung	CFO	1,756,549	–	–	–

Notes (1) No shareholders own 10% or more of UMC shares. (2) The data represented for 2003 was gathered until March 25, 2003. (3) Counterparts of the shareholding transferred or pledged are not related parties.

## Total Percentage of Ownership of Investees

Investees	UMC Investments		Investments from Directors, Supervisors, Managers, and Directly or Indirectly Controlled Businesses		Total Investments	
	Shares	Percentage of Ownership(%)	Shares	Percentage of Ownership(%)	Shares	Percentage of Ownership(%)
Applied Component Technology Corp.	12,067,800	23.66	0	0.00	12,067,800	23.66
Unimicron Technology Corp.	168,929,751	23.81	110,067,637	15.52	278,997,388	39.33
Faraday Technology Corp.	33,710,329	19.71	10,145,525	5.93	43,855,854	25.64
Fortune Venture Capital Corp.	299,994,000	99.99	2,000	0.00	299,996,000	99.99
Hsun Chieh Investment Co., Ltd.	1,417,294,000	99.97	209,500	0.02	1,417,503,500	99.99
Pacific Venture Capital Co., Ltd.	30,000,000	49.99	0	0.00	30,000,000	49.99
Novatek Microelectronics Corp.	74,610,600	25.83	22,050	0.01	74,632,650	25.84
Integrated Technology Express Inc.	24,111,187	24.58	3,772,040	3.84	27,883,227	28.42
DuPont Photomasks Taiwan Limited	99,747,891	45.51	0	0.00	99,747,891	45.51
Holtek Semiconductor Inc.	44,853,860	25.61	1,802,833	1.03	46,656,693	26.64
AMIC Technology (Taiwan), Inc.	16,200,000	13.62	15,576,533	13.10	31,776,533	26.72
United Microdisplay Optonics Corp.	76,499,000	85.00	0	0.00	76,499,000	85.00
Integrated Telecom Express Inc.	7,000,000	16.36	5,112,500	11.95	12,112,500	28.31
Archtek Telecom Corporation	14,200,000	26.49	0	0.00	14,200,000	26.49
UMC Group (USA)	16,437,500	100.00	0	0.00	16,437,500	100.00
United Foundry Service, Inc.	2,005,000	100.00	0	0.00	2,005,000	100.00
UMC Japan	479,092	47.06	44,880	4.41	523,972	51.47
UMCi Pte. Ltd.	212,250,000	49.82	10,125,020	2.38	222,375,020	52.20
UMC Capital Corporation	30,000,000	100.00	0	0.00	30,000,000	100.00
United Microelectronics Corp. (Samoa)	500,000	100.00	0	0.00	500,000	100.00
United Microelectronics (Europe) B.V.	9,000	100.00	0	0.00	9,000	100.00
Unitech Capital Inc.	21,000,000	42.00	0	0.00	21,000,000	42.00
MediaTek Incorporation	60,806,040	13.21	0	0.00	60,806,040	13.21
AU Optonics Corp.	455,276,250	11.37	12,190,466	0.31	467,466,716	11.68
TECO Electric & Machinery Co., Ltd.	77,079,134	4.02	0	0.00	77,079,134	4.02
SAMPO Corporation	17,773,137	1.73	193,983	0.02	17,967,120	1.75
Sino-Aerospace Investment Corp.	28,500,000	11.11	0	0.00	28,500,000	11.11
TECO Nanotech Co., Ltd.	19,416,757	8.05	2,925,876	1.22	22,342,633	9.27
United Industrial Gases Co., Ltd.	13,185,529	8.44	0	0.00	13,185,529	8.44
Mega Financial Holding Company	91,900,779	0.83	57,249,379	0.52	149,150,158	1.35
Premier Image Technology Corporation	2,939,515	0.64	1,112,700	0.24	4,052,215	0.88
Industrial Bank of Taiwan Corp.	119,424,849	5.00	0	0.00	119,424,849	5.00
Subtron Technology Co., Ltd.	16,000,000	7.41	7,800,000	3.61	23,800,000	11.02
Silicon Integrated Systems Corp.	48,483,000	4.46	47,406,000	4.35	95,889,000	8.81
Aptos Corp.	1,771,979	9.68	3,014,766	16.47	4,786,745	26.15
PixTech, Inc.	9,883,470	17.63	0	0.00	9,883,470	17.63
Vialta, Inc.	8,360,000	8.90	12,540,000	13.35	20,900,000	22.25
Pacific Technology Partners, L.P.	–	9.85	–	0.00	–	9.85
Tonbu, Inc.	937,500	–	2,000,000	–	2,937,500	–
Pacific United Technology, L.P.	–	25.00	–	0.00	–	25.00

Notes (1) The companies listed above are UMC's long-term investments. (2) Shareholding figures are actual number of shares held on December 31, 2002.

# Capital and Shares

## Source of Capital

Date	Issue Price	Authorized Shares		Issued Shares		Remarks		
		Shares (In thousands)	Total (In thousand NTD)	Shares (In thousands)	Total (In thousand NTD)	Source of Capital	Assets Other than Cash Used for Capital	Other
June, 2002	NT\$10 per share	22,000,000	220,000,000	15,474,845.6	154,748,456	Note	-	-

**Note** On June 24, 2002, the ROC SFC approved the issuance of NT\$21,391,502,300 from the capitalization of retained earnings. The Company's paid-in capital was increased to NT\$154,748,456,460.

Unit: share

Share Type	Authorized Shares		Allotment for Convertible Bonds	Allotment for Stock Option Certificates
	Issued Shares	Un-issued Shares		
TSE-listed Registered Common Shares	15,474,845,646	6,525,154,354	22,000,000,000	1,500,000,000
				2,000,000,000

**Note** TSE: Taiwan Stock Exchange

## Status of Shareholders

Stock: Common Share

Item	Government Agencies	Financial Institutions	Other Legal Entities	Domestic Individuals	Foreign Institutions & Individuals	Total
No. of Shareholders	13	57	1,318	806,363	1,338	809,089
Shareholding (shares)	659,287,684	710,547,749	2,113,723,260	6,984,806,469	5,006,480,484	15,474,845,646
Holding Percentage (%)	4.26	4.59	13.66	45.14	32.35	100.00

**Note** The data shown above was recorded on August 11, 2002, which was the record date for the distribution of 2001 stock dividends.

## Distribution of Common Shares

Class of Shareholding (unit: share)	No. of Shareholders	Shareholding (shares)	Holding Percentage (%)
1 - 999	177,681	67,727,272	0.44
1,000 - 5,000	400,133	941,976,206	6.09
5,001 - 10,000	110,149	771,355,767	4.98
10,001 - 15,000	46,159	561,579,028	3.63
15,001 - 20,000	21,034	361,690,489	2.34
20,001 - 30,000	21,336	517,778,976	3.35
30,001 - 50,000	15,155	577,756,430	3.73
50,001 - 100,000	9,574	655,283,867	4.23
100,001 - 200,000	4,145	565,726,975	3.66
200,001 - 400,000	1,803	492,542,177	3.18
400,001 - 600,000	586	286,263,778	1.85
600,001 - 800,000	245	169,341,315	1.09
800,001 - 1,000,000	202	179,218,334	1.16
Over 1,000,001	887	9,326,605,032	60.27
Total	809,089	15,474,845,646	100.00

**Notes (1)** The data shown above was recorded on August 11, 2002, which was the record date for the distribution of 2001 stock dividends. **(2)** The par value of a common share is NT\$10.

**UMC Fab 12A** – Our first 300mm fab is the pioneer for foundry manufacturing using the latest generation of IC production tools. Operating since 2001, Fab 12A has moved rapidly to 0.13-micron volume production and will soon offer UMC's 90-nanometer process on 300mm wafers.



## List of Major Shareholders

Shareholder's Name	Shareholding	
	Common Shares	Percentage (%)
Citicorp Financial Service Ltd., as representative of holders of the ADRs and as nominee for Citibank, N.A., as Depositary, pursuant to a Deposit Agreement, dated as of September 21, 2000 among United Microelectronics Corporation, the Depositary and holders and beneficial owners from time to time of the ADRs issued thereunder	868,467,235	5.61
Hsun Chieh Investment Co., Ltd.	484,045,453	3.13
Xilinx Holding Three Ltd.	352,666,664	2.28
Chiao Tung Bank	350,453,309	2.26
Chunghwa Post Co., Ltd.	276,189,195	1.78
Alliance Semiconductor (S.A.) (PTY) Ltd.	206,823,609	1.34
TECO Electric & Machinery Co., Ltd.	177,482,947	1.15
Ministry of Economic Affairs, ROC	177,055,963	1.14
SanDisk Corporation	176,333,331	1.14
Administrative Committee, Yao Hua Glass Co., Ltd.	162,173,447	1.05

*Note* The data shown above was recorded on August 11, 2002, which was the record date for the distribution of 2001 stock dividends.

## Market Price, Net Worth, Earnings, and Dividends per Share

				Unit: NTD
Item		2003 (Note 6)	2002	2001
Market Price per Share	Highest market price	23.80	57.00	61.50
	Lowest market price	19.20	20.00	23.40
	Average market price	20.89	37.66	44.90
Net Worth per Share	Before distribution	–	14.75	17.73
	After distribution	–	*	15.24
Earnings per Share	Weighted average shares	–	14,753,187,484	13,256,090,988
	Earnings per share (Note 1)	–	0.48	(0.24)
	Earnings per share (Note 2)	–	*	(0.20)
Dividend per Share	Cash dividends	–	*	–
	Stock dividends	Dividends from retained earnings	*	1.5
		Dividends from capital reserve	*	–
	Accumulated unappropriated dividend	–	–	–
Return on Investment	Price / Earning ratio (Note 3)	–	78.46	N/A
	Price / Dividends ratio (Note 4)	–	*	–
	Cash dividends yield rate (Note 5)	–	*	–

\* Subject to change following 2003 shareholders' meeting resolution.

**Notes** (1) The calculation of EPS was based on weighted average shares outstanding for the year. (2) The calculation of EPS was based on retroactive adjustment for capitalization of unappropriated earnings and bonus to employees. (3) Price / Earning ratio = Average market price / Earnings per share. (4) Price / Dividends ratio = Average market price / Cash dividends per share. (5) Cash dividends yield rate = Cash dividends per share / Average market price. (6) The data represented for 2003 was gathered until March 25, 2003.

## Dividend Policy and Status

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

- (a) Payment of all taxes and dues;
- (b) Offset prior years' operation losses;
- (c) 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, any portion of the remaining amount together with the prior years' unappropriated earnings is to be allocated as follows: no less than 5% as employees' bonus which will be settled through issuance of new shares of the Company.
- (f) The distribution of the remaining portion, if any, will be recommended by the board of directors and approved by the shareholders' meeting.

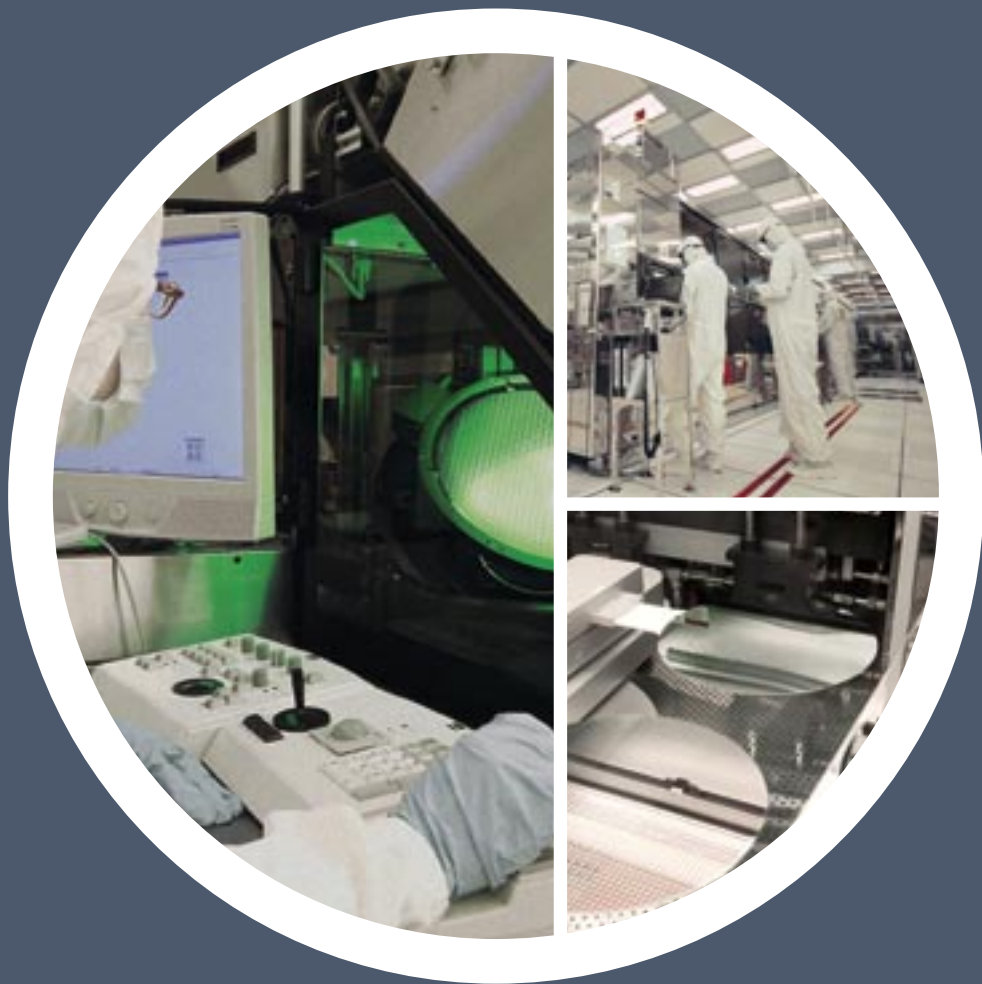
The Company is in its growth stage. The policy for distribution for share bonuses should reflect

such factors 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.

**Proposed Distribution of Dividend** The Company's proposal for dividend distribution in 2002 was passed on the 21<sup>st</sup> board meeting of the 8<sup>th</sup> term. This proposal, a stock dividend of 40 common shares for every 1,000 shares held, will be discussed at the annual shareholders' meeting.

**Impact of Stock Dividends on Operation Results and EPS** Not Applicable.

**World-class Manufacturing Efficiency** – UMC's fabs never rest, employing three rotating shifts to keep production lines working 24 hours a day. UMC's engineering teams constantly challenge themselves to set industry benchmarks for cycle times and yields.





## Employee Bonus and Directors’ and Supervisors’ Remuneration

According to the Company’s Articles of Incorporation, current year’s earnings, if any, shall be distributed in the manner described on page 21.

Information on the earnings per share and amount of employee bonus and remuneration to directors and supervisors passed by the board of directors:

The Company’s resolution on earning distribution was passed on the 21<sup>st</sup> and 23<sup>rd</sup> board meeting of the 8<sup>th</sup> term. Details regarding earning

distribution are as follows:

- (a) Stock distribution for employees is NT\$579,726,720 and remuneration paid to directors and supervisors is NT\$5,649,816.
- (b) Stock bonus for employees is 57,972,672 shares, accounting for 8.71% of the 2002 stock dividend.
- (c) In consideration of employee bonuses and remuneration to directors and supervisors, pro forma diluted EPS is NT\$0.44.

Details of the settlement of 2001 employee bonus and directors’ and supervisors’ remuneration are as follows:

Details		For the year ended December 31, 2001			
		As Approved by the Shareholders’ Meeting	As Recommended by the Board of Directors	Differences	Reasons for Differences
Settlement of Employees’ Bonus by Issuance of New Shares	Number of shares (in thousands)	171,132	171,132	–	–
	Amount (in thousand NTD)	1,711,320	1,711,320	–	–
	Percentage on total number of out-standing shares at end of year (%)	1.30	1.30	–	–
Remuneration paid to Directors and Supervisors (in thousand NTD)		0	0	–	–
Effect on (Loss) Earnings per Share Before Retroac-tive Adjustments	Basic and diluted loss per share (NTD)	(0.24)	(0.24)	–	–
	Pro forma basic and diluted loss per share taking into consideration of the employees’ bonus (NTD)	(0.37)	(0.37)	–	–

## Share Buy-back History

Instance	4 <sup>th</sup> Round	5 <sup>th</sup> Round	6 <sup>th</sup> Round
Purpose	To transfer to employees	For ECB conversion	To transfer to employees
Buy-back Period	2002.2.20-2002.4.19	2002.8.12-2002.10.11	2003.3.5-2003.5.4
Price Range (NTD)	31-71	21-54	13.8-31
Classification and Volume (shares)	49,114,000	20,693,000	53,450,000
Amount (NTD)	2,178,199,334	561,717,289	1,113,095,373
Cancellation and Transfer Volume (shares)	None	None	None
Cumulative Holding (shares)	215,574,000	236,267,000	289,717,000
Cumulated Holding as a Percentage of Total Issued Shares (%)	1.62	1.53	1.87

Notes (1) The data shown above includes transactions from January 1, 2002 to March 25, 2003. (2) Shares purchased are common shares.

# Corporate Bonds

Type	Secured Corporate Bonds	Unsecured Corporate Bonds	Unsecured Corporate Bonds
Issue Date	2000.4.27	2001.4.16 - 2001.4.27	2001.10.2-2001.10.15
Face Amount	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000
Listing Exchange	ROC OTC Securities Exchange	ROC OTC Securities Exchange	ROC OTC Securities Exchange
Issue Amount	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000
Issue Size	NT\$3.99 billion	NT\$15 billion	NT\$10 billion
Coupon Rate	5.60%	1A01-1A10:5.1850% 1A11-1A19:5.1195% 1B01-1B10:5.2850% 1B11-1B19:5.2170%	2A01-2A09:3.420% 2A10-2A17:3.3912% 2B01-2B09:3.520% 2B10-2B18:3.4896%
Maturity	5 years 2005.4.27	1A – 5 years 2006.4.16-2006.4.27 1B – 7 years 2008.4.16-2008.4.27	2A – 3 years 2004.10.2 - 2004.10.15 2B – 5 years 2006.10.2 - 2006.10.15
Guarantor	ICBC and twenty other banks	–	–
Trustee	Trust Dept., Chiao Tung Bank	Trust Dept., Chiao Tung Bank	Trust Dept., Chiao Tung Bank
Address of Trustee	2F, No.550, Sec 4, Chung Hsiao E. Road, Taipei, Taiwan ROC	2F, No.550, Sec 4, Chung Hsiao E. Road, Taipei, Taiwan ROC	2F, No.550, Sec 4, Chung Hsiao E. Road, Taipei, Taiwan ROC
Underwriter	Daiwa Global Securities Co., Ltd.	–	–
Registrar, Principal Paying, Conversion and Transfer Agent	–	–	–
Address of Agent	–	–	–
Legal Counsel	Chen & Lin Attorneys-at-Law	Chen & Lin Attorneys-at-Law	Chen & Lin Attorneys-at-Law
Auditor	PricewaterhouseCoopers	Diwan, Ernst & Young	Diwan, Ernst & Young
Redemption	Principal will be paid semi-annually after two years, in seven installments. Interest will be paid semi-annually.	1A is a 5-year term, and total size is NT\$7.5 billion. Principal will be paid after 3, 4, and 5 years at 30%, 30%, and 40% respectively. 1B is a 7-year term, and total size is NT\$7.5 billion. Principal will be paid after 5, 6, and 7 years at 30%, 30%, and 40% respectively. Interest will be paid annually.	2A is a 3-year term, and total size is NT\$5 billion. Principal will be paid in full after 3 years. 2B is a 5-year term, and total size is NT\$5 billion. Principal will be paid in full after 5 years. Interest will be paid annually.
Principal Payable	NT\$2.85 billion	NT\$15 billion	NT\$10 billion
Redemption	–	–	–
Covenant	–	–	–
Name of Rating Company, Date and Result of Rating	–	Taiwan Ratings Corporation, 2001.3.8, twAA	Taiwan Ratings Corporation, 2001. 8.28, twAA
Other Obligation	–	–	–
Effect due to Dilution	–	–	–
Name of Custodian	–	–	–

### Corporate Bonds (cont.)

Type	Zero Coupon Convertible Bonds Due 2004	
Issue Date	2001.12.12	
Face Amount	US\$10,000	
Listing Exchange	Luxembourg Stock Exchange	
Issue Amount	US\$10,000	
Issue Size	US\$302,400,000	
Coupon Rate	0%	
Maturity	2 years and 3 months ; 2004.3.1	
Guarantor	–	
Trustee	Citibank, N.A.	
Address of Trustee	Cottons Centre, Hays Lane, London SE1 2QT, United Kingdom	
Underwriter	Morgan Stanley	
Registrar, Principal Paying, Conversion and Transfer Agent	Citibank, N.A.	
Address of Agent	5 Carmelite Street, London EC4Y 0PA, United Kingdom	
Legal Counsel	Simpson Thacher & Bartlett	
Auditor	Diwan, Ernst & Young	
Redemption	Unless previously redeemed, repurchased, cancelled or converted, the bonds will be redeemed at 101.675% of their principal in accordance with the indenture.	
Principal Payable	US\$302,400,000	
Redemption or Early Redemption	After 1.5 years from the issue date, if the USD market value of the ADSs into which the bonds are convertible is at least 130% of the early redemption amount of the bonds for 20 out of 30 consecutive trading days prior to the publication of the redemption notice. The issuer may also redeem the bonds in whole but not in part at any time at the early redemption amount if less than 10% of the issue size in principal amount of the bonds remains outstanding pursuant to the provisions of the indenture.	
Covenant	–	
Name of Rating Company, Date and Result of Rating	–	
Other Obligation	Balance of converting (exchangeable or warrant) shares, ADSs, or other type of securities as of printing date	–
	Policy of issuing or converting (exchangeable or warrant)	Except during the closed period, the bonds are convertible at any time (1) into the common shares of the issuer, on or after 40 days after the issue date up to and including 10 days before the maturity date, or (2) into the ADSs representing the common shares of the issuer, on or after the date on which the shelf registration statement in respect of the ADSs and common shares into which the bonds are convertible undertaken to be filed by the issuer with the United States Securities and Exchange Commission (the Commission) is first declared effective by the Commission, but in no case later than 180 days after issue date, up to and including 10 days before the maturity date. Unless otherwise provided in the indenture, the closed period refers to (1) the period during which under the laws of the ROC, the issuer is required to close its stock transfer books, or (2) the period beginning on the 3rd business day prior to the date on which the issuer holds its board meeting for approving the annual dividend up to (and including) the dividend record date.
Effect on the Current Shareholders due to Dilution	The dilution effect to original shareholders is no more than 0.98% after conversion. The dilution effect is insignificant.	
Name of Custodian	–	

Continued on next page

Corporate Bonds (cont.)

Type	Zero Coupon Exchangeable Bonds Due 2007	
Issue Date	2002.5.10	
Face Amount	US\$10,000	
Listing Exchange	Luxembourg Stock Exchange	
Issue Amount	US\$10,000	
Issue Size	US\$235,000,000	
Coupon Rate	0%	
Maturity	5 years ; 2007.5.10	
Guarantor	-	
Trustee	Citibank, N.A.	
Address of Trustee	Cottons Centre, Hays Lane, London SE1 2QT, United Kingdom	
Underwriter	Lehman Brothers Inc.	
Registrar, Principal Paying, Exchange and Transfer Agent	Citibank, N.A.	
Address of Agent	5 Carmelite Street, London EC4Y 0PA, United Kingdom	
Legal Counsel	Simpson Thacher & Bartlett	
Auditor	Diwan, Ernst & Young	
Redemption	On the maturity date, the issuer will redeem the bonds at their principal amount plus accrued interest, if any, unless, prior to such date: (1) The issuer shall have redeemed the bonds at the option of the issuer, or the bonds shall have been redeemed at the option of the bondholders (2) The bondholders shall have exercised the conversion right before maturity; or (3) The bonds shall have been purchased by the issuer and cancelled.	
Principal Payable	US\$235,000,000	
Redemption or Early Redemption	(1) The issuer has the option to call all or any portion of the bonds on or at any time after 3 months after the issue date and prior to the maturity date based on the price to be agreed upon, if the closing price of the common shares on the Taiwan Stock Exchange in US dollars, calculated at the prevailing exchange rate, for each of the 20 consecutive trading days, the last of which occurring not more than 10 days prior to the date of the notice of such redemption, is at least 120% of the exchange price in effect on each such trading day translated into US dollars at the rate of exchange established on the pricing date. (2) The Company may redeem the outstanding bonds in whole, but not in part, at their principal amount in the event that 90% of the bonds have been previously exchanged, redeemed or purchased and cancelled. (3) The issuer may redeem all, but not part, of the bonds, at their principal amount in the event of changes in ROC taxation resulting in addition costs to the issuer.	
Covenant	-	
Name of Rating Company, Date and Result of Rating	-	
Other Obligation	Balance of converting (exchangeable or warrant) shares, ADSs, or other type of securities as of printing date	-
	Policy of issuing or converting (exchangeable or warrant)	(1) Bondholders have the right hereunder to exchange the bonds into common shares or ADSs of AU Optronics Corp. (AU). (2) The bondholders may, from forty days after the last issue date to the thirty days prior to the maturity date, exchange the bonds into the common shares or ADSs of AU as a substitute for the issuer's cash redemption. The detailed exchanging procedures and the rights and obligations of bondholders who exchange five business days prior to and during the closed period will be subject to the indenture and the paying, exchange and registrar agency agreement.
Effect on the Current Shareholders due to Dilution	The bonds are eligible to be exchanged into common shares or ADSs of AU. This will not result in any dilution effect to UMC shareholders.	
Name of Custodian	Citibank, N.A.	

Corporate Bonds (cont.)

Convertible Bonds Information

Zero Coupon Convertible Bonds Due 2004		2003	2002	2001.12.12 (Closing Date)
Issuance Conversion Price/	Common share	NT\$69.60	NT\$69.60	NT\$80.76
Adjusted Conversion Price	ADS (representing 5 common shares)	US\$10.10	US\$10.10	US\$11.72
Market Price	High	99.50	117.38	–
	Low	98.75	96.00	–
	Average	99.17	103.22	–
Underlying Conversion		Treasury Stock	Treasury Stock	Treasury Stock

**Note** The data represented for 2003 was gathered until March 25, 2003.

Exchangeable Bonds Information

Zero Coupon Exchangeable Bonds Due 2007		2003	2002	2002.5.10 (Closing Date)
The Quantity of Holding Exchanged Securities (Shares)		455,276,250	455,276,250	560,276,250
Exchangeable Price		NT\$58.25	NT\$58.25	NT\$59.34
Market Price	High	95.13	100.00	–
	Low	94.88	92.65	–
	Average	95.00	95.18	–
Reference Shares		Common Shares or ADSs of AU Optronics Corp.		

**Note** The data represented for 2003 was gathered until March 25, 2003.

Warrant Bonds Information

None.

Preferred Stock

None.

## American Depositary Receipts

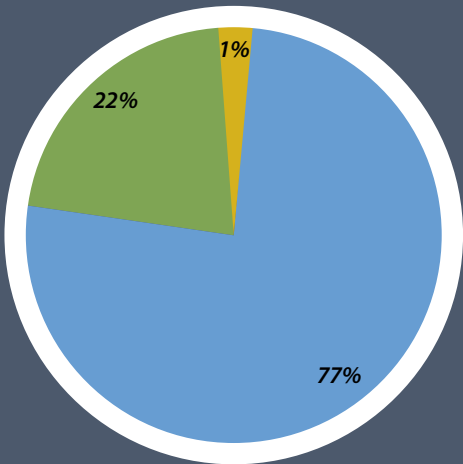
Issue Date	2002.9.9	2002.3.19	2001.8.17	2000.9.19
Listing Exchange	New York Stock Exchange	New York Stock Exchange	New York Stock Exchange	New York Stock Exchange
Issue Amount	Stock dividend	US\$439.7 million	Stock dividend	US\$1,291.5 million
Listing Price / Unit	–	US\$9.25	–	US\$14.35
Issue Shares	22,655,667	47,537,780	13,500,000	90,000,000
Underlying Representing Shares	UMC common shares	UMC common shares	UMC common shares	UMC common shares
Number of Equivalent Local Shares per ADS	5 shares	5 shares	5 shares	5 shares
Rights and Obligations of ADS Holder	Same as the common shareholder	Same as the common shareholder	Same as the common shareholder	Same as the common shareholder
Trustee	N/A	N/A	N/A	N/A
Depository Bank	Citibank, N.A.	Citibank, N.A.	Citibank, N.A.	Citibank, N.A.
Custodian Bank	Citibank, N.A. Taipei Branch	Citibank, N.A. Taipei Branch	Citibank, N.A. Taipei Branch	Citibank, N.A. Taipei Branch
Outstanding Balance	22,655,667	47,537,780	13,500,000	90,000,000
Issuing Expenses and Maintenance Fees	During the term of the ADR, the issuing expenses will be borne by the issuer, and maintenance fees will be borne by the Company.			
Important Terms and Conditions of Depositary Agreement and Custodian Agreement	–	–	–	–

## American Depositary Receipt Trading Data

Closing Price per Share (USD)	2003			2002		
	High	Low	Average	High	Low	Average
	3.85	2.96	3.32	11.08	2.98	6.15

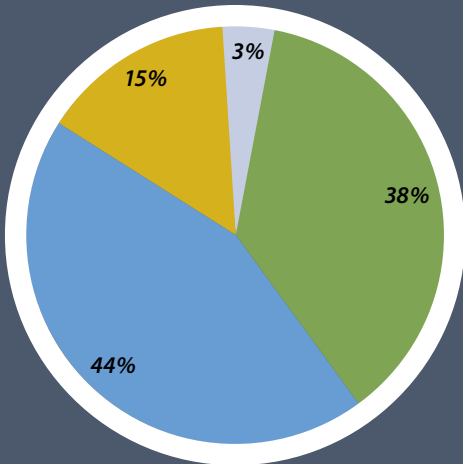
**Note** The data represented for 2003 was gathered until March 25, 2003.

# UMC 2002 Sales Breakdown



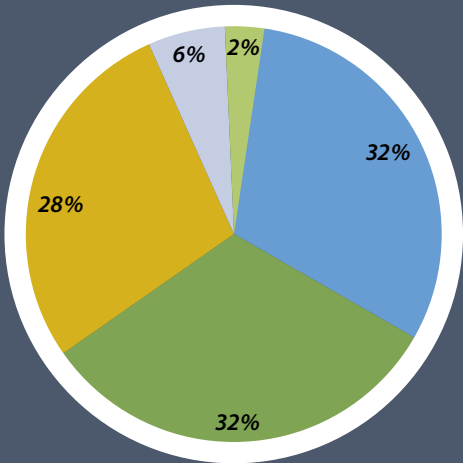
By Customer

Fabless IDM System



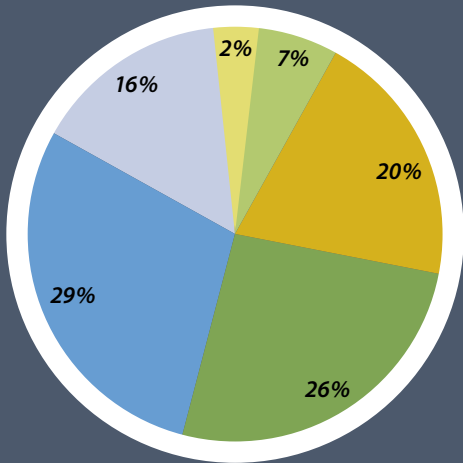
By Region

Asia North America  
Europe Japan



By Application

Communication Consumer  
Computer Memory Other



By Technology

0.35-micron 0.25-micron 0.18-micron  
≥0.5-micron 0.15-micron ≤0.13-micron

## Employee Stock Option Certificates

### Status of Stock Option Plan and Impact on Stockholders’ Equity

Type	Employee Stock Option Certificates (1 <sup>st</sup> Round)	Employee Stock Option Certificates (1 <sup>st</sup> Round)
Date of Approval	2002.9.11	2002.9.11
Issue Date	2002.10.7	2003.1.3
Units Issued	939,000,000	61,000,000
Ratio of Issue Shares to Outstanding Shares (%)	6.07	0.39
Vesting Period	2002.10.7-2008.10.6	2003.1.3-2009.1.2
Method for Performance of Contract	The issue of new shares	The issue of new shares
Vesting Schedule	The vesting period for employee options is 6 years. Employees may exercise up to 50% of the options after two years, up to 75% after three years and up to 100% after 4 years.	
Exercised Shares	0	0
Exercised Amount	0	0
Un-exercised Shares	939,000,000	61,000,000
Exercise Price	NT\$20.00	NT\$22.50
Ratio of Un-exercised Shares to Outstanding Shares (%)	6.07	0.39
Effect on Current Shareholders Due to Dilution	The strike price for the shares is the market price at the time of issue and the vesting period for employee options is 6 years. The dilution effect to current shareholders is insignificant.	

Notes (1) The data shown above was gathered until March 25, 2003. (2) The date of approval refers to the date when the ROC SFC approved the Stock Option Plan. (3) Each unit of the stock option entitles the recipient to subscribe to one share of the Company’s common shares.

### List of Officers and Top 10 Employees Participating in Employee Stock Option Plan

Title	Name	Units Granted	Units granted /total outstand- ing shares (%)	Un-exer- cised units	Exercise price	Un-exercised Amount (in thousand NTD)	Units un-exercised /total outstanding shares (%)
Chairman	Robert H.C. Tsao	10,000,000	0.06	10,000,000	20	200,000	0.06
CEO	John Hsuan	10,000,000	0.06	10,000,000	20	200,000	0.06
President	Peter Chang	10,000,000	0.06	10,000,000	20	200,000	0.06
Business Group President	Hong-Jen Wu	10,000,000	0.06	10,000,000	20	200,000	0.06
Business Group President	Ching-Chang Wen	10,000,000	0.06	10,000,000	20	200,000	0.06
CMO	Chris Chi	10,000,000	0.06	10,000,000	20	200,000	0.06
Business Group President	Fu-Tai Liou	10,000,000	0.06	10,000,000	20	200,000	0.06
CFO	Stan Hung	10,000,000	0.06	10,000,000	20	200,000	0.06
Vice President	W Y Chen	8,000,000	0.05	8,000,000	20	160,000	0.05
Vice President	Henry Liu	8,000,000	0.05	8,000,000	20	160,000	0.05

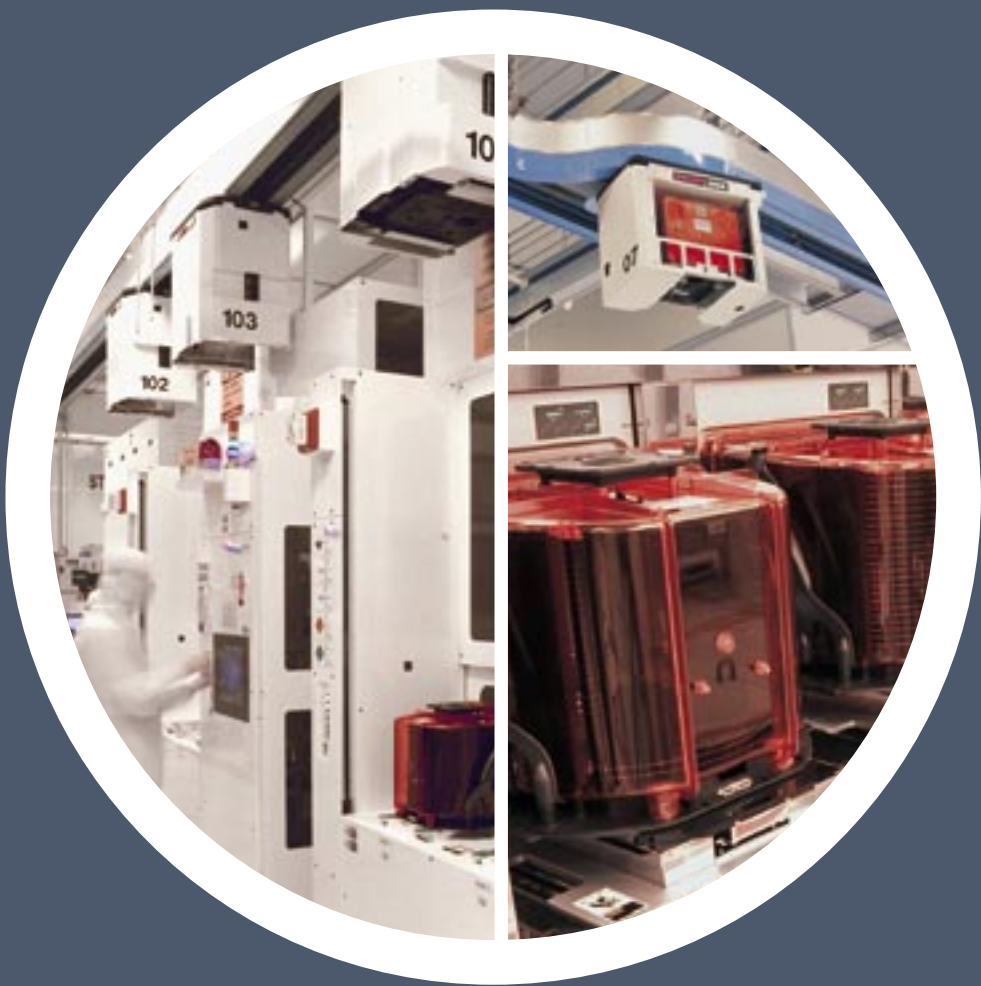
Notes (1) The data shown above was gathered until March 25, 2003. (2) Employees listed in this table are the top 10 holders of stock options and each subscrip- tion amount exceeds NT\$30 million.

## Mergers And Acquisitions or the Issue of New Shares to Acquire Another Company’s Shares

None.



**300mm Fab Automation** – UMC responds to the rigorous requirements for manufacturing efficiency, flexibility, and control with state-of-the-art automated systems featuring Front Opening Universal Pods (FOUPs), Automated Material Handling Systems (AMHS), and overhead Rail Guided Vehicles (RGV).



# Operations Overview



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# Business Scope

## Major Business

Full Service Semiconductor Wafer Foundry.

## Current Products and Services

UMC provides a variety of services to fit individual customer's needs, including intellectual property, embedded IC design, design verification, mask tooling, wafer fabrication, and testing. Wafer fabrication accounts for 95.5% of 2002 revenues.

## Future Products and Services

### *Advanced 90-nanometer and 65-nanometer Processes*

UMC has reached world-class manufacturing levels and leads most of the major semiconductor companies in the introduction of advanced deep sub-micron processes. In 2002, customer products were in volume production using UMC's advanced 0.13-micron copper technology. Significant progress is also being made for UMC's 90-nanometer

and 65-nanometer process development.

### *300mm Manufacturing Technologies*

UMC is a leader in 300mm manufacturing. UMC's 300mm facility in Taiwan's Tainan Science-Based Industrial Park, Fab 12A, began volume production in 2002. UMC's joint venture with Infineon, UMCi Pte. Ltd., began construction of a 300mm Fab in Singapore in 2001 and began equipment move-in in the first quarter of 2003. UMCi is scheduled for product qualification in the second quarter of 2003.

### *SoC Process Technologies*

In response to the growing trend towards System-on-Chip (SoC) products, UMC continues to develop resources for SoC designers including embedded memory macros, RF CMOS and mixed-signal processes, and other system integration technologies used for SoC designs.

Research & Development Achievements and Plans

The mandate of our R&D team is to provide the highest performance technologies at the lowest possible costs. In achieving this goal, we have consistently introduced our leading-edge technology ahead of the International Technology Roadmap for Semiconductor (ITRS) roadmap by one or two years. Furthermore, we continue to shorten the transition time between technology development and mass production, thereby improving the time-to-market margin for our customers. In 2002, over half of UMC’s revenue came from products built using 0.25-micron and below technologies, including 0.21-micron, 0.18-micron, 0.15-micron, and 0.13-micron processes.

Our 0.13-micron standard logic process is designed to offer the lowest process cost while incorporating multiple device options to accommodate different design applications, including High Speed, Standard Performance, and Low Leakage devices. Besides successfully delivering our 0.13-micron copper process and low-k inter-metal dielectric technology, our development team achieved breakthroughs in yield enhancement that enabled PC periphery, graphic, ASIC, MPU, PLD and communication customers to enter mass production of their products using this technology.

In addition to our 0.13-micron standard logic process, we also developed a Metal-Insulator-Metal capacitor (MIM capacitor) and inductor for our Mixed-Signal and RF CMOS technology platform, ideal for communications, digital consumer product, and internet applications.

With regard to our memory technologies, our development team has successfully developed and qualified 0.13-micron Deep-Trench embedded DRAM, 1T-SRAM, 6T-SRAM, embedded 6T-SRAM and embedded flash memory. With these technologies, UMC is the only foundry company that can provide low, medium, and very high density embedded memory solutions for leading-edge System-on-Chip (SoC) designs.

In 90-nanometer technology development, by the first quarter of 2003, we had successfully completed a pilot run and verified customer designs for this technology. We expect to begin volume production later in the year. This technology features 70-nanometer transistor gate lengths, 9 copper interconnect layers, and low-k inter-metal dielectric. In addition, we are cooperating with several Integrated Device Manufacturers (IDMs) early in the process development stage to jointly develop tailored technologies and shorten product development and manufacturing cycle times.

**Fundamental Research** Since becoming the first international member of the Semiconductor Research Corporation (SRC) in 2000, UMC has been an active participant on every SRC program, working with fellow member companies such as Intel, IBM, TI, Motorola, and AMD on fundamental research in semiconductor technologies. Through the SRC, UMC has facilitated the entry of many Taiwanese universities into international research programs. This experience helps cultivate more international-standard local designers and process engineers. These efforts further enhance UMC’s competitiveness while also encouraging competitive innovation among universities, whose students will form the future backbone of our industry.

**Patent Applications and Patents Granted** From the beginning of 2002 through March 25, 2003, UMC filed 515 patent applications. For the same period, UMC was granted 429 ROC patents, 320 U.S. patents, and 53 patents from other countries.

R&D Expenditures

In thousand NTD	2003	2002
Expenditures	963,730	7,031,971

*Note* The data represented for 2003 was gathered until March 25, 2003; the figure represented was unaudited.

## Market and Sales Conditions

**Major Sales Regions** UMC's technologies and services have proven themselves by contributing to the success of our customers, many of who are major players in the global IC industry. Currently, the majority of our customers are located in North America and Asia, with Europe following closely behind. Japanese customers' orders primarily go to UMC's subsidiary in Japan, UMCJ, although a few customers deal directly with UMC. To better diversify its customer base and reduce risk, UMC continues to place strong emphasis on the development of major accounts and advanced products in Japan.

**Market Share** UMC is a leading company in the foundry industry. UMC's sales revenue in 2002 was US\$1.94 billion, representing a global foundry market share of 26%. TSMC & Chartered are considered major competitors. Together, TSMC, UMC and Chartered are estimated to account for approximately 94% of the foundry market share. In 2002, sales revenues for TSMC and Chartered were US\$4.65 billion and US\$449 million, respectively. In 2002, TSMC and Chartered had a market share of 62% and 6%, respectively.

### **Future Market Supply, Demand, and Growth Potential**

According to reports by the World Semiconductor Trade Statistics (WSTS), the Semiconductor Industry Association (SIA), and IC Insights, the world semiconductor market in 2003 is estimated to grow about 15%-19%. The reports are also optimistic about the market outlook for 2004, and estimate growth of an additional 19%-21% in 2004.

Fabless design companies have historically performed better than the overall semiconductor market. Furthermore, increasing numbers of Integrated Device Manufacturers (IDMs) are adopting the strategy of using external foundry services. Therefore, the foundry service market is expected to grow at a faster rate than the overall semiconductor industry.

In 2001 and 2002, semiconductor companies significantly decreased their capacity expansion spending for advanced process technologies, which has led to a shortage in advanced technology capacity. This situation is expected to continue through 2003.

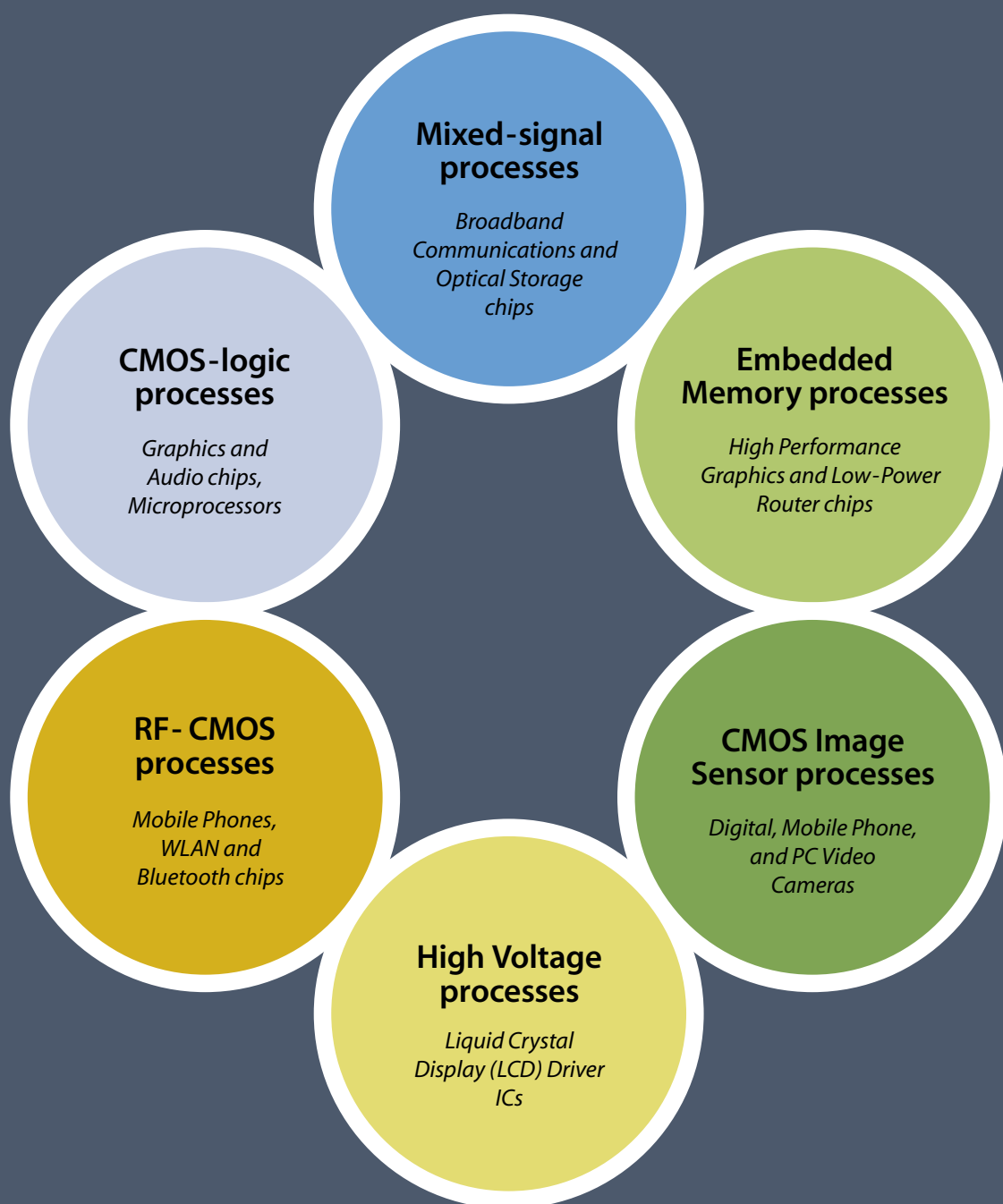
**Competitive Advantages** IC design companies in Taiwan are performing well, and are second only to North American IC design firms. UMC has a high market share in the Taiwan market and can directly enjoy the advantages accompanying the rapid growth of Taiwan's IC design companies.

The IC industry in Taiwan is well structured and is very competitive in terms of efficiency and cost. UMC plays an important role in the IC industry supply chain, and together with the Company's technology leadership, UMC is able to realize the competitive advantages of Taiwan's IC industry.

### **Positive Factors Relating to Future Development**

Considering the long-term steady growth of the IC industry, the relative advantages of foundry manufacturing, and UMC's technical excellence, we believe that the following factors will contribute positively to the future development of the Company:

- UMC has distinguished itself as a top-tier company in the foundry industry. The trend towards increased disintegration within the industry will create new opportunities for the Company as the market for foundry services continues to grow.
- Major IDMs are shifting their strategy to increase their use of external foundry services, which will help the growth of the foundry service market.
- UMC maintains stable long-term orders through its strategic alliances with global industry leaders.
- UMC has an exceptional management team that strongly emphasizes the research and development of advanced process technologies.
- UMC is the industry leader in the implementation of 300mm wafer production. The Company has a 300mm facility, Fab 12A, in the Tainan



### The Foundry Industry's Most Comprehensive Technology Portfolio

UMC serves its customers around the globe with an unparalleled portfolio of leading-edge process technologies, each optimized to meet the unique requirements of a wide range of consumer, communications, and computer applications.

## Market and Sales Conditions (cont.)

Science-Based Industrial Park. The Company also has another 300mm semiconductor foundry company in Singapore, UMCi Pte. Ltd., a joint venture with Infineon. UMC's aggressive expansion into 300mm capacity will help attract more outsourcing orders from IDMs and fabless companies.

- UMC is in volume production for 0.13-micron process technology. As the Company produces more advanced technology products, the Company reaps higher profits while offering customers value-added benefits.
- In response to the trend of producing greater numbers of SoC products, UMC continues to develop embedded memory macros, mixed-signal processes, and other system integration technologies used in SoC designs.
- After a year of consolidation with 1-3% growth in 2002, the global semiconductor market is estimated to grow at a significant rate of 15-19% in 2003.
- The industry is currently suffering from a shortage of advanced technology capacity. UMC is one of the very few foundries that can provide this type of capacity.

### Negative Factors Relating to Future Development

- The demand slowdown in the personal computer markets (from high growth to medium-low growth) may negatively influence the industry.
- The recent prosperity of the foundry market has attracted many new competitors into the market; this may negatively impact the market balance.

### Adaptations to Market Situation

- In response to other foundry market entrants, UMC will build on its competitive advantages, such as leading-edge technologies, high manufacturing yields, and comprehensive customer services. This will widen the gap with these new competitors, and differentiate UMC from the rest

of the industry. This strategy will ensure UMC remains a primary choice for foundry customers.

- The Company will strive to provide the most advanced technologies for various IC applications and simultaneously meet high performance, low power consumption needs while helping customers to reduce overall costs.
- UMC will also strengthen marketing effectiveness, strive for service excellence and continue with efforts to increase customer satisfaction.
- UMC will strengthen its partnerships with existing customers to facilitate enhanced growth for both the Company and its customers.

### Applications of Major Processes

- CMOS-logic processes: Chips for logic-calculation functions, e.g. graphics chips, audio chips, and microprocessors.
- Mixed-signal processes: Chips for processing mixed-signals, e.g. broadband communications and optical storage chips.
- RF CMOS processes: Chips for wireless communications, e.g. cellular phones, WLAN, and Bluetooth chips.
- Embedded memory processes: Chips combining logic and memory functions for high performance; low power consumption chips, e.g. graphics and router chips.
- High Voltage processes: for manufacturing LCD Driver ICs.
- CMOS Image Sensor processes: for manufacturing CMOS Image Sensors used in digital and PC cameras.

**Product Manufacturing Process** The IC manufacturing process can be broken down into five major steps including circuit design, mask tooling, wafer fabrication, assembly and test. UMC excels in the research and development of pioneering IC process technologies, and provides outstanding manufacturing capabilities and solutions for our customers to rapidly realize their designs in silicon.

# Major Vendors and Customers

## Major Vendors

In thousand NTD

2002			2001		
Name	Amount	Percent- age of Net Purchases	Name	Amount	Percent- age of Net Purchases
Shin-Etsu Handotai Taiwan Co., Ltd.	2,273,128	15	Shin-Etsu Handotai Taiwan Co., Ltd.	1,805,200	17
San Fu Chemical Co., Ltd.	952,321	6	San Fu Chemical Co., Ltd.	823,613	8
Applied Materials Taiwan	790,655	5	Formosa Komatsu Silicon Corporation	619,498	6
Taisil Electronic Materials Corp.	773,368	5	Taisil Electronic Materials Corp.	565,523	5
Marketch International Corp.	568,077	4	Marketch International Corp.	385,636	4
Formosa Komatsu Silicon Corporation	552,703	4	Mitsui & Co., Ltd.	342,712	3
TOPCO Scientific Co., Ltd.	469,125	3	Dery Resources Taiwan Inc.	314,784	3
Rodel Inc.	409,948	3	TOPCO Scientific Co., Ltd.	297,026	3
Air Liquide Far Eastern Ltd.	367,523	2	Wah Lee Industrial Corp.	238,690	2
Toshiba Ceramics Co., Ltd.	319,358	2	Applied Component Technology Corporation	234,153	2

*Reasons for changes in procurement amount* Purchase amounts increased in 2002 from the previous year because of increased needs and a consolidation of orders among fewer vendors to obtain lower prices.

## Major Customers

In thousand NTD

2002			2001		
Name	Amount	Percent- age of Net Sales	Name	Amount	Percent- age of Net Sales
UMC Group (USA)	27,917,057	41	UMC Group (USA)	27,055,238	42
a	7,313,672	11	United Microelectronics (Europe) B.V.	6,038,583	9
b	4,469,331	7	b	4,402,394	7
United Microelectronics (Europe) B.V.	3,822,123	6	a	3,569,172	6
c	2,810,606	4	d	2,453,032	4
d	2,762,128	4	c	1,558,517	2
e	1,468,483	2	h	1,085,535	2
f	1,436,216	2	g	1,058,715	2
g	1,266,681	2	e	1,031,611	2
h	1,250,554	2	f	999,170	2

*Reasons for changes in sales amount* Sales to a, c, e, and f in 2002 increased over 20% from 2001, primarily because of the semiconductor industry recovery and the increase in demand from market end users. However, sales to United Microelectronics (Europe) B.V. declined more than 20% from 2001, primarily because of a decrease in customer orders.



## Major Raw Materials Status

Material Categories	Major Vendors	Vendors' Market Position	UMC's Procurement Strategies
Raw Silicon Wafers	S.E.H. (manufactured in the U.S., Japan, Taiwan, and Malaysia)	UMC's vendors are major raw silicon wafer suppliers to the world. Their factories, located in the U.S., Japan, Taiwan, and throughout Southeast Asia, can consistently supply high-quality silicon wafers in sizes ranging from 150mm to 300mm.	1. UMC maintains good relationships with the world's major silicon wafer suppliers to assure a stable supply. 2. UMC's decision to procure wafers made locally has not only reduced logistical risks, but has also reduced costs. 3. UMC allocates procurement among its vendors according to their overall performance, which is evaluated quarterly by UMC's internal Suppliers Management Committee.
	MEMC (manufactured in the U.S. and Taiwan)		
	Komatsu (manufactured in Japan and Taiwan)		

## Production and Sales Figures

### Production Figures

	2002		2001	
	Quantity	Amount (In thousand NTD)	Quantity	Amount (In thousand NTD)
Wafers (pcs)	1,639,525	53,372,766	1,284,593	46,037,705
Chips (in thousands)	–	–	19,832	701,396
Packaged ICs (in thousands)	11,159	1,637,572	104,907	8,936,365
Total Amount		55,010,338		55,675,466
Capacity (pcs)	2,663,000		2,859,061	

**Note** Wafer quantity and capacity are expressed in 200mm wafer equivalents.

### Sales Figures

		2002		2001	
		Quantity	Amount (In thousand NTD)	Quantity	Amount (In thousand NTD)
Wafers (pcs)	Domestic	857,750	26,217,747	556,276	17,007,210
	Export	676,506	31,552,147	661,922	34,632,498
Chips (in thousands)	Domestic	863	71,947	15,897	176,930
	Export	40,843	4,864,833	32,842	3,394,360
Packaged ICs (in thousands)	Domestic	132	12,708	56,481	2,723,014
	Export	11,022	1,663,312	46,951	3,575,021
Total	Domestic		26,302,402		19,907,154
	Export		38,080,292		41,601,879

**Note** Wafer quantity is expressed in 200mm wafer equivalents.

# Employee Analysis

## Number of Employees

Year	2003	2002	2001
Engineers	3,851	4,113	3,753
Administrators	430	452	425
Clerks	88	91	114
Technicians	4,291	4,478	4,251
Total	8,660	9,134	8,543

## Average Age

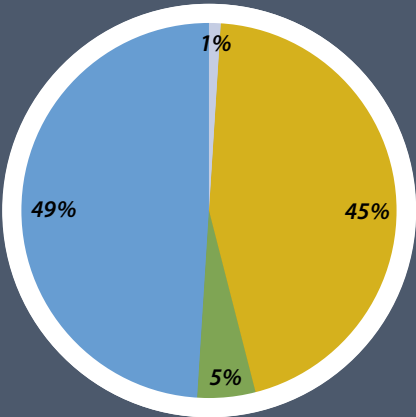
Year	2003	2002	2001
Average Age	30.0	30.9	30.5

## Average Years of Employment

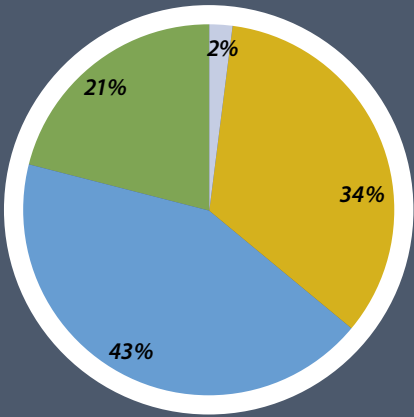
Year	2003	2002	2001
Average Number of Years	5.0	4.5	4.0

## Level of Education (%)

Year	2003	2002	2001
Ph.D.	1.5	1.5	1.5
Masters Degree	20.3	21.1	19.8
Bachelors/Associate Degree	43.4	43.3	42.5
Secondary School	34.3	33.6	35.6
Others	0.5	0.5	0.6



Technicians Engineers  
Administrators Clerks



Ph.D. Masters  
Bachelors/Associate  
Secondary and Others

*Note* The data represented for 2003 was gathered until March 25, 2003.

## Environmental Protection Information

At UMC, environmental protection is as important to us as the development of our core semiconductor business. Our achievements in this area have not gone unnoticed. The World Bank Group, during its 2002 Global Summit of Sustainable Development, recognized UMC's excellent environmental protection performance. This honor affirms UMC's belief that environmental protection is not only compatible with, but is a cornerstone of our business development. Our environmental management goals are not only to abide by local and international regulations, but also to be a responsible citizen of the global village by setting a positive example.

UMC's environmental protection and pollution control plan addresses all aspects of the environment. In 2002, capital expenditures for pollution control equipment were NT\$230 million and the average monthly operational cost was NT\$20 million. Monthly waste disposal fees were NT\$5 million and the annual cost for the environmental monitoring program was NT\$15 million. Major environmental protection expenses in the future will include: (a) the costs required to maintain or upgrade existing systems; (b) operational costs for pollution control equipment (NT\$20 million per month); (c) waste disposal fees (NT\$5 million

per month); and (d) the cost for the environmental monitoring program (NT\$10 million annually).

UMC employs professionals to implement its environmental policy, in areas ranging from pollution prevention to sustainable development. In the past year, UMC not only met environmental regulations, but also distinguished itself with its environmental protection performance. Over the years, UMC has received many widely recognized awards such as the National Outstanding Award of Environmental Protection, the National Outstanding Award of the Performance of Industrial Pollution Control, the Energy Conservation Award, the Green Office Award, the Excellent Environmental Professional Award, and the Excellent Award of 2002 Hsinchu City Environmental Report Assessment.

In 2002, Fab 12A received both certification for ISO-14001 and OHSAS-18001 (OHSAS, Occupational Health and Safety Assessment Series) by Det Norske Veritas (DNV) at the same time. UMC also achieved the integration of the ISO-14001 and OHSAS-18001 system in all its Taiwan fabs. In the future, UMC plans to further integrate its environmental protection, safety and health (ESH) management system into daily operations to realize its vision.

## Labor Relations

UMC places great importance on employee salaries and benefits, and actively engages in employee training, the enforcement of all labor laws, and the protection of employee rights, in an effort to provide the best possible working environment.

Employees can communicate with the management through many avenues, including departmental meetings, colleague symposiums, and opinion boxes. In addition, UMC offers employee-counseling services to further ensure the mental and physical health of UMC employees and to develop a well-balanced atmosphere between employees and management.

To provide our employees with a facility to

improve their health and well-being, UMC began building an employee recreation center in 2001, which subsequently opened in March 2003. The employee recreation center is equipped to support a variety of activities, such as sports, entertainment, the arts, and community meetings.

The Council of Labor Affairs and other organizations have recognized UMC's efforts in developing good labor relations. These organizations awarded UMC the Model Institution for the Promotion of Labor Welfare, Model Enterprise for the Promotion of Labor Education, and the Model Enterprise for Industrial Relations distinctions.

## Major Agreements

### Major Long-term Supply and Marketing Agreements

In order to maintain a worldwide marketing presence, UMC has entered into long-term distribution, sales, service and support agreements. In

addition, UMC has maintained a long-term supply business relationship with major wafer material vendors. The major contents of these agreements are described below:

Company Name	Contract Period	Major Contents	Limitations
UMC Group (USA)	2002.1.1-2003.12.31	Semiconductor products sales and relevant services	None material
United Microelectronics (Europe) B.V.	Indefinite Period	Semiconductor products sales and relevant services	None material
Shin-Etsu Handotai Taiwan Co., Ltd.	Indefinite Period	150mm, 200mm and 300mm raw wafer supply	None material

**Major License Agreements** UMC is committed to the protection and enhancement of intellectual property. Based on over twenty years of investment, UMC has been awarded more US patents in the semiconductor field than any other independent

foundry in the world. UMC also has cross licensing agreements with major semiconductor patent holders to ensure that customers do not face infringement claims as a result of UMC services. Some of the major licenses include:

Cross License (Company Name)	License Period	Fields of Protection	Limitations
American Telephone & Telegraph Corporation/ Lucent Technologies GRL Corporation/ Agere Systems Guardian Corporation	1999.1.1-2003.12.31	Process and topography	None material
Harris Corporation	1997.11.28-2003.12.31	Process and topography	None material
Hitachi, Ltd.	1999.4.8-2003.12.31	Process and topography	None material
International Business Machines Corporation	1998.8.1-2005.12.31	Process, topography and design	None material
Motorola, Inc.	1995.1.1-2002.12.31	Process, topography and design	None material
Texas Instruments Incorporated	1998.8.28-2007.12.31	Process, topography and memory content	None material

### Major Joint Venture and Construction Agreements

Company Name	Contract Period	Major Contents	Limitations
UMCi Pte. Ltd., Infineon Technologies AG, EDB Investments Pte Ltd.	Since 2001.3.30	UMC, UMCi, Infineon and EBD Investments entered into a joint venture in the Pasir Ris Wafer Fab Park in Singapore for the manufacture of 300mm wafers with leading technology; UMC will be the controlling shareholder with rights to more than 60% of the output.	None material
Various Construction or Engineering Companies, such as: Taiwan Kumagai Co., Ltd., Shing Chyou Engineering Co., Ltd., Hueng Luei Co., Ltd., Chung-Hsin Electric & Machinery Mfg Corporation, Go-In Engineering Co., Ltd.	2002.1.1-2003.12.31	UMC contracted with major construction and engineering companies to build or expand semiconductor facilities in the Hsinchu Science-Based Industrial Park and Tainan Science-Based Industrial Park with total contract amounts exceeding NT\$0.2 billion.	None material
Advanced Micro Devices, Inc.	2002.1.31- indefinite	UMC and AMD entered into agreements for joint development of 90-nanometer and 65-nanometer processes, a joint venture fabrication facility in Singapore, and a foundry relationship covering the manufacture of a significant portion of AMD's semiconductor fabrication needs. In December 2002, UMC and AMD verbally agreed to wind down their joint development efforts, but their other agreements remain in place.	AMD and UMC agreed to avoid using jointly developed processes in direct competition with one another.

Major Agreements (cont.)

**Major Long-term Loan Agreements** UMC is committed to building and maintaining state-of-the-art wafer fabrication facilities that will allow UMC to maintain its position as a premier independent wafer foundry and maintain the capacity needed

to support its continued growth. In order to provide the necessary capital required to support such projects, UMC has, from time to time, obtained loans from commercial banks. Some of these loans include:

Company Name	Contract Period	Major Contents	Limitations
Chinatrust Commercial Bank and 12 other participant banks	1995.2.23 – 2002.2.23	Chinatrust Commercial Bank arranged the syndicated loan and the facility amount was approximately NT\$8.8 billion. The loan was for Fab 8A's capital expenditure.	None material
Citibank and 13 other participant banks	1996.6.19 – 2002.8.2	Citibank arranged the syndicated loan and the facility amount was US\$100 million. The loan was for Fab 8A's capital expenditure.	None material
Chiao Tung Bank and 9 other participant Banks.	1996.6.20 – 2004.4.11	Chiao Tung Bank arranged the syndicated loan and the facility amount was approximately NT\$4.3 billion. The loan was for Fab 8E's capital expenditure.	None material
Chiao Tung Bank and 17 other participant Banks.	1996.9.20 – 2005.5.26	Chiao Tung Bank arranged the syndicated loan and the facility amount was approximately NT\$12.3 billion. The loan was for Fab 8C's capital expenditure.	None material
Chiao Tung Bank and 8 other participant Banks.	1998.2.18 – 2005.9.18	Chiao Tung Bank arranged the syndicated loan and the facility amount was approximately NT\$4.3 billion. The loan was for Fab 8E's capital expenditure.	None material
Citibank and 13 other participant banks	1998.8.18 – 2003.8.18	Citibank arranged the syndicated loan and the facility amount was NT\$2.7 billion. The loan was for Fab 8C's capital expenditure.	None material
Taiwan Cooperative Bank	1998.11.14 – 2009.5.14	UMC contracted with Taiwan Cooperative Bank for Testing Building financing. The facility amount was NT\$700 million.	None material
Taipei Bank	1999.3.25 – 2009.2.25	UMC contracted with Taipei Bank for United Tower Building financing. The facility amount was NT\$1.5 billion.	None material
Chiao Tung Bank and 13 other participant Banks.	1999.11.22 – 2007.9.25	Chiao Tung Bank arranged the syndicated loan and the facility amount was approximately NT\$3.9 billion. The loan was for Fab 8E's capital expenditure.	None material
The International Commercial Bank of China and 20 other participant Banks.	2000.1.28 – 2007.1.28	The International Commercial Bank of China arranged the syndicated loan and the facility amount was approximately NT\$8 billion. The loan was for Fab 8F's capital expenditure.	None material

Litigation and Non-litigated Incidents

In February 1997, Micron Technology Inc. (Micron) filed an antidumping petition regarding Static Random Access Memory (SRAM) made in Taiwan. An antidumping order, issued in April 1998, imposed various dumping duties on SRAM made in Taiwan, if and when those SRAM are imported into the USA. This order was subsequently reversed by the United States Court of International Trade, and that reversal was upheld, on September 21, 2001, by the United States Court of Appeals for the Federal Cir-

cuit. On January 3, 2002 (USA time), the US International Trade Commission announced in the Federal Register its final negative determination, made pursuant to this reversal. Accordingly, this matter will have no material effect on the Company's business or financial performance.

Oak Technology, Inc. (Oak) and UMC entered into a settlement agreement on July 31, 1997 concerning a complaint filed with the United States International Trade Commission (ITC) by Oak against

## Litigation and Non-litigated Incidents (cont.)

UMC 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. UMC 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. UMC 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 UMC 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 dismissed from the district court case. However, Oak seeks damages in excess of US\$750 million on its breach of contract and other claims. UMC believes that Oak's claims are meritless, and intends to vigorously defend the suit, and to pursue its counterclaims. As with all litigation, however, UMC cannot predict the outcome with certainty.

UMC filed a civil action in California federal district court against Silicon Integrated Systems and its U.S. subsidiary (collectively, SiS) in December 2000, for patent infringement, unfair competition, breach of contract, intentional interference with contract, misappropriation of trade secrets, and unjust enrichment. In January 2001, UMC filed a petition with the United States International Trade Commission (ITC), alleging patent infringement by SiS regarding certain processes for the manufacture of integrated circuits and regarding certain integrated circuit

devices. The ITC issued its Final Determination on October 7, 2002, finding that SiS infringed a UMC patent and rejected all SiS defenses with respect to that claim. The ITC issued an exclusion order that took force in December 2002 and bars the importation of SiS products made with the infringing process. On March 12, 2003, UMC and SiS entered a final settlement of the district court and ITC proceedings, which obligates the parties to file dismissals of the pending proceedings, and grants SiS a license under the patents involved. Subsequently, UMC and SiS filed requests to have the proceedings dismissed or resolved, and the parties expect the matters will shortly be concluded. Whatever the outcome of the ITC or district court cases, UMC believes these matters will have no material adverse effect on its business or financial performance.

In November of 2002, Library Technologies, Inc. (LTI) filed suit against Virtual Silicon Technology (VST), Silicon Metrics Corporation (SMC), UMC, and UMC's subsidiary UMC Group (USA) (collectively, UMC) in Federal District Court in San Francisco, California. LTI alleges in this case that UMC infringed LTI's copyrights, committed unfair competition, trade secret misappropriation, and tortious interference with contract in connection with the allegedly unauthorized copying and use of LTI's software related to library characterization tools. For the most part, the claims arise from allegedly wrongful conduct by VST, which UMC is alleged to have encouraged. UMC has filed a motion to dismiss the claims against UMC. UMC intends to continue to defend this matter vigorously. UMC management does not believe this matter will have any material adverse impact on UMC's operations and/or financial performance. The case is in the early stages, however, and so it is premature to comment on the likely eventual outcome.

**UMCi, Pasir Ris Science Park, Singapore** – When UMC's affiliated foundry enters production in 2003, it will be the most advanced manufacturing facility in Southeast Asia, and a symbol of UMC's support for Singapore's development as a world-class high-tech industry center.





# Acquisition and Disposal of Major Assets

## Acquisition of Major Assets

United Microelectronics Corporation

Asset	Acquisition Date	Purchase Price (In thousands)	Seller	Relation with the Company	Used for
Equipment	2001.8.8 - 2002.2.7	NT\$320,206	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.3.15 - 2002.3.22	NT\$731,284	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.2.8 - 2002.3.27	NT\$588,040	ASML Hong Kong Ltd.	None	IC manufacturing
Equipment	2001.9.28 - 2002.3.29	NT\$690,465	KLA-Tencor Corporation	None	IC manufacturing
Equipment	2002.4.1	NT\$351,047	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.4.9	NT\$467,169	ASML Hong Kong Ltd.	None	IC manufacturing
Equipment	2002.4.9 - 2002.4.18	NT\$455,545	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.3.29 - 2002.4.18	NT\$422,653	SpeedFam-IPEC, Inc.	None	IC manufacturing
Equipment	2001.9.6 - 2002.4.26	NT\$357,870	Lam Research Corporation	None	IC manufacturing
Equipment	2002.4.19 - 2002.4.29	NT\$700,605	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.4.30	NT\$754,940	ASML Hong Kong Ltd.	None	IC manufacturing
Equipment	2001.11.26 - 2002.4.30	NT\$531,802	Tokyo Electron Limited	None	IC manufacturing
Equipment	2002.5.2	NT\$380,181	ASML Hong Kong Ltd.	None	IC manufacturing
Equipment	2002.5.3	NT\$319,424	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.5.13	NT\$370,086	ASM Japan K.K.	None	IC manufacturing
Equipment	2002.4.10 - 2002.5.16	NT\$302,114	Agilent Technologies Singapore	None	IC manufacturing
Equipment	2002.5.17 - 2002.5.29	NT\$730,646	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.3.29 - 2002.5.30	NT\$351,959	Novellus Systems, Inc.	None	IC manufacturing
Equipment	2002.4.25 - 2002.6.3	NT\$376,191	Matson Technology Inc.	None	IC manufacturing
Equipment	2001.9.20 - 2002.6.3	NT\$309,278	Boc Edwards	None	IC manufacturing
Equipment	2002.5.28 - 2002.6.4	NT\$324,554	Tokyo Electron Limited	None	IC manufacturing
Equipment	2002.6.10	NT\$317,492	SpeedFam-IPEC, Inc.	None	IC manufacturing
Equipment	2002.6.11 - 2002.6.21	NT\$326,444	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.6.21	NT\$1,208,418	ASML Hong Kong Ltd.	None	IC manufacturing
Equipment	2002.6.6 - 2002.6.21	NT\$474,507	Tokyo Electron Limited	None	IC manufacturing
Equipment	2002.7.4 - 2002.7.22	NT\$408,087	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2002.4.19 - 2002.7.26	NT\$356,095	KLA-Tencor Corporation	None	IC manufacturing
Equipment	2002.3.19 - 2002.7.30	NT\$307,779	SEZ Singapore Pte. Ltd.	None	IC manufacturing
UMC Capital Corporation Common Shares	2002.8.7	US\$20,000	UMC Capital Corporation	Investee company	Long-term investment
United Microdisplay Optronics Corp. Common Shares	2002.8.16 - 2002.10.4	NT\$539,990	United Microdisplay Optronics Corp.	Investee company	Long-term investment
Equipment	2002.7.30 - 2002.10.15	NT\$457,492	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Unitech Capital Inc. Common Shares	2002.11.18	US\$21,000	Unitech Capital Inc.	Investee company	Long-term investment
Equipment	2002.6.11 - 2002.11.18	NT\$386,188	Novellus Systems, Inc.	None	IC manufacturing
Silicon Integrated Systems Corp. Common Shares	2002.12.10 - 2003.3.19	NT\$1,944,350	Taiwan Stock Exchange	None	Long-term investment
Silicon Integrated Systems Corp. GDR	2003.1.17	US\$103,821	Luxembourg Stock Exchange	None	Long-term investment
Taiwan High Speed Rail Corp. Convertible Preferred Shares (A)	2003.1.27	NT\$300,000	Taiwan High Speed Rail Corp.	None	Long-term investment
Equipment	2002.11.20-2003.3.24	NT\$544,467	Applied Materials Asia Pacific Ltd.	None	IC manufacturing

*Note (1) Acquisition of assets with purchase price over 20% of paid-in capital or over NT\$300 million. (2) The data represented for 2003 was gathered until March 25, 2003.*



Acquisition and Disposal of Major Assets (cont.)

Acquisition of Major Assets

UMCi Pte. Ltd.

Asset	Acquisition Date	Purchase Price (In thousands)	Seller	Relation with the Company	Used for
Facilities	2002.7.1	NT\$832,272	M+W Zanders Ptd. Ltd.	None	IC manufacturing
Facilities	2002.7.1	NT\$655,200	Singapore Oxygen AIR LIQUID Pte. Ltd.	None	IC manufacturing
Facilities	2002.4.1 - 2002.7.1	NT\$599,424	Kajima Overseas Asia Ptd. Ltd.	None	IC manufacturing
Facilities	2002.7.1	NT\$352,800	Sumitomo Engineering Co. Ltd	None	IC manufacturing
Facilities	2002.7.1	NT\$308,112	L&K Engineering Co. Ltd.	None	IC manufacturing
Equipment	2002.12.25 - 2002.12.30	NT\$392,111	Tokyo Electron Limited	None	IC manufacturing
Equipment	2002.12.23 - 2002.12.30	NT\$353,556	KLA-Tencor Corporation	None	IC manufacturing
Equipment	2003.1.3 - 2003.1.14	NT\$773,192	Applied Materials Asia Pacific Ltd.	None	IC manufacturing
Equipment	2003.1.14	NT\$432,285	ASML Hong Kong Ltd.	None	IC manufacturing

Notes (1) Acquisition of assets with purchase price over 20% of paid-in capital or over NT\$300 million. (2) The data represented for 2003 was gathered until March 25, 2003.

Disposal of Major Assets

United Microelectronics Corporation

In thousand NTD

Asset	Acquisi- tion Date	Disposal Date	Book Value	Selling Price	Profit (Loss)	Buyer	Relation with the Company
AU Optronics Corp. Common Shares	2001.9	2002.4	1,187,634	3,800,000	2,612,366	Public Offering	None
Trecenti Technologies Inc. Common Shares	2000.3	2002.4	1,409,614	2,806,610	1,396,996	Hitachi Ltd.	None
AU Optronics Corp. Common Shares	2001.9	2002.5	371,135	992,995	621,860	Taiwan Stock Exchange	None
MediaTek Incorporation Common Shares	1997.6- 2002.10	2002.1- 2003.1	128,180	3,059,612	2,931,432	Taiwan Stock Exchange	None
Sampo Corp. Common Shares	1992.11- 2001.6	2002.1- 2003.1	345,612	370,688	25,076	Taiwan Stock Exchange	None

Notes (1) Disposal of assets with selling price over 20% of paid-in capital or over NT\$300 million. (2) The data represented for 2003 was gathered until March 25, 2003.

Hsun Chieh Investment Co., Ltd.

In thousand NTD

Asset	Acquisi- tion Date	Disposal Date	Book Value	Selling Price	Profit (Loss)	Buyer	Relation with the Company
Plato Electronics (Cayman) Limited Common Shares	1999.12	2002.12	656,108	753,946	97,838	Hemingway International Limited	None

Notes (1) Disposal of assets with selling price over 20% of paid-in capital or over NT\$300 million. (2) The data represented for 2003 was gathered until March 25, 2003.

## Financing Plans and Execution Status

In April 2001, NT\$15 billion of unsecured domestic bonds were issued to invest in UMCi Pte. Ltd. The investment project requires a total of NT\$20.475 billion. There are three funding sources for this project: (a) domestic bond issuance (NT\$15 billion), (b) the Company's own resources, and (c) other financial instruments (b + c = NT\$5.475 billion). The actual completed expenditure was 25.65% by the end of 2002, compared to our original expectations of 50%. Due to the sluggish economy, progress on UMCi Pte. Ltd. fab construction and capacity expansion has slowed down, and is behind the original schedule. As the economy improves, the project will be completed in line with original expectations. There will be no significant impact to shareholders' equities. This investment project is expected to complete capital injection by the fourth quarter of 2003, and will hold 46.25% of equity interest. When this fab reaches full production in 2005, it will have a production capacity of 40,000 300mm wafers per month.

*Date which information was submitted to TSE website:  
February 27, 2001*

In May 2002, US\$235 million of exchangeable bond issuance was used to purchase equipment for Fab 8D. The investment project requires a total of US\$235 million. The funding source for this project is through the issue of exchangeable bonds (US\$235 million). The percentage of actual completed expenditure was 72.84% by the end of 2002, compared to our original expectations of 74.11%. When this project is completed, it will have a production capacity of 20,000 wafers per month. The benefit from capacity expansion has already begun to materialize because revenues and shipments in December 2002 increased by 38% and 17% respectively, compared to June 2002. Gross margin also increased significantly.

*Date which information was submitted to TSE website:  
April 4, 2002*



# Financial Review

# Unconsolidated Financial Review



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# Condensed Balance Sheets

		In thousand NTD				
		2002	2001	2000	1999	1998
Current Assets		86,658,337	77,251,780	82,785,436	20,549,107	33,964,353
Funds and Long-term Investments		56,246,744	77,051,045	67,363,540	86,585,485	42,456,010
Property, Plant and Equipment		146,075,886	155,211,838	152,181,162	36,728,053	25,386,540
Intangible Assets		18,880	30,805	–	–	12,403
Other Assets		8,332,799	7,839,477	8,798,125	2,276,396	2,218,142
Total Assets		297,332,646	317,384,945	311,128,263	146,139,041	104,037,448
Current Liabilities	Before distribution	20,949,418	26,936,406	35,853,347	17,190,521	8,384,035
	After distribution	*	26,936,406	36,286,386	17,286,258	8,419,075
Long-term Liabilities		55,066,424	52,462,437	34,357,021	9,147,685	18,765,061
Other Liabilities		3,883,441	4,520,403	2,916,242	489,187	351,603
Total Liabilities	Before distribution	79,899,283	83,919,246	73,126,610	26,827,393	27,500,699
	After distribution	*	83,919,246	73,559,649	26,923,130	27,535,739
Capital		154,748,456	133,356,954	114,714,519	66,549,966	55,418,013
Capital Reserve		81,875,491	82,115,682	82,161,068	36,836,033	12,869,484
Retained Earnings	Before distribution	20,004,054	34,152,379	56,385,155	15,709,863	8,591,256
	After distribution	*	12,760,877	37,309,681	5,777,965	5,533,967
Unrealized Loss on Long-term Investments		(10,795,621)	(9,920,139)	(13,804,227)	(319,448)	(443,534)
Cumulative Translation Adjustment		728,851	(160,470)	24,202	535,234	101,530
Unrecognized Pension Cost, Contra Equity Account, Charge to Stockholders' Equity (Excess of Additional Pension Liability Over Unrecognized Prior Service Cost)		0	0	0	0	0
Total Equity	Before distribution	217,433,363	233,465,699	238,001,653	119,311,648	76,536,749
	After distribution	*	233,465,699	237,568,614	119,215,911	76,501,709

\* Subject to change following resolutions decided during the 2003 shareholders' meeting.

# Condensed Statements of Income

		In thousand NTD				
	2002	2001	2000	1999	1998	
Net Operating Revenues	67,425,745	64,493,407	105,084,720	29,147,056	18,431,602	
Gross Profit	11,195,150	9,130,995	53,601,521	9,831,988	4,099,729	
Operating Income (Loss)	140,971	(5,590,174)	43,573,127	5,521,394	392,231	
Non-operating Income	9,938,373	5,157,410	10,495,729	7,253,604	6,245,264	
Non-operating Expenses	2,995,250	5,919,983	3,510,786	2,249,334	2,682,233	
Income (Loss) from Continuing Operations Before Income Tax	7,084,094	(6,352,747)	50,558,070	10,525,664	3,955,262	
Income (Loss) from Continuing Operations	7,072,032	(3,157,302)	50,780,378	10,497,892	4,407,021	
Discontinued Operations	-	-	-	-	-	
Extraordinary Items	-	-	-	-	-	
Cumulative Effect of Change In Accounting Principle	-	-	-	-	-	
Net Income (Loss)	7,072,032	(3,157,302)	50,780,378	10,497,892	4,407,021	
Earnings (Loss) per Share (NTD)	0.48	(0.20)	3.38	0.98	0.43	

**Note** The EPS calculations for 1998~2001 were based on the retroactive adjustment for capitalization of unappropriated earnings and bonuses to employees, and the EPS calculation for 2002 was based on weighted average shares outstanding for the period.

## Auditors' Opinion

Year	CPA	Auditors' Opinion
1998	Albert Hsueh, James Tsai	An unqualified opinion
1999	Albert Hsueh, James Tsai	An unqualified opinion
2000	James Wang, Thomas Yue	An unqualified opinion
2001	James Wang, Thomas Yue	An unqualified opinion
2002	James Wang, Thomas Yue	An unqualified opinion

# Financial Analysis

		2002	2001	2000	1999	1998
Capital Structure Analysis (%)	Debt ratio	26.87	26.45	23.50	18.36	26.43
	Long-term funds to fixed assets	186.55	184.22	178.97	349.76	375.40
Liquidity Analysis (%)	Current ratio	413.66	286.79	230.90	119.54	405.11
	Quick ratio	359.62	250.66	198.99	105.10	365.74
	Times interest earned	4.32	(1.46)	16.76	9.51	3.03
Operating Performance Analysis	Average collection turnover (times)	8.12	5.56	7.70	6.93	4.81
	Average collection days	45	66	47	53	76
	Average inventory turnover (times)	8.40	7.31	7.05	6.17	4.51
	Average payable turnover (times)	4.93	3.73	4.13	3.63	3.93
	Average inventory turnover days	43	50	52	59	81
	Fixed assets turnover (times)	0.45	0.42	0.84	0.94	0.75
	Total assets turnover (times)	0.22	0.21	0.39	0.23	0.19
Return on Investment Analysis (%)	Return on total assets	2.65	(0.41)	19.52	9.18	6.33
	Return on equity	3.14	(1.34)	25.48	10.72	6.15
	Operating income to capital	0.09	(4.19)	37.98	8.30	0.71
	Income before tax to capital	4.58	(4.76)	44.07	15.82	7.14
	Net income to sales	10.49	(4.88)	48.32	36.02	23.91
	Earnings per share (NTD)	0.48	(0.20)	3.38	0.98	0.43
Cash Flow (%)	Cash flow ratio	133.89	145.82	186.60	59.22	91.22
	Cash flow adequacy ratio	87.59	90.34	85.99	97.94	118.22
	Cash flow reinvestment ratio	7.06	10.37	20.16	6.87	6.87
Leverage	Operating leverage	421.35	(9.52)	1.88	3.52	24.55
	Financial leverage	(0.11)	0.69	1.06	1.22	(0.31)

**Notes** (1) The beginning figures of 2000 were based on the pro forma consolidated balance sheet as of the merger date on January 3, 2000. (2) The EPS calculations for 1998~2001 were based on the retroactive adjustment for capitalization of unappropriated earnings and bonus to employees; and the EPS calculation for 2002 was based on weighted average shares outstanding for the period. (3) The calculation formulas of financial analysis are listed as follows:

- **Capital Structure Analysis** (1) Debts ratio = Total Liabilities / Total Assets (2) Long-term funds to fixed assets = (Stockholders' Equity+Long-term Liabilities) / Net Fixed Assets
- **Liquidity Analysis** (1) Current ratio = Current Assets / Current Liabilities (2) Quick ratio = (Current Assets–Inventories–Prepaid Expenses–Current Deferred Income Tax) / Current Liabilities (3) Times interest earned = Earnings before Interest and Taxes / Interest Expenses
- **Operating Performance Analysis** (1) Average collection turnover (times) = Net Sales / Average Trade Receivables (2) Average collection days = 365 / Average Collection Turnover (times) (3) Average inventory turnover (times) = Cost of Goods Sold / Average Inventory (4) Average payable turnover (times) = Cost of Goods Sold / Average Trade Payables (5) Average inventory turnover days = 365 / Average Inventory Turnover (times) (6) Fixed assets turnover (times) = Net Sales / Average Fixed Assets (7) Total assets turnover (times) = Net Sales / Average Total Assets
- **Return on Investment Analysis** (1) Return on total assets = {Net Income+Interest Expenses x (1–Tax Rate)} / Average Total Assets (2) Return on equity = Net Income / Average Stockholders' Equity (3) Operating income to capital = Operating Income / Capital (4) Income before tax to capital = Income before Tax / Capital (5) Net income to sales = Net Income / Net Sales (6) Earnings per share = (Net Income–Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
- **Cash flow** (1) Cash flow ratio = Net Cash Provided by Operating Acitvities / Current Liabilities (2) Cash flow adequacy ratio = Five-Year Sum of Cash from Operation / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividends (3) Cash flow reinvestment ratio = (Cash Provided by Operating Activities–Cash Dividends) / (Gross Fixed Assets+Investment+Other Assets+Working Capital)
- **Leverage** (1) Operating leverage = (Net Sales–Variable Cost) / Income from Operations (2) Financial leverage = Income from Operations / (Income from Operations–Interest Expenses)

# Supervisors' Report

The board of directors has prepared and submitted to us the Company's 2002 financial statements. These statements have been audited by Diwan, Ernst & Young. The financial statements present fairly the financial position of the Company and the results of its operations and cash flows. We, as the Supervisors of the Company, have reviewed these statements, the report of operations and the proposals relating to distribution of net profit. According to article 219 of the Company Law, we hereby submit this report.

United Microelectronics Corporation  
Supervisors:



Tzyy-Jang Tseng



Mao-Chung Lin



Jack K. C. Wang

May 29, 2003



# Report of Independent Auditors

*English translation of a report originally issued in Chinese.*

To the Board of Directors and Shareholders of  
United Microelectronics Corporation,

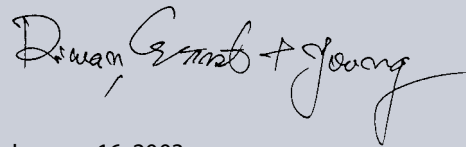
We have audited the accompanying balance sheets of United Microelectronics Corporation as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As described in Note 4(6) to the financial statements, certain long-term investments were accounted for under the equity method based on the 2002 and 2001 financial statements of the investees, which were audited by other auditors. Our opinion insofar as it relates to the investment loss amounting to NT\$146 million and NT\$1,331 million for the years ended December 31, 2002 and 2001, respectively, and the related long-term investment balances of NT\$5,514 million and NT\$7,208 million as of December 31, 2002 and 2001, respectively, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards 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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As described in Note 3 to the financial statements, United Microelectronics Corporation has adopted Statement of Financial Accounting Standards of the Republic of China No. 30, "Accounting for Treasury Stock", to account for its stock held by subsidiaries as treasury stock since January 1, 2002.



January 16, 2003  
Taipei, Taiwan  
Republic of China

**Notice to Readers** 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.

# Consolidated Financial Review



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# Letter of Representation

We confirm, to the best of our knowledge and belief, the following representations:

1. The companies represented in the consolidated financial statements of "United Microelectronics Corporation and Its Affiliated Enterprises" for the year ended December 31, 2002 made in accordance with "The Rules Governing Preparation of Affiliated Enterprises Consolidated Operating Report, Affiliated Enterprises Consolidated Financial Statements and Relationship Report" are the identical companies represented in the consolidated financial statements of "United Microelectronics Corporation and Subsidiaries" for the year ended December 31, 2002 made in accordance with ROC Statement of Financial Accounting Standards No. 7.

2. The disclosures to the consolidated financial statements of "United Microelectronics Corporation and Its Affiliated Enterprises" for the year ended December 31, 2002 made in accordance with "The Rules Governing Preparation of Affiliated Enterprises Consolidated Operating Report, Affiliated Enterprises Consolidated Financial Statements and Relationship Report" are fully

presented in the consolidated financial statements of "United Microelectronics Corporation and Subsidiaries" for the year ended December 31, 2002 made in accordance with ROC Statement of Financial Accounting Standards No. 7.

3. Accordingly, we will not present separately a set of consolidated financial statements of "United Microelectronics Corporation and Its Affiliated Enterprises" for the year ended December 31, 2002 made in accordance with "The Rules Governing Preparation of Affiliated Enterprises Consolidated Operating Report, Affiliated Enterprises Consolidated Financial Statements and Relationship Report".



Robert H. C. Tsao  
Chairman  
United Microelectronics Corporation  
January 16, 2003

## Report of Independent Auditors

*English translation of a report originally issued in Chinese.*

To the Board of Directors and Shareholders of United Microelectronics Corporation,

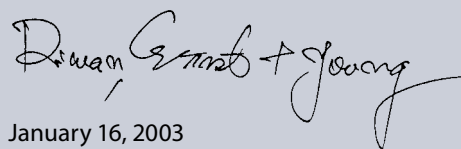
We have audited the accompanying consolidated balance sheets of United Microelectronics Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements 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(6) to the consolidated financial statements, certain long-term investments were accounted for under the equity method based on the 2002 and 2001 financial statements of the investees, which were audited by other auditors. Our opinion insofar as it relates to the investment loss amounting to NT\$58 million and NT\$1,357 million for the years ended December 31, 2002 and 2001, respectively, and the related long-term investment balances of NT\$7,350 million and NT\$9,483 million as of December 31, 2002 and 2001, respectively, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards 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 consolidated 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 accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Microelectronics Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As described in Note 3 to the financial statements, United Microelectronics Corporation has adopted Statement of Financial Accounting Standards of the Republic of China No. 30, "Accounting for Treasury Stock", to account for its stock held by subsidiaries as treasury stock since January 1, 2002.



January 16, 2003  
Taipei, Taiwan  
Republic of China

**Notice to Readers** 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.

# Consolidated Balance Sheets

December 31, 2002 and 2001

Assets	Notes	2002	2001
<b>Current Assets</b>			
Cash and cash equivalents	2, 4(1)	\$80,883,408	\$76,904,068
Marketable securities, net	2, 4(2)	2,526,365	1,286,434
Notes receivable	4(3)	83,001	113,681
Notes receivable - related parties	5	2,370	102,011
Accounts receivable, net	2, 4(4), 6	9,800,607	7,126,712
Accounts receivable - related parties, net	2, 5	2,201,045	1,760,888
Other receivables	2	1,249,212	1,081,576
Other receivables - related parties	2, 5	1,910,268	1,949,597
Inventories, net	2, 4(5)	8,440,005	5,717,203
Prepaid expenses		800,491	788,936
Deferred income tax assets	2, 4(16)	2,994,572	3,954,867
Other current assets		30,833	567
Subtotal		110,922,177	100,786,540
<b>Funds and Long-term Investments</b>			
	2, 3, 4(6)		
Long-term investments		39,727,700	41,225,981
Prepaid long-term investments		54,486	–
Allowance for loss on decline in market value		(1,108,690)	(469,303)
Subtotal		38,673,496	40,756,678
<b>Property, Plant and Equipment</b>			
	2, 4(7), 5, 6, 7		
Land		1,796,419	1,854,306
Buildings		16,985,813	15,458,094
Machinery and equipment		253,898,858	214,105,828
Transportation equipment		63,416	52,718
Furniture and fixtures		2,424,267	1,785,562
Leased assets		47,783	–
Leasehold improvements		86,319	93,535
Total Cost		275,302,875	233,350,043
Less : Accumulated depreciation		(131,461,473)	(95,327,241)
Plus : Construction in progress and prepayments		23,235,508	31,098,366
Net		167,076,910	169,121,168
<b>Intangible Assets</b>			
Trademarks	2	728	806
Patents	2	18,880	30,805
Technological know-how		631,462	646,312
Others		34,625	72,063
Subtotal		685,695	749,986
<b>Other Assets</b>			
Assets leased to others		170,032	149,734
Idle assets	2	22,361	29,976
Deposits out		937,995	617,787
Deferred charges	2	2,879,026	2,935,595
Deferred income tax assets	2, 4(16)	5,232,928	4,371,231
Restricted deposits	6	–	264,700
Others		428,267	910,862
Subtotal		9,670,609	9,279,885
<b>Total Assets</b>		<b>\$327,028,887</b>	<b>\$320,694,257</b>

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

Liabilities and Stockholders' Equity	Notes	2002	2001
<b>Current Liabilities</b>			
Short-term loans	4(8), 6	\$1,178,800	\$753,450
Notes payable		89,313	21,128
Accounts payable		4,420,351	2,439,892
Accounts payable - related parties	5	398,681	490,427
Income tax payable	2	284,678	219,877
Accrued expenses		4,032,474	5,678,713
Other payables		8,788,838	12,482,283
Current portion of long-term debts	4(9), 4(10), 5, 6	7,781,598	9,720,178
Other current liabilities		2,172,680	2,718,257
Subtotal		29,147,413	34,524,205
<b>Long-term Liabilities</b>			
Bonds payable	2, 4(9)	49,441,484	38,450,511
Long-term loans	4(10), 5, 6	12,879,512	16,244,823
Subtotal		62,320,996	54,695,334
<b>Other Liabilities</b>			
Accrued pension liabilities	2, 4(11)	2,030,786	1,591,022
Capacity deposits and other deposits	7	2,698	865,546
Minority interests		16,023,886	15,594,468
Others		78,623	101,429
Subtotal		18,135,993	18,152,465
<b>Total Liabilities</b>		109,604,402	107,372,004
<b>Capital</b>	4(12)		
Common stock		154,748,456	133,356,954
<b>Capital Reserve</b>			
Premiums		41,729,589	41,729,589
Gain on disposal of property, plant and equipment		-	170,473
Change in equities of long-term investments		22,993,448	23,063,166
Excess from merger		17,152,454	17,152,454
<b>Retained Earnings</b>	4(14)		
Legal reserve		10,686,225	10,686,225
Special reserve		631,982	2,242,284
Unappropriated earnings		8,685,847	21,223,870
<b>Adjusting Items in Stockholders' Equity</b>			
Unrealized loss on long-term investments	2	(1,349,248)	(470,931)
Cumulative translation adjustment	2	728,851	(160,470)
<b>Treasury Stock</b>	2, 3, 4(13)	(38,583,119)	(35,671,361)
<b>Total Stockholders' Equity</b>		217,424,485	213,322,253
<b>Total Liabilities and Stockholders' Equity</b>		\$327,028,887	\$320,694,257

# Consolidated Statements of Income

For the years ended December 31, 2002 and 2001		In thousand NTD	
Contents	Notes	2002	2001
<b>Operating Revenues</b>	2, 5		
Sales revenues		\$73,803,609	\$67,611,481
Less : Sales returns and allowances		(1,418,433)	(711,210)
Net Sales		72,385,176	66,900,271
Other operating revenues		3,040,180	2,916,528
Net Operating Revenues		75,425,356	69,816,799
<b>Operating Costs</b>			
Cost of goods sold	5	(60,309,494)	(60,498,905)
Other operating costs		(2,580,669)	(489,353)
Operating Costs		(62,890,163)	(60,988,258)
<b>Gross Profit</b>		12,535,193	8,828,541
Unrealized Intercompany Profit	2	(68,558)	(71,419)
Realized Intercompany Profit	2	71,419	491,768
Net		12,538,054	9,248,890
<b>Operating Expenses</b>			
Selling expenses		(1,526,907)	(2,275,884)
General and administrative expenses		(3,530,756)	(4,425,568)
Research and development expenses		(7,368,133)	(8,959,691)
Subtotal		(12,425,796)	(15,661,143)
<b>Operating Income (Loss)</b>		112,258	(6,412,253)
<b>Non-operating Income</b>			
Interest revenue		1,644,100	2,487,485
Gain on disposal of property, plant and equipment	2, 5	66,236	186,013
Gain on disposal of investments		8,473,213	2,347,219
Exchange gain	2	-	648,169
Lease income		72,782	96,525
Other income		629,033	504,889
Subtotal		10,885,364	6,270,300
<b>Non-operating Expenses</b>			
Interest expense	4(7), 5	(1,455,374)	(2,525,937)
Investment loss	2, 4(6)	(931,756)	(1,828,341)
Loss on disposal of property, plant and equipment	2	(45,814)	(231,536)
Exchange loss	2	(103,703)	-
Inventory loss	2	(955,074)	(1,529,823)
Banking charges		(426,560)	(220,610)
Depreciation and loss on idle assets	2	(50,954)	(28,160)
Other losses		(12,139)	(59,677)
Subtotal		(3,981,374)	(6,424,084)
Income (Loss) Before Income Taxes and Minority Interests		7,016,248	(6,566,037)
Income Tax (Expense) Benefit	2, 4(16)	(270,731)	3,039,989
Income (Loss) Before Minority Interests		6,745,517	(3,526,048)
Minority Interests Loss		326,515	368,746
<b>Net Income (Loss)</b>		\$7,072,032	\$(3,157,302)
<b>Earnings (Loss) per Share -Basic</b>			
Net Income (Loss) (in NTD)	2, 4(15)	\$0.48	\$(0.21)
<b>Earnings (Loss) per Share -Diluted</b>			
Net Income (Loss) (in NTD)	2, 4(15)	\$0.48	\$(0.21)
<b>Pro forma Information on Earnings as if Unconsolidated Subsidiaries' Investment in the Company is not Treated as Treasury Stock</b>	4(15)		
Net income		\$7,072,032	
Earnings per Share -Basic (in NTD)		\$0.48	
Earnings per Share -Diluted (in NTD)		\$0.48	

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



# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2002 and 2001								In thousand NTD	
Contents	Common Stock	Capital Reserve	Retained Earnings			Treasury Stock	Unrealized Loss on Long-term Investments	Cumulative Translation Adjustment	Total
			Legal Reserve	Special Reserve	Unappropriated Earnings				
Balance as of Jan. 1, 2001	\$114,714,519	\$82,161,068	\$5,625,234	\$-	\$50,759,921	\$(31,071,718)	\$(2,265,279)	\$24,202	\$219,947,947
Appropriation of 2000 retained earnings:									
Legal reserve	-	-	5,060,991	-	(5,060,991)	-	-	-	-
Special reserve	-	-	-	2,242,284	(2,242,284)	-	-	-	-
Stock dividends	17,151,040	-	-	-	(17,151,040)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(433,039)	-	-	-	(433,039)
Employees' bonus	1,491,395	-	-	-	(1,491,395)	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(4,599,643)	-	-	(4,599,643)
Net loss for 2001	-	-	-	-	(3,157,302)	-	-	-	(3,157,302)
Adjustment of capital reserve accounted for under equity method	-	(192,472)	-	-	-	-	-	-	(192,472)
Issuance cost adjustment for American Depositary Shares	-	147,086	-	-	-	-	-	-	147,086
Changes in unrealized loss on long-term investments	-	-	-	-	-	-	1,514,297	-	1,514,297
Changes in unrealized loss on long-term investments of investees	-	-	-	-	-	-	280,051	-	280,051
Changes in cumulative translation adjustment	-	-	-	-	-	-	-	(184,672)	(184,672)
Balance as of Dec. 31, 2001	133,356,954	82,115,682	10,686,225	2,242,284	21,223,870	(35,671,361)	(470,931)	(160,470)	213,322,253
Appropriation of 2001 retained earnings:									
Special reserve	-	-	-	(1,610,302)	1,610,302	-	-	-	-
Stock dividends	19,680,182	-	-	-	(19,680,182)	-	-	-	-
Employees' bonus	1,711,320	-	-	-	(1,711,320)	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(2,739,918)	-	-	(2,739,918)
Treasury stock held by un-consolidated subsidiaries	-	-	-	-	-	(171,840)	-	-	(171,840)
Net income for 2002	-	-	-	-	7,072,032	-	-	-	7,072,032
Gain on disposal of assets adjusted from capital reserve	-	(170,473)	-	-	170,473	-	-	-	-
Investees' gain on disposal of assets adjusted from capital reserve	-	(672)	-	-	672	-	-	-	-
Adjustment of capital reserve accounted for under equity method	-	(69,046)	-	-	-	-	-	-	(69,046)
Changes in unrealized loss on long-term investments of investees	-	-	-	-	-	-	(878,317)	-	(878,317)
Changes in cumulative translation adjustment	-	-	-	-	-	-	-	889,321	889,321
Balance as of Dec. 31, 2002	\$154,748,456	\$81,875,491	\$10,686,225	\$631,982	\$8,685,847	\$(38,583,119)	\$(1,349,248)	\$728,851	\$217,424,485
The accompanying notes are an integral part of the consolidated financial statements.									

# Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

In thousand NTD

Contents	2002	2001
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$7,072,032	\$(3,157,302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Minority interests loss	(326,515)	(368,746)
Depreciation	36,567,535	34,390,192
Amortization	1,699,766	1,877,551
Loss on decline in market value of marketable securities	10,806	–
Reversal of bad debts expense	(66,512)	(108,892)
Inventory loss	955,074	1,529,823
Long-term investment (income) loss accounted for under the equity method	(230,600)	1,554,402
Cash dividends received under the equity method	156,820	227,025
Impairment loss of long-term investments	1,408,565	535,890
Gain on disposal of investments	(8,473,213)	(2,347,219)
(Gain) loss on disposal of property, plant and equipment	(20,422)	45,523
Depreciation and loss on idle assets	50,954	28,160
Patent rights return	–	(93,990)
Gain on reacquisition of bonds	(256,204)	–
Exchange (gain) loss on long-term loans	(145,671)	431,142
Changes in assets and liabilities:		
Notes receivable	217,922	261,920
Accounts receivable	(3,380,836)	11,341,957
Other receivables	(55,869)	(1,384,871)
Inventories	(3,638,525)	3,493,492
Prepaid expenses	(1,605)	(399,153)
Deferred income tax assets	125,072	(3,394,095)
Notes payable	245	–
Accounts payable	443,884	(4,229,047)
Income tax payable	283,728	(754,950)
Accrued expenses	(1,373,026)	689,462
Other current liabilities	2,674	(693,509)
Compensation interest payable	78,977	4,415
Accrued pension liabilities	450,060	471,411
Capacity deposit	(1,028,162)	236,902
Net cash provided by operating activities	30,526,954	40,187,493
<b>Cash Flows from Investing Activities:</b>		
Increase in marketable securities, net	(839,551)	(1,256,567)
Acquisition of long-term investments	(4,627,478)	(4,417,786)
Proceeds from disposal of long-term investments	12,385,637	4,878,280
Acquisition of property, plant and equipment	(35,977,747)	(43,050,831)
Proceeds from disposal of property, plant and equipment	333,180	544,099
Withdrawal of prepayments for long-term investments	–	1,772
Increase in intangible assets	–	(35,849)
Increase in deferred charges	(1,695,110)	(2,373,213)
Decrease in restricted deposits	–	2,660,800
Decrease (Increase) in other assets	29,293	(207,749)
Acquisition of subsidiaries	(65,988)	–
Net cash used in investing activities	(30,457,764)	(43,257,044)

Continued on next page

Contents	2002	2001
<i>Continued from previous page</i>		
<b>Cash Flows from Financing Activities:</b>		
Increase (decrease) in short-term loans, net	<b>\$388,100</b>	\$(3,243,955)
Proceeds from long-term loans	<b>4,425,000</b>	5,185,910
Repayment of long-term loans	<b>(10,047,079)</b>	(21,427,663)
Proceeds from bonds issued	<b>13,097,062</b>	35,596,096
Redemption of bonds	<b>(1,140,000)</b>	–
Reacquisition of bonds	<b>(879,100)</b>	–
Increase in deposits-in, net	<b>1,152</b>	361
Purchase of treasury stock	<b>(2,877,190)</b>	(4,599,643)
Directors' and supervisors' remuneration paid	<b>–</b>	(433,039)
Proceeds from minority shareholders on stock issuance of subsidiaries	<b>194,341</b>	7,106,287
Net cash provided by financing activities	<b>3,162,286</b>	18,184,354
Effect of exchange rate changes on cash and cash equivalents	<b>747,864</b>	(680,808)
Net increase in cash and cash equivalents	<b>3,979,340</b>	14,433,995
Cash and cash equivalents at beginning of year	<b>76,904,068</b>	62,470,073
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$80,883,408</b>	\$76,904,068
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest (excluding interest capitalized)	<b>\$1,446,326</b>	\$2,189,369
Cash paid for income tax	<b>\$198,036</b>	\$1,196,418
<b>Investing Activities Partially Paid by Cash:</b>		
Acquisition of property, plant and equipment	<b>\$32,284,302</b>	\$41,541,665
Add: Payable at beginning of year	<b>12,482,283</b>	13,991,449
Less: Payable at end of year	<b>(8,788,838)</b>	(12,482,283)
Cash paid for acquiring property, plant and equipment	<b>\$35,977,747</b>	\$43,050,831

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

# Notes to Financial Statements

December 31, 2002 and 2001  
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

## Note 1 – General Descriptions of Reporting Entities

United Microelectronics Corporation (“the Company”) was incorporated in May 1980 and commenced operations in April 1982. The Company’s major business activity is providing dedicated semiconductor wafer foundry services. The Company provides a variety of services to fit individual customer’s needs, including 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 in July 1985 and its American Depositary Shares (ADSs) were listed on the New York Stock Exchange in September of 2000.

The consolidated financial statements include the financial statements of the Company and the following subsidiaries (hereinafter referred to collectively as “the Group”):

Hsun Chieh Investment Co., Ltd. (Hsun Chieh), incorporated on December 31, 1999, was created for the purpose of merging the following six companies as of that date: Hung Tien Investment Corporation (Hung Tien), Ta Lien Investment Corporation (Ta Lien), Hung Lien Investment Corporation (Hung Lien), Tung Hsin Investment Corporation, Hsun Chieh Corporation and Holtek Investment Corporation. The Company owned 99.97% of interest in Hsun Chieh as of December 31, 2002 and 2001.

UMC Japan (UMCJ) was incorporated in May 1984 in Japan and is in the business of manufacturing semiconductor products. The Group owned 51.47% and 51.51% of interest in UMCJ as of December 31, 2002 and 2001, respectively.

UMC Group (USA) (UMC-USA) was incorporated on August 5, 1997 and is engaged in the business of sales of semiconductor products and providing related foundry services. The Company owned 100% of interest in UMC-USA as of December 31, 2002 and 2001.

UMCi Pte. Ltd. (UMCi) was incorporated in January 2001. The Company held a 49.82% equity interest in UMCi as of both December 31, 2002 and 2001. In accordance with the Foundry Venture Agreement with other shareholders of UMCi, the Company obtained the controlling influence over UMCi’s decisions on its operations, personnel, and financial policies since incorporation. Therefore, UMCi has been included in

the consolidation despite an equity interest of less than 50% since the year ended December 31, 2001.

United Microelectronics (Europe) B.V. (UMC BV) was incorporated on May 23, 1989 and is engaged in the business of sales of semiconductor products and providing related foundry services. The Company acquired 100% of interest in UMC BV on May 15, 2002 and since then, UMC BV became a wholly-owned subsidiary of the Company.

United Microdisplay Optronics Corp. (UMO) was incorporated on September 11, 2002 and is engaged in the business of manufacturing and sales of chips for Liquid Crystal On Silicon (LCOS). The Company owned 85% of equity interest in UMO as of December 31, 2002.

Fortune Venture Capital Corporation (Fortune Venture), UMC Capital Corporation, United Microelectronics Corp. (Samoa) and United Foundry Services, Inc. were excluded from consolidation in accordance with the exclusion rules (see Note 2 - Principles of Consolidation).

## Note 2 – Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and certain majority owned (50% or more) subsidiaries in accordance with the requirements of ROC Statement of Financial Accounting Standard (ROC SFAS) No.7 and the regulations of the Taiwan Securities and Futures Commission (Taiwan SFC). All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Pursuant to ROC SFAS No. 7 and the regulations of the SFC, if the total assets and operating revenues of a subsidiary are less than 10% of the non-consolidated total 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 constitute up to 30% of the Company’s non-consolidated total assets or operating revenues, then each individual subsidiary with total assets or operating revenues up to 3% of the Company’s non-consolidated total assets or operating revenues has to be included in the consolidation. Such subsidiaries are included in the consolidated financial statements thereafter, unless the percentage of the combined total assets or operating revenues for all such subsidiaries becomes less than 20% of the Company’s respective unconsolidated amount.

### **Translation of Foreign Currency Transactions**

Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on 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. The financial statements of foreign subsidiaries and investees are translated into New Taiwan dollars using the spot rates as of each financial statement date for asset and liability accounts, average exchange rates for profit and loss accounts and historical exchange rates for equity accounts. The cumulative translation effects for subsidiaries and investees using functional currencies other than the New Taiwan dollars are included in the cumulative translation adjustment in stockholders' equity.

### **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates.

### **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. The market value of listed equity securities, convertible bonds or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-ended funds is determined by their equity per unit at the balance sheet date. The amount by which aggregate cost exceeds market value is reported as a loss in the current year. In subsequent periods, recoveries of 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 recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, 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 among affiliates, which will be amortized to income over a period of five years.

Investments in less than 20% owned listed companies where significant influence on operational decisions of the investees does not reside with the Group, 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 purposes is deducted from the stockholders' equity. The Group's investments in less than 20% owned unlisted companies are accounted for under the cost method, unless an other than temporary impairment is evident, in which case they are written down to fair value as a new cost basis.

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

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized and recognized based on the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized. The increase in the Group'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 credited to a capital reserve account. Any decrease in the Group's proportionate share in the net assets of investee is debited against the existing balance of the similar capital reserve account, where the credit balance can only be offset to zero. If any excess amount exists, it will be debited against unappropriated retained earnings.

### **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.

Depreciation is provided on the straight-line basis using the economic service lives of the assets less any salvage value. When the economic service lives are completed, property, plant and equipment, which are still in use, are depreciated over the newly estimated remaining useful lives of the salvage value. The economic service lives of the property, plant and equipment are as follows: buildings - 3 to 55 years; machinery and equipment - 5 years; transportation equipment - 2 to 5 years; furniture and fixtures - 2 to 20 years; leased assets and leasehold improvements - the lease period, or economic service lives, whichever is shorter.

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

#### **Intangible Assets**

Patents are stated at cost and amortized over their economic service lives using straight-line method. Technological know-how are stated at cost and amortized over their estimated useful lives using straight-line method.

#### **Deferred Charges**

Deferred charges are stated at cost and amortized on a straight-line basis as follows: intellectual property and technology license fee - the term of contract or economic lives of the related technology; software - 3 years; facilities use rights - 15 years; and bonds issuance costs - over the life of the bonds.

#### **Convertible and Exchangeable 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 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 bonds is to be offset with the book value of the investment in reference shares and the related stockholder's equities accounts, with the difference recognized as gain or loss on disposal of investments.

#### **Revenue Recognition**

Revenue is recognized when title and liability for risk of loss or damage to the products have been transferred to customers usually upon shipment. Sales return and allowances taken into consideration of customers' complaint and past experience are accrued in the same year of sales. The connected cost is to be deducted from the total cost of goods sold.

#### **Income Tax**

Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred 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 tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The Group recognized the tax benefit from the tax credit incurred at the year equipment acquired, or the year the expenditure arises from research and development.

Income taxes (10%) on unappropriated earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

#### **Pension Plan**

The Group has funded defined benefit pension plans covering regular employees. The net pension cost is computed based on an actuarial valuation in accordance with the provision of ROC SFAS No. 18, which requires consideration of pension cost components such as service cost, interest cost, expected return on plan assets and amortization of net obligation at transition. The unrecognized net asset or obligation at transition is amortized on a straight-line basis over 15 years. The pension fund is managed by an independently administered pension fund association.

#### **Derivative Financial Instruments**

Hedging instruments are accounted for on a net accrual basis in accordance with the contractual interest rate or foreign exchange rate. Other derivative instruments are carried at fair value on the balance sheet date with any changes in unrealized gain or loss charged or credited to earnings for the year.



### Earnings per Share

Earnings per share is calculated 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 calculated 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 derived from any underlying dilutive share equivalents. The weighted-average outstanding shares are restated for stock dividends and bonus share issues.

### Treasury Stock

Under ROC SFAS No. 30, treasury stock is accounted for under the cost method. Cost of treasury stock is shown as a deduction to stockholders' equity, while gain or loss of selling treasury stocks is treated as adjustment to capital reserves.

The Company's stock held by its subsidiaries is also treated as treasury stock in the Company's stand-alone account since January 1, 2002.

### Note 3 – Accounting Changes

Since January 1, 2002, the Company has adopted ROC SFAS No. 30 to further include the Company's stock held by its subsidiaries as treasury stock in the Company's stand-alone account. This adoption has decreased the amount of long-term investment and stockholder's equity in the consolidated balance sheet by NT\$172 million, respectively. The net impact caused by the accounting changes is considered insignificant.

### Note 4 – Contents of Significant Accounts

#### (1) Cash and Cash Equivalents

As of December 31,	2002	2001
<i>Cash:</i>		
Cash on hand	\$4,849	\$4,050
Checking and savings accounts	2,415,088	19,837,524
Certificates of deposit	69,116,470	47,070,856
Subtotal	71,536,407	66,912,430

As of December 31,	2002	2001
<i>Cash equivalents:</i>		
Commercial paper	\$3,068,117	\$722,273
Repurchase obligations	6,278,884	9,269,365
Subtotal	9,347,001	9,991,638
Total	\$80,883,408	\$76,904,068

#### (2) Marketable Securities, Net

As of December 31,	2002	2001
Mutual funds	\$–	\$1,003,900
Listed equity securities	35,423	242,634
Convertible bonds	2,501,748	39,900
Subtotal	2,537,171	1,286,434
Less: Allowance for loss on decline in market value	(10,806)	–
Net	\$2,526,365	\$1,286,434

#### (3) Notes Receivable

As of December 31,	2002	2001
Notes receivable	\$83,001	\$113,681

#### (4) Accounts Receivable, Net

As of December 31,	2002	2001
Accounts receivable	\$10,062,987	\$7,336,782
Less: Allowance for sales returns and discounts	(215,086)	(157,205)
Less: Allowance for doubtful accounts	(47,294)	(52,865)
Net	\$9,800,607	\$7,126,712

Please refer to Note 6 for accounts receivable pledged as collateral.

#### (5) Inventories, Net

As of December 31,	2002	2001
Raw materials	\$269,519	\$219,166
Supplies and spare parts	1,434,987	1,206,801
Work in process	6,489,834	3,863,899
Finished goods	660,562	1,284,206
Subtotal	8,854,902	6,574,072
Less: Allowance for loss on decline in market value and obsolescence	(414,897)	(856,869)
Net	\$8,440,005	\$5,717,203

- The insurance coverage for inventories was sufficient as of December 31, 2002 and 2001.
- Inventories were not pledged.

(6) Long-term Investments

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

As of December 31,		2002		2001
Invested Company	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
<b>Investments accounted for under the equity method:</b>				
United Foundry Service, Inc.	100.00	\$82,960	100.00	\$78,226
UMC Capital Corporation	100.00	1,007,444	100.00	338,228
United Microelectronics Corp. (Samoa)	100.00	7,114	–	–
Fortune Venture Capital Corporation	99.99	3,115,317	99.99	3,413,388
Pacific Venture Capital Co., Ltd.	49.99	316,270	49.99	351,420
Afa Technologies Inc.	47.30	23,650	–	–
Star Semiconductor Corp.	46.82	22,030	–	–
DuPont Photomasks Taiwan Ltd.	45.51	1,145,403	46.32	1,093,113
Unitech Capital Inc.	42.00	731,255	–	–
Unimicron Technology Corp.	36.28	4,542,159	36.87	4,283,241
VistaPoint, Inc.	35.65	34,224	–	–
UC Fund II	35.45	174,264	35.45	161,225
Accelerated Communications, Inc.	33.33	100,000	–	–
RiRa Electronics, Inc.	32.50	59,232	31.50	30,322
United Radiotek Incorporation	29.37	29,185	26.90	13,450
Archtek Telecom Corporation	26.49	–	–	–
Novatek Microelectronics Corp.	25.83	1,193,740	26.82	1,019,532
Holtek Semiconductor Inc.	25.61	568,554	28.76	555,441
Faraday Technology Corp.	25.61	1,776,389	26.68	1,686,448
Integrated Technology Express Inc.	24.58	309,672	28.78	330,522
Applied Component Technology Corporation	23.66	91,581	31.00	154,821
Harvatek Corp.	21.99	277,203	26.14	179,295
High Bandwidth Access, Inc.	20.13	82,934	11.92	19,191
Integrated Telecom Express, Inc.	18.97	652,747	18.99	818,348
Patentop, Ltd.	18.00	16,543	18.00	20,963
Advance Materials Corporation	15.78	169,836	15.78	183,209
AMIC Technology (Taiwan), Inc.	13.62	53,225	13.62	37,120
SerComm Corporation	11.48	159,465	7.81	58,619
Plato Electronics (Cayman) Limited	–	–	24.50	657,858
Broadmedia, Inc.	–	–	39.28	–
Trecenti Technologies, Inc.	–	–	40.00	1,789,838
Subtotal		16,742,396		17,273,818
<b>Investments accounted for under the cost method or the lower of cost or market value method:</b>				
Aptos Corp.	26.07	104,861	26.07	\$104,861
Pacific United Technology, L.P.	25.00	34,600	25.00	34,600
Elite Flash Storage Technology Inc.	19.50	19,500	19.50	19,500
Giga Solution Technology Co., Ltd.	19.44	105,000	19.44	105,000
Vialta, Inc.	17.80	1,248,457	–	1,248,457
PixTech, Inc.	17.63	–	17.63	561,080
Kits On Line Technology Corp.	16.41	38,656	16.41	38,656

Continued on next page



<i>As of December 31,</i>	<b>2002</b>		<b>2001</b>	
<i>Invested Company</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>
<b>Investments accounted for under the cost method or the lower of cost or market value method:</b>				
<i>Continued from previous page</i>				
InComm Technologies Co., Ltd.	<b>16.00</b>	<b>\$44,480</b>	16.00	\$44,480
Everglory Resource Technology Co., Ltd.	<b>15.14</b>	<b>74,000</b>	19.03	74,000
Enovation Group Inc.	<b>14.34</b>	<b>11,809</b>	14.34	73,807
MediaTek Incorporation	<b>13.21</b>	<b>1,213,655</b>	15.17	1,339,839
Smart Idea Holding Limited	<b>11.88</b>	<b>205,069</b>	–	–
Integrated Photonics, Inc.	<b>11.46</b>	–	11.46	6,244
AU Optronics Corp. (Note)	<b>11.37</b>	<b>6,758,766</b>	18.86	8,317,535
Sino-Aerospace Investment Corp.	<b>11.11</b>	–	11.11	25,748
Subtron Technology Co., Ltd.	<b>11.02</b>	<b>339,000</b>	11.02	339,000
Ayuttha Technology Corp.	<b>11.00</b>	<b>16,500</b>	–	–
Golden Technology Venture Capital Investment Corp.	<b>10.67</b>	<b>80,000</b>	10.67	80,000
NCTU Spring I Technology Venture Capital Investment Corp.	<b>10.06</b>	<b>43,482</b>	10.06	43,482
Pacific Technology Partners, L. P.	<b>9.85</b>	<b>208,256</b>	9.85	104,755
RF Integration Corporation	<b>9.76</b>	<b>98,610</b>	4.51	98,610
TECO Nanotech Co., Ltd.	<b>9.26</b>	–	9.26	167,602
Ascend Semiconductor Corp.	<b>9.00</b>	<b>14,400</b>	9.00	36,000
Union Technology Corp.	<b>9.00</b>	<b>18,000</b>	15.00	18,000
Fortune Semiconductor Corporation	<b>8.72</b>	<b>71,500</b>	5.13	40,000
United Industrial Gases Co., Ltd.	<b>8.44</b>	<b>146,250</b>	8.52	146,250
ProSys Technology Integration, Inc.	<b>6.70</b>	<b>4,258</b>	6.70	18,000
NCTU Spring Venture Capital Co., Ltd.	<b>6.28</b>	<b>20,000</b>	6.28	20,000
Advanced Microelectronic Products, Inc.	<b>5.50</b>	<b>126,000</b>	5.50	126,000
Cosmos Technology Venture Capital Investment Corp.	<b>5.03</b>	<b>40,000</b>	5.03	40,000
Industrial Bank of Taiwan Corp.	<b>5.00</b>	<b>1,150,000</b>	5.00	1,150,000
Parawin Venture Capital Corp.	<b>5.00</b>	<b>50,000</b>	–	–
Coretronic Corp.	<b>4.59</b>	<b>276,192</b>	5.49	276,192
Silicon Integrated Systems Corp.	<b>4.46</b>	<b>1,267,580</b>	–	–
Taiwan Asia Pacific Venture Fund	<b>4.15</b>	<b>29,295</b>	4.15	29,295
TECO Electric & Machinery Co., Ltd.	<b>4.02</b>	<b>1,535,298</b>	3.94	1,535,895
IBT Venture Co.	<b>3.81</b>	<b>90,000</b>	3.81	90,000
Prokia Technology Co., Ltd.	<b>3.13</b>	<b>48,000</b>	3.13	48,000
Hantek Technology Co., Ltd.	<b>2.70</b>	<b>42,330</b>	3.14	42,330
Sheng-Hua Venture Capital Corp.	<b>2.50</b>	<b>50,000</b>	2.50	50,000
Pixart Imaging Inc.	<b>1.95</b>	<b>10,140</b>	2.00	10,000
SAMPO Corporation	<b>1.73</b>	<b>224,044</b>	2.95	443,598
Largan Optoelectronics, Co., Ltd.	<b>1.45</b>	<b>79,989</b>	1.96	102,380
Mega Financial Holding Company	<b>1.35</b>	<b>4,991,630</b>	4.98	4,991,630
Premier Image Technology Corporation	<b>0.64</b>	<b>27,964</b>	0.70	27,964
Ingenus Corp.	<b>0.62</b>	<b>29,812</b>	0.65	29,812
Lattice Semiconductor Corporation	<b>0.44</b>	<b>65,740</b>	–	–
King Yuan Electronics Co., Ltd.	<b>0.35</b>	<b>70,000</b>	0.37	70,000
Averlogic Corporation	<b>0.22</b>	<b>1,600</b>	–	–

*Continued on next page*

As of December 31,		2002		2001
Invested Company	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
<b>Investments accounted for under the cost method or the lower of cost or market value method:</b>				
<i>Continued from previous page</i>				
Amkor Technology, Inc.	0.13	\$101,696	0.09	\$99,541
LightCross, Inc.	–	206,880	–	206,880
Linden Technologies, Inc.	–	92,385	–	92,385
Aurora Systems, Inc.	–	72,226	–	72,226
Chip Express Corporation	–	68,198	–	–
ForteMedia, Inc.	–	65,000	–	65,000
ChinaYES InfoMedia (Cayman), Inc.	–	63,146	–	63,146
Alpha and Omega Semiconductor, Inc.	–	46,883	–	46,883
SandCraft, Inc.	–	43,063	–	43,063
VenGlobal Capital Fund III, L.P.	–	33,195	–	33,195
Primarion, Inc.	–	38,816	–	31,800
Formerica International Holding, Inc.	–	30,898	–	30,898
Triscend Corp.	–	17,409	–	17,409
Broadcom Communications	–	7,092	–	7,092
Netlogic Microsystems, Inc.	–	3,195	–	3,195
Tonbu, Inc.	–	–	–	428,767
NetEmpower Software Technologies, Inc.	–	–	–	92,388
Octillion Communications, Inc.	–	–	–	65,740
Epogy Communication, Inc.	–	–	–	49,704
AEM Technology, Inc.	–	–	–	28,715
The Supply, Inc.	–	–	–	–
Stark Technology Inc.	–	–	0.19	1,824
National Venture Capital Corp.	–	–	11.09	60,000
Subtotal		22,014,805		23,708,453
Others:				
Golf Club Membership Card		60,000		60,000
Morgan Stanley Repackage Bond		873,000		–
Subtotal		933,000		60,000
Prepaid long-term investments:				
Ascend Semiconductor Corp.		30,036		–
Ayuttha Technology Corp.		24,450		–
Subtotal		54,486		–
Cumulative translation adjustment		209,339		183,710
Allowance for loss on decline in market value		(1,108,690)		(469,303)
Treasury stock held by unconsolidated subsidiaries		(171,840)		–
Total		\$38,673,496		\$40,756,678

**Note** Among the shares held by the Group in AU Optronics Corp., approximately 139,770 thousand shares with the book value of NT\$2,075 million were utilized as reference shares for the Group's zero coupon exchangeable bonds issued in May 2002.

b. Investment income (loss) accounted for under the equity method, which was based on the audited financial statements of the investees, were NT\$231 million and NT\$(1,510) million for the years ended

December 31, 2002 and 2001, respectively. Among which, investment loss amounting to NT\$58 million and NT\$1,357 million for the years ended December 31, 2002 and 2001, respectively, and the related

long-term investment balances of NT\$7,350 million and NT\$9,483 million as of December 31, 2002 and 2001, respectively, were determined based on the investees' financial statements audited by other auditors.

- c. Long-term investments of Hsun Chieh, a subsidiary of the Company, in United Radiotek Incorporation, SerComm Corporation, UC Fund II, Patentop, Ltd., Harvatek Corp., Advance Materials Corporation, High Bandwidth Access, Inc., RiRa Electronics, Inc., VistaPoint, Inc., Accelerated Communications, Inc., Afa Technologies, Inc. and Star Semiconductor Corp. were accounted for under the equity method, and the related investment income or loss is to be recognized in the next year.
- d. The long-term investments were not pledged.

#### (7) Property, Plant and Equipment

- a. Total interest expense before capitalization amounted to NT\$2,006 million and NT\$2,730 million for the years ended December 31, 2002 and 2001, respectively.
- b. Details of capitalized interest are as follows:

For the year ended December 31,	2002	2001
Machinery and equipment	\$545,551	\$202,873
Other property, plant and equipment	5,162	1,150
Total interest capitalized	\$550,713	\$204,023
Interest rates applied	3.34%-3.89%	1.55%-7.25%

- c. The insurance coverage for property, plant and equipment was sufficient as of December 31, 2002 and 2001.
- d. Please refer to Note 6 for property, plant and equipment pledged as collateral.

#### (8) Short-term Loans

As of December 31,	2002	2001
Unsecured bank loans	\$1,178,800	\$403,050
Secured bank loans	–	350,400
Total	\$1,178,800	\$753,450
Interest rates	1.60%-2.02%	0.59%-9.50%

- a. The Group's unused short-term lines of credits amounted to NT\$17,538 million and NT\$20,272 million as of December 31, 2002 and 2001, respectively.
- b. Please refer to Note 6 for assets pledged for short-term loans.

#### (9) Bonds Payable

As of December 31,	2002	2001
Secured domestic bonds payable	\$2,850,001	\$3,990,000
Unsecured domestic bonds payable	25,000,000	25,000,000
Euro convertible bonds payable	14,465,390	10,596,096
Exchangeable bonds payable	8,182,700	–
Compensation interest payable	83,392	4,415
Subtotal	50,581,483	39,590,511
Less: Current portion	(1,139,999)	(1,140,000)
Net	\$49,441,484	\$38,450,511

- a. On April 27, 2000, the Company issued five-year secured bonds amounting to NT\$3,990 million 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, with face value of NT\$7,500 million, and stated interest rates of 5.1850% through 5.1195% and 5.2850% through 5.2170%, respectively. The five-year bonds and seven-year bonds are repayable starting 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 face value of NT\$5,000 million, and with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds and five-year bonds are repayable in October 2004 and October 2006, respectively, upon the maturity of the bonds.
- d. On December 12, 2001, the Company issued zero coupon convertible bonds amounting to US\$302.4 million on the Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:
- 1) Final Redemption: Unless previously redeemed, repurchased, cancelled or converted, the bonds will be redeemed at 101.675% of their principal amount on March 1, 2004.
  - 2) 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 New York Stock Exchange 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 five 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.
- 3) Conversion Period:
- i. In respect of the Shares, on or after January 22, 2002 up to and including 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 resales of certain ADSs issuable upon conversion of the bonds has been declared effective by the US SEC, up to and including February 20, 2004.
- 4) Conversion Price: The conversion price
- i. In respect of the Shares, will be NT\$69.60 per Share, and
- ii. In respect of the ADSs, will be US\$10.098 per ADS. The applicable conversion price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, including Shares represented by ADSs, bonus issues, right issues, distributions of cash and stock dividends and other dilutive events.
- e. On May 10, 2002, the Company issued a LSE listed zero coupon exchangeable bond, exchangeable for common shares or ADSs of AU Optonics Corp. (AU), with an aggregate principal amount of US\$235 million. The terms and conditions of the bonds are as follows:
- 1) Final Redemption: Unless previously redeemed, exchanged or purchased and cancelled, the bonds will be redeemed at their principal amounts in US dollars on May 10, 2007.
- 2) 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 market price of the AU common shares, 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, at their principal amount if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.
- 3) 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.
- 4) Tax Redemption: The Company may redeem all, but not part, of the bonds, at any time at their principal amount in US dollars, 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, if any, at a rate exceeding 20%.
- 5) 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 AU shares or AU ADSs at an exchange price of NT\$58.25 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 five 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 restriction.
- The exchange price will be subject to adjustment upon the occurrence of certain events including free distribution of AU common shares by AU; subdivision, consolidation or reclassification of AU common shares, distribution of stock dividends by AU, right issues and other dilutive events.
- f. On March 25, 2002, the Company's subsidiary UMCJ issued a LSE listed zero coupon convertible bonds with an aggregate principal amount of ¥17,000 million and the issue price was set at 101.75% of the principal amount. The terms and conditions of the bonds are as follows:
- 1) Final Redemption: Unless previously converted, purchased and cancelled or redeemed, the bonds will be redeemed on March 26, 2007 at 100% of their principal amount.
- 2) Early Redemptions:
- i. On or at any time after March 25, 2005, UMCJ may redeem all but not some of the bonds if the last selling price of the shares reported on the OTC Market in Japan is at least 120% of the conversion price then in effect for at least 20 out of 30 consecutive trading days ending on the trading day immediately prior to the date of the notice of redemption; or the principal amount that has not been redeemed, repurchased and cancelled or converted is equal to or less than 10% of original aggregate principal amount.

ii. In case of a corporate split or share exchange/ share transfer. UMCJ may redeem all but not some of the bonds on or prior to the effective date of the transaction, subject to giving no less than 30 nor more than 60 days' notice at the redemption amount, provided that UMCJ is not able to ensure holders of the bonds to be able to convert them into shares of stock and other securities and property which they would have received had the bonds been converted into shares immediately prior to the transaction or if such supplemental indenture is objected by holders of bonds of at least a majority in principal amount.

iii. If a change in who controls UMCJ occurs, holders of the bonds will be able to require UMCJ to redeem their bonds on the date that is 85 days after the change of control occurs.

3) Conversion Period: At any time on or after May 3, 2002 to and including March 19, 2007.

4) Conversion Price: The conversion price was set at ¥400,000 per share and may be adjusted for subdivision or consolidation of shares, rights issues, distribution of cash and stock dividends and other dilutive events.

#### (10) Long-term Loans

As of December 31,	2002	2001
Secured bank loans	<b>\$13,989,861</b>	\$21,802,126
Unsecured bank loans	<b>5,531,250</b>	3,022,875
Less: Current portion	<b>(6,641,599)</b>	(8,580,178)
Net	<b>\$12,879,512</b>	\$16,244,823
Interest rates	<b>0.95%-3.35%</b>	1.55%-5.34%

- The above long-term loans will be repaid in installments with the last payment on May 14, 2009.
- The Group's long-term loans denominated in foreign currency amounted to US\$100 million, ¥18,750 million and US\$176 million, ¥18,423 million as of December 31, 2002 and 2001, respectively.
- Please refer to Note 6 for assets pledged for long-term loans.

#### (11) Pension Fund

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

For the year ended December 31,	2002	2001
Service cost	<b>\$427,082</b>	\$375,812
Interest cost	<b>110,230</b>	142,885
Expected return on plan assets	<b>(30,258)</b>	(38,335)
Recognition of transition assets	<b>39,537</b>	38,523
Recognition of actuarial loss	<b>6,129</b>	11,433
Net periodic cost	<b>\$552,720</b>	\$530,318

The actuarial assumptions underlying are as follows:

For the year ended December 31,	2002			2001	
	The Company	UMO	UMCJ	The Company	UMCJ
Discount rate	<b>4.00%</b>	<b>4.00%</b>	<b>2.00%</b>	4.50%	2.00%
Rate of compensation increase	<b>5.50%</b>	<b>6.00%</b>	<b>3.71%</b>	6.50%	3.71%
Expected return on plan assets	<b>3.25%</b>	<b>3.25%</b>	<b>1.00%</b>	4.50%	1.00%

- The funding status of the pension plan is listed as follows:

As of December 31,	2002	2001
Vested benefit obligation	<b>\$(330,050)</b>	\$(267,530)
Non-vested benefit obligation	<b>(933,124)</b>	(544,677)
Accumulated benefit obligation	<b>(1,263,174)</b>	(812,207)
Effect from projected salary increase	<b>(2,024,153)</b>	(1,824,856)
Projected benefit obligation	<b>(3,287,327)</b>	(2,637,063)
Market-related value of plan assets	<b>991,058</b>	824,092
Funded status	<b>(2,296,269)</b>	(1,812,971)
Unrecognized transition obligation	<b>296,565</b>	326,000
Unrecognized gain or loss	<b>160,577</b>	63,354
Other	<b>—</b>	(2,699)
Accrued pension payable	<b>(63,953)</b>	(74,946)
Accrued pension cost per actuarial report	<b>(1,903,080)</b>	(1,501,262)
Over accrual	<b>(127,706)</b>	(89,760)
Accrued pension liabilities	<b>\$(2,030,786)</b>	\$(1,591,022)

#### (12) Capital Stock

- As recommended by the board of directors and approved by the shareholders' meeting on May 30, 2001, the Company issued 1,864,243,516 new shares from the capitalization of retained earnings of NT\$17,151 million and employees' bonus of NT\$1,491 million with the effective date on July 21, 2001.
- As recommended by the board of directors and approved by the shareholders' meeting on June 3, 2002, the Company issued 2,139,150,230 new shares from the capitalization of retained earnings of NT\$19,680 million and employees' bonus of NT\$1,711 million. The effective date of the issuance was on August 11, 2002.
- As of December 31, 2002, 22 billion common shares were authorized to be issued and 15,474,845,646

common shares were issued, each at par of NT\$10.

d. The Company has issued 173,693 thousand ADSs as of December 31, 2002. The number of common shares represented by the ADSs is 868,467 thousand shares.

e. On September 11, 2002, the Company was authorized by the relevant government authorities to issue employee stock options. The total number of options to be granted under the plan is one billion units, with each unit entitling the optionee to subscribe for one share of the Company's common stock. Settlement

upon the exercise of the stock options will be made through the issuance of new shares by the Company. The grant period for options is six years and an optionee may exercise his/her options in accordance with certain schedules as prescribed by the plan starting from two years after the grant. The total number of option units outstanding as of December 31, 2002 was 928,059 thousand units and the exercise price for the options is NT\$20 per share.

**(13) Treasury Stock**

The Company bought back its own shares from the open market during the years ended December 31, 2002

and 2001. Details of the treasury stock transactions are as follows:

In thousand shares				
Purpose	As of January 1, 2002	Increase	Decrease	As of December 31, 2002
For transfer to employees	37,425	49,114	-	86,539
For conversion of the convertible bonds into shares	129,035	20,693	-	149,728
Total shares	166,460	69,807	-	236,267

According to Stock Exchange Regulations of Taiwan, total shares of treasury stock shall not exceed 10% of the Company's stock issued. Total purchase amount shall not exceed sum of retained earnings and capital reserve-premiums and realized capital reserve. The Company's treasury stock possession did not, at any time during 2002, violate the regulation stated above. As of December 31, 2002, the Company held 236,267 thousand shares of treasury stock, which amounted to NT\$8,819 million.

Treasury stock shall not be pledged, nor does it possess voting rights or receive dividends, in compliance with Stock Exchange Regulations of Taiwan.

As of December 31, 2002, the Company's subsidiaries Hsun Chieh and Fortune Venture held 484,045 thousand shares and 17,633 thousand shares of the Company's stock, with a book value of NT\$23.87 and NT\$9.75 per share, respectively. As of December 31, 2002, the market value per share was NT\$23.87.

**(14) Retained Earnings**

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

a. Payment of all taxes and dues;

b. Offset prior years' operating losses;

c. Set aside 10% of the remaining amount after deducting items a and b as 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, any portion of the remaining amount together with the prior years' unappropriated earnings is to be allocated as follows: no less than 5% as employees' bonus which will be settled through issuance of new shares of the Company.

f. The distribution of the remaining portion, if any, will be recommended by the board of directors and approved by the shareholders' meeting.

The Company's Articles of Incorporation further provides that at least 50% of the dividends to the Company's 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 2002 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on board of directors' recommendations and shareholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

Details of the settlement of 2001 employees' bonus



and remuneration of directors and supervisors are as follows:

For the year ended December 31, 2001		As approved by the shareholders' meeting	As recommended by the board of directors	Differences
Settlement of employees' bonus by issuance of new shares	Number of shares (in thousands)	171,132	171,132	-
	Amount	\$1,711,320	\$1,711,320	-
	Percentage on total number of outstanding shares at end of year	1.30%	1.30%	-
Remuneration of directors and supervisors		-	-	-
Effect on earnings per share before retroactive adjustments	Original basic and diluted loss per share	\$(0.24)	\$(0.24)	-
	Revised basic and diluted loss per share taking into consideration of the employees' bonus	\$(0.37)	\$(0.37)	-

(15) Earnings (Loss) per Share

a. The calculation of basic and diluted earnings (loss) per share, for the years ended December 31, 2002 and 2001, is disclosed as follows:

For the year ended December 31,	2002	2001
Net income (loss)	\$7,072,032	\$(3,157,302)
Adjusted net income (loss) assuming dilution	\$7,131,265	\$(3,157,302)
Weighted average number of shares (in thousands)		
Basic	14,753,187	14,920,842
Diluted	14,944,510	14,920,842
Earnings (loss) per share - basic and diluted (in NTD)	\$0.48	\$(0.21)

According to financial guidelines issued in 2000, the Company's stock held by its subsidiaries are to be considered as Treasury Stock effective from 2002. According to ROC SFAS No. 30, "Accounting for Treasury Stock", the calculation of basic earnings per share for the year ended December 31, 2001 is not required to be adjusted retroactively the Company's stock held by subsidiaries.

b. Pro forma information on earnings as if the Company's unconsolidated subsidiary Fortune Venture's investment in the Company is not treated as treasury stock is set out as follows:

		In thousand Shares	
For the year ended December 31, 2002		Basic	Diluted
Net income	\$7,072,032	\$7,131,265	
Outstanding weighted average shares at beginning	12,748,327	12,748,327	
Stock dividends and employees' bonus at 16.30%	2,077,977	2,077,977	
Weighted average treasury stock	(55,284)	(55,284)	
Weighted average employee stock options accounted for under treasury stock method	-	-	41,590
Weighted average shares assuming converted from convertible bonds	-	-	149,733
Outstanding weighted average shares	14,771,020	14,962,343	
Earnings per share			
Net income (in NTD)	\$0.48	\$0.48	

(16) Income Tax

Reconciliation between the income tax expense (benefit) and the income tax calculated on pre-tax financial income based on the statutory tax rate is as follows:

For the year ended December 31,	2002	2001
Tax on pre-tax income (loss) at statutory tax rate	\$1,830,019	\$(1,868,553)
Estimated temporary and permanent differences	(734,256)	(180,903)
Change in investment tax credit	(3,999,022)	(8,842,305)
Change in valuation allowance against deferred tax assets	3,077,307	6,861,925
Change in tax rate	-	(1,142,582)
10% income tax on unappropriated earnings	46,705	1,909,261
Adjustment of prior year's tax expense	37,916	201,480
Tax on interest revenue separately taxed	12,062	21,688
Income tax expense (benefit)	\$270,731	\$(3,039,989)

Deferred income tax assets and liabilities were as follows:

As of December 31,	2002	2001
Deferred income tax assets - current	\$10,699,458	\$7,407,818
Deferred income tax liabilities - current	(324,542)	(18,177)
Valuation allowance for deferred tax assets	(7,380,344)	(3,434,774)
Net	\$2,994,572	\$3,954,867
Deferred income tax assets noncurrent	17,171,895	\$16,091,885
Deferred income tax liabilities noncurrent	(5,282,085)	(4,222,898)
Valuation allowance for deferred tax assets	(6,656,882)	(7,497,756)
Net	\$5,232,928	\$4,371,231

Significant components of deferred income tax assets and liabilities were as follows:

As of December 31,	2002		2001	
	Amount	Tax effect	Amount	Tax effect
Current items:				
Temporary difference				
Allowance for sales returns and discounts	\$540,310	\$135,077	\$448,037	\$112,009
Others	(428,050)	(82,165)	1,504,156	446,295
Loss carryforward	12,069,999	3,066,715	13,945,181	3,532,955
Investment tax credits		7,255,289		3,298,382
Valuation allowance		(7,380,344)		(3,434,774)
Net		\$2,994,572		\$3,954,867
Noncurrent items:				
Temporary difference				
Depreciation	\$21,009,246	\$(5,232,375)	\$16,786,227	\$(4,195,274)
Pension	1,854,645	469,056	1,404,227	352,229
Others	105,078	34,118	256,107	70,182
Loss carryforward	4,331,682	1,248,454	750,853	313,407
Investment tax credits		15,370,557		15,328,442
Valuation allowance		(6,656,882)		(7,497,755)
Net		\$5,232,928		\$4,371,231

The Company's income tax returns through the year 1999 have been assessed and approved by the Tax Authority except that of 1998.

Pursuant to the "Statute for the Establishment and Administration of Science-Based Industrial Park", the Company was granted several four-year income tax exemption periods with respect to income derived from expansion of operations located in Hsinchu

Science-Based Industrial Park. The starting date of the exemption period attributable to the expansion in 1999 has not yet been decided by the Company. The other exemption periods will expire in December of 2007.

An enterprise earns an investment tax credit for the amount invested in emerging, important and strategic industries, production equipment, research and development expenditure, employee training



expenditure and other related costs. This credit may be applied over a period of five years.

As of December 31, 2002, the Group's unused investment tax credit is as follows:

<i>Expiration Year</i>	<i>Investment tax credits</i>
<b>2002</b>	<b>\$3,280,896</b>
2003	3,974,393
2004	5,899,913
2005	3,493,821
2006	5,976,823
<i>Total</i>	<b>\$22,625,846</b>

Under the rules of the Income Tax Law, operating loss can be carried forward for 5 years. As of December 31, 2002, the unutilized accumulative loss brought forward amounted to NT\$16,402 million, which will expire in 2006 and 2007.

The new Taiwan imputation tax system requires

that any undistributed current earnings, on tax basis of a company derived on or after January 1, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as tax credit against its individual income tax liability effective 1998.

The ending balance of unappropriated earnings available for 2002 appropriation amounted to NT\$23,005 million, of which NT\$64 million was earned prior to January 1, 1998.

As of December 31, 2002, the balance of imputation credit account ( ICA ) was NT\$90 million. The actual creditable ratio for the appropriation of 2001 and 2000 retained earnings was 1.79% and 1.04%, respectively.

**Note 5 – Related Party Transactions**

**(1) Name and Relationship of Related Parties**

<i>Name of related parties</i>	<i>Relationship with the Company and subsidiaries</i>
DuPont Photomasks Taiwan Ltd. (DPT)	Investee company
Holtek Semiconductor Inc. (Holtek)	Investee company
Faraday Technology Corp. (Faraday)	Investee company
MediaTek Incorporation (MediaTek)	The Company is its supervisor
Chiao Tung Bank (Chiao Tung)	The Company is its parent company's director and supervisor
Industrial Bank of Taiwan Corp. (IBT)	The Company is its major shareholder
Shin-Etsu Handotia Taiwan Co., Ltd. (Shin-Etsu)	The Company's investee is its director
Infineon Technologies, Asia Pacific Pte Ltd. (ITAP)	Affiliated company of UMCi

**(2) Significant Related Party Transactions**

**a. Operating revenues**

<i>For the year ended December 31,</i>	<b>2002</b>		<b>2001</b>	
	<i>Amount</i>	<i>Percentage</i>	<i>Amount</i>	<i>Percentage</i>
MediaTek	<b>\$9,637,752</b>	<b>13</b>	\$3,776,580	6
Others	<b>6,682,023</b>	<b>9</b>	11,287,896	16
<i>Total</i>	<b>\$16,319,775</b>	<b>22</b>	\$15,064,476	22

The sales to the above related parties were dealt with in the ordinary course of business with the sales price made in the way similar to the sales to third-party customers. The collection period for overseas sales

was net 45~60 days for the related parties and third-party customers, while the terms for domestic sales were month-end 30~60 days for both the related parties as well as the third-party customers.

b. Purchases

For the year ended December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$2,273,128	14	\$1,805,200	11
Others	219,235	1	255,872	2
Total	\$2,492,363	15	\$2,061,072	13
The purchases from 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 30~60 days for the related parties and third-party suppliers, while the terms for domestic purchase were month-end 30~60 days and month-end 30~90 days for the related parties and third-party suppliers, respectively.				

c. Notes receivable

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Holtek	\$-	-	\$77,843	36
Others	2,370	3	24,168	11
Total	\$2,370	3	\$102,011	47

d. Accounts receivable, net

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
MediaTek	\$1,431,362	12	\$1,046,372	12
Others	1,291,185	11	1,100,888	12
Subtotal	2,722,547	23	2,147,260	24
Less: Allowance for sales returns and discounts	(451,009)	(4)	(290,832)	(3)
Less: Allowance for doubtful accounts	(70,493)	(1)	(95,540)	(1)
Net	\$2,201,045	18	\$1,760,888	20

e. Other receivables, net

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
ITAP	\$1,910,268	60	\$1,922,207	63
Others	-	-	28,095	1
Subtotal	1,910,268	60	1,950,302	64
Less: Allowance for doubtful accounts	-	-	(705)	-
Net	\$1,910,268	60	\$1,949,597	64

f. Accounts payable

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$375,116	8	\$455,749	16
Others	23,565	-	34,678	1
Total	\$398,681	8	\$490,427	17

g. Loans

For the year ended December 31, 2002	Maximum balance		Ending balance	Interest rate	Interest expense
	Amount	Month			
Chiao Tung	\$1,224,575	January	\$868,195	2.07%-4.00%	\$32,717
IBT	998,750	January	783,296	2.89%-3.94%	16,216
			<u>\$1,651,491</u>		<u>\$48,933</u>

For the year ended December 31, 2001	Maximum balance		Ending balance	Interest rate	Interest expense
	Amount	Month			
Chiao Tung	\$4,091,316	January	\$1,224,575	4.00%-7.00%	\$221,359
IBT	998,750	January	998,750	3.94%-6.42%	54,582
			<u>\$2,223,325</u>		<u>\$275,941</u>

h. Disposal of property, plant and equipment: The Group had no significant disposal of property, plant and equipment to related parties for the year ended December 31, 2002.

For the year ended December 31, 2001	Item	Amount	Gain
Holtek	Building and facilities	\$173,250	\$31,468

i. Other transactions

The Group has made several other transactions, including joint intellectual property development contracts, processing expenditures, commissions and service charges with related parties for an approximate total of NT\$363 million and NT\$249 million for the years ended December 31, 2002 and 2001, respectively.

Among the transactions, the Group has entered into joint intellectual property development contracts, amounting to approximately NT\$1,154 million, with Faraday. As of December 31, 2002, a total amount of NT\$313 million was paid.

In addition, the Group has purchased approximately NT\$917 million and NT\$1,081 million of supplies from DPT during the years ended December 31, 2002 and 2001, respectively.

Note 6 – Assets Pledged as Collateral

As of December 31,	2002	2001	Subject of collateral
Accounts receivable, net	\$–	\$2,798,906	Short-term loans
Restricted deposits	–	264,700	Long-term loans
Land	452,916	614,544	Long-term loans
Buildings	2,533,152	6,126,811	Long-term loans
Machinery and equipment	21,537,463	33,513,570	Long-term and short-term loans
Total	<u>\$24,523,531</u>	<u>\$43,318,531</u>	

Note 7 – Commitments and Contingent Liabilities

(1) The Group's unused letters of credit for imports of machinery were approximately NT\$76 million as of December 31, 2002.

(2) The Group has entered into contracts, amounting to approximately NT\$15.6 billion, with third parties for

rights to use patents registered by the third parties. The contract period is from 1995 to 2011. Royalty payables for the consecutive 5 years starting from 2003 through 2007 are approximately NT\$2.5 billion, NT\$1.3 billion, NT\$1.3 billion, NT\$1.2 billion, and NT\$1.3 billion, respectively.

(3) The Group has signed several construction contracts for the expansion of factory space. As of December 31, 2002, these construction contracts amounted to approximately NT\$10.3 billion and the unaccrued portion of the contracts was approximately NT\$4.8 billion.

(4) On October 27, 1997, Oak Technology Inc. ( Oak ) filed a complaint seeking damages of US\$750 million in the Northern District of California alleging that the Company breached a Settlement Agreement entered on July 31, 1997 with respect to a settlement of a dispute between the Company and Oak concerning certain CD ROM controller products made by the Company and a patent owned by Oak. The Company denied Oak's allegations and on December 24, 1997, filed its answer

and affirmative defenses refuting Oak’s claims. Based on the allegations that it is Oak which has breached the Settlement, the Company simultaneously filed a counterclaim against Oak, seeking damages and a return of the millions paid to Oak under the Settlement. In addition, the Company further seeks a declaration that the Oak patent is invalid and/or unenforceable. Though Oak filed a complaint later with the International Trade Commission ( ITC ) repeating the allegations made in the District Court, both the ITC and the Court of Appeals for the Federal Circuit issued a ruling affirming that there was no infringement and no violation.

Oak filed enforceable commitments that it would no longer seek recoveries in connection with the Oak patent and accordingly, the District Court concluded there was no longer dispute between Oak and the Company on the patent and the Company’s claim for a declaration of invalidity and unenforceability will be dismissed. The Company intends to continue to defend these matters vigorously. Furthermore, the management does not believe the Oak complaints will have any material adverse impact on the Company’s operations and/or financial performance.

(5) The Group entered into several operating lease contracts. Future minimum lease payments under those leases with original maturities, which extend for more than one year as of December 31, 2002, are as follows:

For the year ended	Amount
December 31, 2003	\$207,633
December 31, 2004	211,732
December 31, 2005	202,364
December 31, 2006	168,738
December 31, 2007	154,116
January 1, 2008 and thereafter	2,160,103
Total	\$3,104,686

(6) The Group entered into several wafer-processing contracts with its main clients. According to the contracts, the Group shall guarantee processing capacity, while the clients make deposits to the Group. In case the clients’ orders do not meet the capacity guaranteed, the clients need to pay the Group penalties.

(7) The Company entered into two three-year purchase agreements in January 2000 that committed the Company to purchase at least 75% of its 8-inch wafer

consumption from two of its suppliers for the contract period.

- (8) As a condition precedent to the making of the loan contemplated by a US\$600 million Amortizing Term Loan Facility Agreement among UMCi, a subsidiary of the Company, and several financial institutions, the Company has provided a letter of undertaking to the financial institutions and Citicorp Investment Bank (Singapore) Ltd, the facility agent, to undertake that
- a. The Company shall continue to own and control, directly or indirectly, a minimum of 40% of the total issued and outstanding shares of UMCi. The Company shall also provide technical support to UMCi and maintain management control with no less than half of the seats of the board of directors.
  - b. The Company shall take necessary actions to ensure UMCi has at least US\$600 million of issued and paid-in capital in cash by December 31, 2003, to make investments necessary to complete the 300mm fab plant on time, and to meet all the obligations under the Facility Agreement.

**Note 8 – Significant Disaster Loss**

None.

**Note 9 – Significant Subsequent Events**

- (1) The Company has granted 61 million in units of employee stock options on January 3, 2003 with an exercise price of NT\$22.5 per share.
- (2) After the special shareholder’s meeting of Silicon Integrated Systems Corp. on January 14, 2003, the Company acquired three seats of the board of directors. Silicon Integrated Systems Corp. is an investment of the Company accounted for under the cost method as of December 31, 2002.

**Note 10 – Others**

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

(2) Significant intercompany eliminations between consolidated entities for the year ended December 31, 2002:

Descriptions	Elimination entries Debit (Credit)						
	The Company	UMC-USA	UMC BV	Hsun Chieh	UMO	UMCJ	UMCi
<b>Elimination of long term investments against corresponding equity accounts of the subsidiaries</b>	\$(29,035,096)	\$481,982	\$216,606	\$11,845,397	\$702,501	\$8,638,136	\$7,150,474
<b>Elimination of reciprocal balances</b>							
Accounts receivable vs. Accounts payable	(3,865,523)	3,284,149	542,296	–	657	851	37,570
Other receivables vs. Other payables	(38,832)	–	31	–	2,384	68	36,349
Proceeds from disposal vs. acquisition cost of fixed assets	(276,645)	–	–	–	276,645	–	–
Intangible assets vs. Deferred credits	(1,937,138)	–	–	–	225,000	–	1,712,138
Other current liabilities vs. other deposits	1,719,211	(1,719,211)	–	–	–	–	–
<b>Elimination of intercompany profits and losses</b>							
Intercompany sales and purchases	31,803,289	(27,917,057)	(3,822,123)	–	(626)	(14,101)	(49,382)
<b>Elimination of intercomany investments</b>							
Long-term investments vs. Treasury stock	(29,592,654)	–	–	29,592,654	–	–	–

**Note 11 – Additional Disclosures**

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

- a. Loans to others attributed to financial activities as of December 31, 2002: Please see Attachment-1.
  - b. The endorsements and guarantees provided to others as of December 31, 2002: Please see Attachment-2.
  - c. The ending balance of securities held as of December 31, 2002: Please see Attachment-3.
  - d. The cumulative buying or selling of one specific security exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002: Please see Attachment-4.
  - e. Acquisition of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-5.
  - f. Disposal of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-6.
  - g. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-7.
  - h. Receivables from related parties exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2002: Please see Attachment-8.
- All intercompany accounts and transactions have

been eliminated in the consolidated financial statements. For details, please refer to Note 10.

- i. Related information on invested companies as of December 31, 2002: Please see Attachment-9.
- j. Financial instruments: The relevant information on the derivative financial instruments entered into by the Group is as follows:
  - 1) There were no derivative financial instruments outstanding as of December 31, 2002. UMCJ, a subsidiary of the Company, entered into foreign currency forward exchange contract with a certain bank on December 17, 2001. The major information is as follows:
    - i. Purposes: to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.
    - ii. Notional amount and contract period:

As of December 31, 2001

Notional amount	Contract period
US\$3 million	January 4, 2002-January 31, 2002

- iii. Terms and characteristics of the forward exchange:
  - a) Term: UMCJ agrees to purchase US\$3 million using the contracted forward rate in USD/¥127.77 during the contract period.
  - b) Credit risk: There is no significant credit risk with respect to the above transaction because the bank has good global standing.
  - c) Market risk: The market risk is low due to the nature of the forward exchange.

## 2) Non-derivative financial instruments:

As of December 31,	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	\$80,883,408	\$80,883,408	\$76,904,068	\$76,904,068
Marketable securities	2,526,365	2,542,241	1,286,434	1,461,610
Notes and accounts receivables	15,246,503	15,246,503	12,134,465	12,134,465
Long-term investments	38,673,496	35,479,778	40,756,678	82,879,283
<b>Financial Liabilities</b>				
Short-term loans	1,178,800	1,178,800	753,450	753,450
Payables	18,014,335	18,014,335	21,332,320	21,332,320
Bonds payable (current portion included)	50,581,483	51,137,649	39,590,511	41,805,353
Long-term loans (current portion included)	19,521,111	19,521,111	24,825,001	24,825,001

The methods and assumptions used to measure the fair values of non-derivative financial instruments are as follows:

- The carrying amounts of short-term financial assets and liabilities (excluding marketable securities) approximate fair values due to their short maturities.
- The fair values of marketable securities and long-term investments are based on the market value of

the securities or, if market value is unavailable, the net equities of the investees are used as fair value.

- Fair value of bonds payable is determined by the market value.
- The carrying value of long-term loans approximates the fair value as the loans bear floating rates.

(2) Investment in Mainland China: None.

## Note 12 – Segment Information

### (1) Operations in different industries

The Group operates principally in one industry. The Group's major business activity is providing dedicated

semiconductor wafer foundry services.

### (2) Operations in different geographic areas

For the year ended December 31, 2002

	Taiwan	North America	Others	Eliminations	Consolidated
Sales to unaffiliated customers	\$29,735,077	\$28,393,289	\$17,296,990	\$–	\$75,425,356
Sales between geographic areas	626	27,917,057	3,885,607	(31,803,290)	–
Net operating revenues	\$29,735,703	\$56,310,346	\$21,182,597	\$(31,803,290)	\$75,425,356
Gross profit	\$11,195,150	\$547,123	\$858,352	\$(62,571)	\$12,538,054
Operating expenses	–	–	–	–	(12,425,796)
Non-operating income	–	–	–	–	10,885,364
Non-operating expenses	–	–	–	–	(3,981,374)
Net income before income taxes and minority interests	–	–	–	–	\$7,016,248
Minority interests loss	–	–	–	–	\$326,515
Identifiable assets	\$243,298,411	\$5,794,034	\$47,348,838	\$(8,085,892)	\$288,355,391
Long-term investments	–	–	–	–	38,673,496
Total assets	–	–	–	–	\$327,028,887

For the year ended December 31, 2001

	Taiwan	North America	Others	Eliminations	Consolidated
Sales to unaffiliated customers	\$37,415,078	\$27,732,855	\$4,668,866	\$–	\$69,816,799
Sales between geographic areas	–	27,078,329	50,244	(27,128,573)	–
Net operating revenues	\$37,415,078	\$54,811,184	\$4,719,110	\$(27,128,573)	\$69,816,799
Gross profit	\$9,130,995	\$529,532	\$(502,321)	\$90,684	\$9,248,890
Operating expenses	–	–	–	–	(15,661,143)
Non-operating income	–	–	–	–	6,270,300
Non-operating expenses	–	–	–	–	(6,424,084)
Net loss before income taxes and minority interests	–	–	–	–	\$(6,566,037)
Minority interests loss	–	–	–	–	\$368,746
Identifiable assets	\$241,286,977	\$5,538,479	\$40,392,656	\$(7,280,533)	\$279,937,579
Long-term investments	–	–	–	–	40,756,678
Total assets	–	–	–	–	\$320,694,257

### (3) Export sales

For the year ended December 31,	2002	2001
	Sales Revenue	Sales Revenue
Asia (Taiwan excluded)	\$8,590,908	\$8,787,824
North America	26,528,714	24,671,440
Europe and others	7,824,793	13,533,853
Total	\$42,944,415	\$46,993,117

### (4) Major customers

Customers that account for at least 10% of net sales for the years ended December 31, 2002 and 2001:

For the year ended December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Customer A	\$9,637,752	13	\$3,776,580	6
Customer B	8,679,504	12	7,727,540	11

# Attachments to Notes

## Attachment-1 Loans to others attributed to financial activities as of December 31, 2002

No.	Name of the lending company	Name of the borrowers	Accounts name	The highest balance during 2002	The ending balance	Interest rate	Nature of financing
1	UMC Group (USA)	Employees	Receivable from employees' loans	US\$2,708,451	US\$861,333	7.00%	Note 2
2	UMCi Pte. Ltd.	Infineon Technologies, Asia Pacific Pte Ltd.	Other receivable	US\$55,000,000	US\$55,000,000	Note 1	Note 2

Notes (1) 1.87%, based on 3-month LIBOR. (2) Need for short-term financing.

## Attachment-2 The endorsements and guarantees provided by the Company to others as of December 31, 2002

No.	Guarantor	Guarantee	Relationship with the Company	The limit of guarantee for such party	The highest outstanding guarantee amount during 2002
1	UMC Japan	Directors and employees	Directors and employees	N/A	¥112,896,000

## Attachment-3 The ending balance of securities held by the Company as of December 31, 2002

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company
<b>United Microelectronics Corporation</b>		
Convertible bonds	China Development Financial Holding Corporation	None
Convertible bonds	SpringSoft, Inc.	None
Convertible bonds	Billionton Systems Inc.	None
Stock	UMC Group (USA)	Investee company
Stock	United Foundry Service, Inc.	Investee company
Stock	UMC Capital Corporation	Investee company
Stock	United Microelectronics Corp. (Samoa)	Investee company
Stock	United Microelectronics (Europe) B.V.	Investee company
Stock	Fortune Venture Capital Corporation	Investee company
Stock	Hsun Chieh Investment Co., Ltd.	Investee company
Stock	United Microdisplay Optronics Corp.	Investee company
Stock	Pacific Venture Capital Co., Ltd.	Investee company
Stock	UMCi Pte. Ltd.	Investee company
Stock	UMC Japan	Investee company
Stock	DuPont Photomasks Taiwan Ltd.	Investee company
Stock	Unitech Capital Inc.	Investee company
Stock	Archtek Telecom Corporation	Investee company
Stock	Novatek Microelectronics Corp.	Investee company
Stock	Holtek Semiconductor Inc.	Investee company
Fund	Pacific United Technology, L.P.	None
Stock	Integrated Technology Express Inc.	Investee company
Stock	Unimicron Technology Corp.	Investee company
Stock	Applied Component Technology Corporation	Investee company



(Amount in thousand NTD unless otherwise stated)

<i>The yearly amount of sales to (purchase from) the borrower</i>	<i>The reason for lending</i>	<i>Bad debt allowance provided</i>	<i>Collateral</i>	<i>Value of collateral</i>	<i>The credit limit set up by the Company for its respective borrower</i>	<i>The ceiling of fund financing</i>
None	Employee loan	–	Securities	Higher	N/A	N/A
None	Company's loan	–	None	N/A	N/A	N/A

(Amount in thousand NTD unless otherwise stated)

<i>The outstanding guarantee amount at December 31, 2002</i>	<i>The amount of guarantee with collateral placed</i>	<i>The ratio of accumulated guarantee amount to net value of the Company</i>	<i>The ceiling of the outstanding guarantee for the respective party</i>
–	¥1,000,000,000	–	¥1,000,000,000

(Amount in thousand NTD unless otherwise stated)

<i>General ledger accounts</i>	<i>December 31, 2002</i>				<i>Shares as collateral (In thousands)</i>
	<i>Number of shares (In thousands)</i>	<i>Book value</i>	<i>Percentage</i>	<i>Market value</i>	
Short-term investment	60,000	\$2,052,000	N/A	\$2,067,576	None
Short-term investment	12,000	418,800	N/A	416,640	None
Short-term investment	300	30,948	N/A	33,408	None
Long-term investment	16,438	473,297	100.00	N/A	None
Long-term investment	2,005	82,960	100.00	N/A	None
Long-term investment	30,000	1,007,444	100.00	N/A	None
Long-term investment	500	7,114	100.00	N/A	None
Long-term investment	9	217,493	100.00	N/A	None
Long-term investment	299,994	3,115,317	99.99	N/A	None
Long-term investment	1,417,294	30,598,156	99.97	N/A	None
Long-term investment	76,499	702,501	85.00	N/A	None
Long-term investment	30,000	316,270	49.99	N/A	None
Long-term investment	212,250	6,952,691	49.82	N/A	None
Long-term investment	479	7,610,901	47.06	12,305,812	None
Long-term investment	99,748	1,145,403	45.51	N/A	None
Long-term investment	21,000	731,255	42.00	N/A	None
Long-term investment	14,200	–	26.49	N/A	None
Long-term investment	74,611	1,193,740	25.83	5,173,574	None
Long-term investment	44,854	568,554	25.61	1,159,697	None
Long-term investment	–	34,600	25.00	N/A	None
Long-term investment	24,111	309,672	24.58	615,173	None
Long-term investment	168,930	3,004,762	23.81	3,613,576	None
Long-term investment	12,068	91,581	23.66	144,234	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
<b>United Microelectronics Corporation</b>		
<i>Continued from previous page</i>		
Stock	Faraday Technology Corp.	Investee company
Stock	PixTech, Inc.	None
Stock	Integrated Telecom Express, Inc.	Investee company
Stock	AMIC Technology (Taiwan), Inc.	Investee company
Stock	MediaTek Incorporation	The Company is its supervisor
Stock	AU Optronics Corp.	The Company is its director and supervisor
Stock	Sino-Aerospace Investment Corp.	None
Fund	Pacific Technology Partners, L.P.	None
Stock	Aptos Corp.	None
Stock	United Industrial Gases Co., Ltd.	None
Stock	TECO Nanotech Co., Ltd.	None
Stock	Subtron Technology Co., Ltd.	None
Stock	Industrial Bank of Taiwan Corp.	The Company is its major shareholder
Stock	Silicon Integrated Systems Corp.	None
Stock	TECO Electric & Machinery Co., Ltd.	The Company is its director and supervisor
Stock	SAMPO Corporation	None
Stock	Mega Financial Holding Company	The Company is its director and supervisor
Stock	Premier Image Technology Corporation	None
Stock	Tonbu, Inc.	None
Stock	Vialta, Inc.	None
<b>Hsun Chieh Investment Co., Ltd.</b>		
Stock	Shanghai Fudan Microelectronics Co., Ltd.	None
Stock	Afa Technologies, Inc.	Investee company
Stock	Star Semiconductor Corp.	Investee company
Stock	VistaPoint, Inc.	Investee company
Stock	UC Fund II	Investee company
Stock	Accelerated Communications, Inc.	Investee company
Stock	RiRa Electronics, Inc.	Investee company
Stock	United Radiotek Incorporation	Investee company
Stock	High Bandwidth Access, Inc	Investee company
Stock	Harvatek Corp.	Investee company
Stock	Elite Flash Storage Technology, Inc.	The Company is its director and supervisor
Stock	Giga Solution Technology Co., Ltd.	The Company is its director
Stock	Everglory Resource Technology Co., Ltd.	None
Stock	Ayuttha Technology Corp.	The Company is its director and supervisor
Stock	Patentop, Ltd.	Investee company
Stock	Kits On Line Technology Corp.	The Company is its director
Stock	Aptos Corp.	None
Stock	InComm Technologies Co., Ltd.	The Company is its director
Stock	Advance Materials Corporation	Investee company
Stock	Enovation Group Inc.	None
Stock	Unimicron Technology Corp.	Investee company to UMC
Stock	SerComm Corporation	Investee company
Stock	Integrated Photonics, Inc.	None

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	33,710	\$570,675	19.71	\$2,748,909	None
Long-term investment	9,883	–	17.63	2,848	None
Long-term investment	7,000	513,134	16.36	383,833	None
Long-term investment	16,200	53,225	13.62	N/A	None
Long-term investment	60,806	1,213,655	13.21	17,788,807	None
Long-term investment	455,276	6,758,766	11.37	9,883,592	None
Long-term investment	28,500	–	11.11	N/A	None
Long-term investment	–	208,256	9.85	N/A	None
Long-term investment	1,772	23,087	9.68	N/A	None
Long-term investment	13,185	146,250	8.44	N/A	None
Long-term investment	19,417	–	8.05	N/A	None
Long-term investment	16,000	240,000	7.41	N/A	None
Long-term investment	119,425	1,150,000	5.00	N/A	None
Long-term investment	48,483	1,267,580	4.46	1,198,403	None
Long-term investment	77,079	1,535,298	4.02	848,718	None
Long-term investment	17,773	224,044	1.73	221,915	None
Long-term investment	91,901	3,108,656	0.83	1,505,519	None
Long-term investment	2,940	27,964	0.64	165,548	None
Long-term investment	938	–	–	N/A	None
Long-term investment	8,360	622,835	8.90	105,103	None
Short-term investment	7,280	24,617	1.17	24,617	None
Long-term investment	2,365	23,650	47.30	N/A	None
Long-term investment	2,203	22,030	46.82	N/A	None
Long-term investment	2,852	34,224	35.65	N/A	None
Long-term investment	5,000	174,264	35.45	N/A	None
Long-term investment	10,000	100,000	33.33	N/A	None
Long-term investment	6,499	59,232	32.50	N/A	None
Long-term investment	2,937	29,185	29.37	N/A	None
Long-term investment	7,246	82,934	20.13	N/A	None
Long-term investment	16,329	277,203	21.99	1,111,513	None
Long-term investment	1,950	19,500	19.50	N/A	None
Long-term investment	8,750	105,000	19.44	N/A	None
Long-term investment	3,700	74,000	15.14	N/A	None
Long-term investment	1,100	16,500	11.00	N/A	None
Long-term investment	720	16,543	18.00	N/A	None
Long-term investment	3,200	38,656	16.41	N/A	None
Long-term investment	3,000	81,774	16.39	N/A	None
Long-term investment	3,200	44,480	16.00	N/A	None
Long-term investment	14,994	169,836	15.78	N/A	None
Long-term investment	1,148	11,809	14.34	N/A	None
Long-term investment	88,440	1,537,397	12.47	1,891,820	None
Long-term investment	8,367	159,465	11.48	270,750	None
Long-term investment	300	–	11.46	N/A	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
<b>Hsun Chieh Investment Co., Ltd.</b>		
<i>Continued from previous page</i>		
Stock	Golden Technology Venture Capital Investment Corp.	The Company is its director
Stock	NCTU Spring I Technology Venture Capital Investment Corp.	None
Stock	Ascend Semiconductor Corp.	The Company is its director and supervisor
Stock	Union Technology Corp.	None
Stock	Fortune Semiconductor Corporation	The Company is its director
Stock	ProSys Technology Integration, Inc.	None
Stock	NCTU Spring Venture Capital Co., Ltd.	The Company is its director
Stock	Faraday Technology Corp.	Investee company to UMC
Stock	Advanced Microelectronic Products, Inc.	None
Stock	Cosmos Technology Venture Capital Investment Corp.	The Company is its director
Stock	Parawin Venture Capital Corp.	The Company is its director
Stock	Coretronic Corp.	The Company is its director and supervisor
Stock	RF Integration Corporation	The Company is its director
Stock	UMC Japan	Investee company to UMC
Fund	Taiwan Asia Pacific Venture Fund	None
Stock	Prokia Technology Co., Ltd.	None
Stock	IBT Venture Co.	The Company is its director
Stock	Subtron Technology Co., Ltd.	The Company is its director and supervisor
Stock	United Microelectronics Corporation	Investor company
Stock	Hantek Technology Co., Ltd.	None
Stock	Integrated Telecom Express, Inc.	Investee company to UMC
Stock	Sheng-Hua Venture Capital Corp.	None
Stock	Pixart Imaging Inc.	None
Stock	Largan Optoelectronics, Co., Ltd.	The Company is its director
Stock	TECO Nanotech Co., Ltd.	None
Stock	Ingenus Corp.	None
Stock	Mega Financial Holding Company	None
Stock	King Yuan Electronics Co., Ltd.	None
Stock	Averlogic Corporation	None
Stock	Amkor Technology, Inc.	None
Stock	Vialta, Inc.	None
Stock	Broadcom Communications	None
Stock	Chip Express Corporation	None
Stock	AEM Technology Inc.	None
Stock	Alpha and Omega Semiconductor, Inc.	None
Stock	Aurora System, Inc.	None
Stock	ChinaYES InfoMedia (Cayman), Inc.	None
Stock	Epogy Communications, Inc.	None
Stock	Formerica International Holding, Inc.	None
Stock	ForteMedia, Inc.	None
Stock	LightCross, Inc.	None
Stock	Linden Technologies, Inc.	None
Stock	NetEmpower Software Technologies, Inc.	None
Stock	Netlogic Microsystems, Inc.	None
Stock	Lattice Semiconductor Corporation	None

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	8,000	\$80,000	10.67	N/A	None
Long-term investment	4,284	43,482	10.06	N/A	None
Long-term investment	1,440	14,400	9.00	N/A	None
Long-term investment	1,800	18,000	9.00	N/A	None
Long-term investment	1,700	71,500	8.72	N/A	None
Long-term investment	1,200	4,258	6.70	N/A	None
Long-term investment	2,000	20,000	6.28	N/A	None
Long-term investment	10,085	1,205,714	5.90	822,394	None
Long-term investment	7,420	126,000	5.50	N/A	None
Long-term investment	4,000	40,000	5.03	N/A	None
Long-term investment	5,000	50,000	5.00	N/A	None
Long-term investment	14,865	276,192	4.59	506,301	None
Long-term investment	3,900	98,610	9.76	N/A	None
Long-term investment	45	780,932	4.41	1,145,742	None
Long-term investment	115	29,295	4.15	N/A	None
Long-term investment	4,000	48,000	3.13	N/A	None
Long-term investment	9,000	90,000	3.81	N/A	None
Long-term investment	7,800	99,000	3.61	N/A	None
Long-term investment	484,045	29,592,654	3.13	11,553,197	None
Long-term investment	1,623	42,330	2.70	N/A	None
Long-term investment	1,113	139,613	2.61	61,029	None
Long-term investment	5,000	50,000	2.50	N/A	None
Long-term investment	780	10,140	1.95	N/A	None
Long-term investment	1,235	79,989	1.45	260,147	None
Long-term investment	2,926	–	1.21	N/A	None
Long-term investment	240	29,812	0.62	21	None
Long-term investment	57,249	1,882,974	0.52	937,859	None
Long-term investment	1,600	70,000	0.35	26,800	None
Long-term investment	46	1,600	0.22	2,207	None
Long-term investment	218	101,696	0.13	38,773	None
Long-term investment	8,360	625,622	8.90	105,103	None
Long-term investment	3	7,092	–	1,676	None
Long-term investment	2,667	68,198	–	N/A	None
Long-term investment	1,760	–	–	N/A	None
Long-term investment	1,500	46,883	–	N/A	None
Long-term investment	550	72,226	–	N/A	None
Long-term investment	10,000	63,146	–	N/A	None
Long-term investment	3,200	–	–	N/A	None
Long-term investment	2,000	30,898	–	N/A	None
Long-term investment	4,000	65,000	–	N/A	None
Long-term investment	3,896	206,880	–	N/A	None
Long-term investment	300	92,385	–	N/A	None
Long-term investment	1,500	–	–	N/A	None
Long-term investment	100	3,195	–	N/A	None
Long-term investment	492	65,740	0.44	153,140	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
<b>Hsun Chieh Investment Co., Ltd.</b>		
<i>Continued from previous page</i>		
Stock	Primarion, Inc.	None
Stock	SandCraft, Inc.	None
Stock	The Supply, Inc.	None
Stock	Tonbu, Inc.	None
Stock	Triscend Corp.	None
Stock	Smart Idea Holding Limited	None
Stock	VenGlobal Capital Fund III, L.P.	None
Membership Card	Golf Club Membership Card	None
<b>UMC Capital Corporation</b>		
Stock	UMC Capital (USA)	Investee company
Stock	Corrent Corp.	None
Stock	LightCross, Inc.	None
Stock	MaXXan Systems, Inc.	None
Stock	Lead Systems, Inc.	None
Stock	Virtual Silicon Technology, Inc.	None
Stock	Programmable Silicon Solutions	None
Stock	Integrated Optics Comm. Corp.	None
Stock	Aicent Technology, Inc.	None
<b>Fortune Venture Capital Corporation</b>		
Stock	Aptos (Taiwan) Corp.	Investee company
Stock	Davicom Semiconductor, Inc.	Investee company
Stock	Pixart Imaging Inc.	The Company is its director
Stock	Thin Film Module, Inc.	The Company is its director and supervisor
Stock	Advance Materials Corporation	Investee company
Stock	AMIC Technology (Taiwan), Inc.	Investee company to UMC
Stock	Urex Precision, Inc.	None
Stock	High Bandwidth Access, Inc	Investee company
Stock	Epitech Corp.	The Company is its director and supervisor
Stock	Integrated Telecom Express, Inc.	Investee company to UMC
Stock	Shin-Etsu Handotai Taiwan Co., Ltd.	The Company is its director
Stock	Trident Technologies, Inc.	The Company is its director and supervisor
Stock	ProSys Technology Integration, Inc	None
Stock	Averlogic Corporation	The Company is its director and supervisor
Fund	Iglobe Partners Fund, L.P.	None
Stock	Programmable Microelectronics (Taiwan) Corp.	None
Stock	CTS Computer Technology System Corp.	None
Stock	Vialta, Inc.	None
Fund	Crystal Internet Venture Fund II	None
Stock	Monterey Design Systems Inc.	None
Stock	SpringSoft, Inc.	None
Stock	Orchid BioSciences, Inc.	None
Stock	United Microelectronics Corporation	Investor company
Stock	Cadence Design Systems, Inc.	None
Stock	Triscend Corporation	None

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	500	\$38,816	–	N/A	None
Long-term investment	450	43,063	–	N/A	None
Long-term investment	588	–	–	N/A	None
Long-term investment	2,000	–	–	N/A	None
Long-term investment	360	17,409	–	N/A	None
Long-term investment	6,000	205,069	11.88	N/A	None
Long-term investment	–	33,195	–	N/A	None
Long-term investment	–	60,000	–	N/A	None
Long-term investment	200	US\$226,491	100.00	N/A	None
Long-term investment	1,732	US\$1,472,815	–	N/A	None
Long-term investment	649	US\$1,000,000	–	N/A	None
Long-term investment	1,655	US\$1,000,021	–	N/A	None
Long-term investment	1,600	US\$2,506,000	–	N/A	None
Long-term investment	619	US\$1,000,000	–	N/A	None
Long-term investment	216	US\$540,000	–	N/A	None
Long-term investment	2,000	US\$2,000,000	–	N/A	None
Long-term investment	2,000	US\$1,000,000	–	N/A	None
Long-term investment	43,705	436,346	26.49	N/A	None
Long-term investment	12,200	114,108	22.96	N/A	None
Long-term investment	6,530	105,409	16.32	N/A	None
Long-term investment	5,287	52,870	13.91	N/A	None
Long-term investment	12,800	145,196	13.47	N/A	None
Long-term investment	15,259	146,958	12.83	N/A	None
Long-term investment	2,537	–	12.68	N/A	None
Long-term investment	4,308	56,869	11.97	N/A	None
Long-term investment	6,137	73,916	11.16	N/A	None
Long-term investment	4,000	337,955	9.38	219,333	None
Long-term investment	10,500	105,000	7.00	N/A	None
Long-term investment	1,350	–	6.75	N/A	None
Long-term investment	1,200	4,258	6.70	N/A	None
Long-term investment	1,148	24,820	5.58	55,063	None
Long-term investment	–	80,603	6.30	N/A	None
Long-term investment	3,392	33,920	6.17	N/A	None
Long-term investment	1,717	–	2.04	N/A	None
Long-term investment	4,180	313,205	4.45	52,551	None
Long-term investment	–	41,757	0.99	N/A	None
Long-term investment	394	34,201	1.23	N/A	None
Long-term investment	88	1,621	0.23	7,324	None
Long-term investment	56	13,310	0.14	956	None
Long-term investment	17,633	171,857	0.11	420,872	None
Long-term investment	66	7,342	0.03	28,286	None
Long-term investment	3,500	469,902	–	N/A	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company
<b>Fortune Venture Capital Corporation</b>		
<i>Continued from previous page</i>		
Stock	Aurora Systems, Inc.	None
Stock	Systematic Designs International, Inc.	None
Stock	SiRF Technology Holdings, Inc.	None
Stock	Alpha and Omega Semiconductor, Inc.	None
Stock	Velio Communications, Inc.	None
Stock	Arcadia Design Systems, Inc.	None
Stock	EPIC Technologies, Inc.	None
Stock	Rise Technology, Inc.	None
Stock	The 3CX USA	None
<b>UMC Japan</b>		
Bond	Morgan Stanley Repackage Bond	None

**Attachment-4 The cumulative buying or selling of one specific security exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

Name of the securities	Beginning balance		Addition	
	No. of shares (In thousands)	Amount	No. of shares (In thousands)	Amount
<b>United Microelectronics Corporation</b>				
China Development Financial Holding Corporation- Convertible bond	–	\$–	60,000	\$2,052,000
SpringSoft Inc.- Convertible bond	–	–	12,000	418,800
MediaTek Incorporation	47,949	1,339,839	–	–
Trecenti Technologies, Inc.	240	1,789,838	–	–
AU Optronics Corp.	560,276	8,317,535	–	–
SAMPO Corporation	35,190	443,599	–	–
United Microdisplay Optronics Corporation	–	–	76,499	764,990
UMC Capital Corporation	10,000	338,228	20,000	681,000
Unitech Capital Inc.	–	–	21,000	730,380
Silicon Integrated Systems Corp.	–	–	48,483	1,267,580
<b>Hsun Chieh Investment Co., Ltd.</b>				
High Bandwidth Access, Inc.	2,861	19,191	5,741	114,825
Accelerated Communications, Inc.	–	–	10,000	100,000
Harvatek Corp.	14,033	179,295	2,618	99,484
Plato Electronics (Cayman) Limited	14,193	657,858	–	–
Smart Idea Holding Limited	–	–	6,000	205,069
AU Optronics Corp.- Convertible bond	2,000	200,000	–	–
<b>Fortune Venture Capital Corporation</b>				
Triscend Corporation	1,750	188,957	1,750	280,945
<b>UMC Japan</b>				
Morgan Stanley Repackage Bond	–	–	–	¥3,000,000,000

**Note** The ending balance also includes other additions or deductions not shown on the above schedule, including long-term equity investment income or loss, cumulative translation adjustment, changes in long-term investment due to unproportionate changes in ownership, and unrealized loss in long-term investment, etc.



(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	4,167	\$308,957	–	N/A	None
Long-term investment	1,300	–	–	N/A	None
Long-term investment	875	119,436	–	N/A	None
Long-term investment	1,500	46,313	–	N/A	None
Long-term investment	110	30,817	–	N/A	None
Long-term investment	162	26,204	–	N/A	None
Long-term investment	23	–	–	N/A	None
Long-term investment	500	–	–	N/A	None
Long-term investment	513	–	–	N/A	None
Long-term investment	–	¥3,000,000,000	–	N/A	None

(Amount in thousand NTD unless otherwise stated)

No. of shares (In thousands)	Amount	Cost	Disposal	Ending balance	
			Gain (Loss) from disposal	No. of shares (In thousands)	Amount
–	\$–	\$–	\$ –	60,000	\$2,052,000
–	–	–	–	12,000	418,800
4,750	3,030,043	126,184	2,903,859	60,806	1,213,655
240	2,806,610	1,409,614	1,396,996	–	–
105,000	4,792,995	1,558,769	3,234,226	455,276	6,758,766
17,417	228,246	219,555	8,691	17,773	224,044
–	–	–	–	76,499	702,501
–	–	–	–	30,000	1,007,444
–	–	–	–	21,000	731,255
–	–	–	–	48,483	1,267,580
1,356	26,944	18,296	8,648	7,246	82,934
–	–	–	–	10,000	100,000
2,563	107,901	37,203	70,698	16,239	277,203
14,193	753,946	656,108	97,838	–	–
–	–	–	–	6,000	205,069
2,000	577,350	200,000	377,350	–	–
–	–	–	–	3,500	469,902
–	–	–	–	–	¥3,000,000,000

**Attachment-5 Acquisition of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

None
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**Attachment-7 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 2002**

Name of related parties transactions	Relationship with the Company
<b>United Microelectronics Corporation</b>	
UMC Group (USA)	Investee company
United Microelectronics (Europe) B.V.	Investee company
Integrated Technology Express Inc.	Investee company
Holtek Semiconductor Inc.	Investee company
Novatek Microelectronics Corp.	Investee company
Faraday Technology Corp.	Investee company
AMIC Technology (Taiwan) Inc.	Investee company
MediaTek Incorporation	The Company is its supervisor
Davicom Semiconductor, Inc.	The investee of Fortune Venture Capital Corporation
Averlogic Corporation	The Company's investee is its director and supervisor
Fortune Semiconductor Corp.	The Company is its director
Pixart Imaging Inc.	The Company is its director
Applied Component Technology Corp.	Investee company
Shin - Etsu Handotai Taiwan Co., Ltd.	The Company is its director
<b>UMC Group (USA)</b>	
United Microelectronics Corporation	Investor company

**Attachment-8 Receivable from related parties exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2002**

Name of the counter party	Relationship with the counter party	Balance of receivable from related party			
		Notes receivable	Accounts receivable	Other receivables	Amount
<b>United Microelectronics Corporation</b>					
UMC Group (USA)	Investee company	–	\$3,284,149	–	\$3,284,149
United Microelectronics (Europe) B.V.	Investee company	–	542,296	–	542,296
Novatek Microelectronics Corp.	Investee company	–	446,927	–	446,927
Holtek Semiconductor Inc.	Investee company	–	191,755	–	191,755
Integrated Technology Express Inc.	Investee company	–	120,180	–	120,180
Faraday Technology Corp.	Investee company	–	202,151	–	202,151
AMIC Technology (Taiwan) Inc.	Investee company	–	131,625	–	131,625
MediaTek Incorporation	The Company is its supervisor	–	1,431,362	–	1,431,362

**Attachment-6 Disposal of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

None					
(Amount in thousand NTD unless otherwise stated)					
Transactions				Notes & accounts receivable (payable)	
Purchase (Sales)	Amount	% of purchase (sales)	Term	Balance	% of account
Sales	\$27,917,057	41.40	60 days	\$3,284,149	32.78
Sales	3,822,123	5.67	60 days	542,296	5.41
Sales	617,191	0.92	45 days	120,180	1.20
Sales	834,088	1.24	60 days	191,755	1.91
Sales	2,810,606	4.17	45 days	446,927	4.46
Sales	1,176,094	1.74	45 days	202,151	2.02
Sales	623,759	0.93	45 days	131,625	1.31
Sales	7,313,672	10.85	45 days	1,431,362	14.29
Sales	126,934	0.19	45 days	7,142	0.07
Sales	113,191	0.17	45 days	5,859	0.06
Sales	120,589	0.18	45 days	37,565	0.37
Sales	146,159	0.22	45 days	46,377	0.46
Purchase	219,235	1.42	30 days	14,790	0.55
Purchase	2,273,128	14.76	60 days	375,116	14.10
Purchase	US\$811,693,816	100.00	Net 55 days	US\$94,569,549	100.00

(Amount in thousand NTD unless otherwise stated)				
Turnover rate (times)	Overdue receivable		Subsequent received amount	Bad debt allowance provided
	Amount	Collection		
9.68	\$-	Credit Collecting	\$307,641	\$32,841
11.60	31,457	Credit Collecting	20	5,738
7.93	688	Credit Collecting	-	4,476
5.32	89,558	Credit Collecting	-	2,813
6.47	-	Credit Collecting	-	1,202
6.49	4,186	Credit Collecting	-	2,063
3.07	252	Credit Collecting	252	1,319
5.90	-	Credit Collecting	-	14,314

**Attachment-9 Related information on invested companies as of December 31, 2002**

Invested company	Address	Main business scopes
<b>United Microelectronics Corporation</b>		
UMC Group (USA)	Sunnyvale, California, USA	IC Sales
United Foundry Service, Inc.	Sunnyvale, California, USA	Supervising and monitoring group projects
UMC Capital Corporation	Cayman, Cayman Islands	Investment
United Microelectronics Corp. (Samoa)	Apia, Samoa	Investment
United Microelectronics (Europe) B.V.	Holland	IC Sales
Fortune Venture Capital Corporation	Taipei, Taiwan	Consulting and planning for investment in new business
Hsun Chieh Investment Co., Ltd.	Taipei, Taiwan	Investment
United Microdisplay Optronics Corporation	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of LCOS
Pacific Venture Capital Co., Ltd.	Taipei, Taiwan	Venture capital consultation
UMCi Pte. Ltd.	Singapore	Sales and manufacturing of integrated circuits
UMC Japan	Chiba, Japan	Sales and manufacturing of integrated circuits
DuPont Photomasks Taiwan Ltd.	Science-Based Ind. Park, Hsinchu	Manufacturing of photomasks
Unitech Capital Inc.	British Virgin Islands	Investment
Archtek Telecom Corp.	Taipei, Taiwan	Sales and manufacturing of broadband access products
Novatek Microelectronics Corp.	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of integrated circuits
Holtek Semiconductor Inc.	Science-Based Ind. Park, Hsinchu	IC design production and sales
Integrated Technology Express, Inc.	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of integrated circuits
Unimicron Technology Corp.	Taoyuan, Taiwan	PCB production
Applied Component Technology Corp.	Taipei, Taiwan	IC production sales
Faraday Technology Corp.	Science-Based Ind. Park, Hsinchu	ASIC design and production
Integrated Telecom Express, Inc.	Santa Clara, California, USA	Sales and manufacturing of integrated circuits
AMIC Technology (Taiwan) Inc.	Science-Based Ind. Park, Hsinchu	IC design, production and sales
<b>Hsun Chieh Investment Co., Ltd.</b>		
Afa Technologies, Inc.	Taipei, Taiwan	Manufacturing and distribution of electronic components and materials
Star Semiconductor Corp.	Hsinchu, Taipei	Sales and manufacturing of integrated circuits
VistaPoint, Inc.	Taipei, Taiwan	Intellectual property, manufacturing and distribution of electronic materials
UC Fund II	Grand Cayman Islands West British	Venture capital consultation
Accelerated Communications, Inc.	Taipei, Taiwan	Electronic component production
RiRa Electronics, Inc.	Taipei, Taiwan	Electronic component production
United Radiotek Incorporation	Science-Based Ind. Park, Hsinchu	RF and IC design
Harvatek Corp.	Hsinchu, Taipei	IC testing, production, packaging and sales
High Bandwidth Access, Inc	Hsinchu, Taipei	Product design and software sales
Patentop, Ltd.	British Virgin Islands	Patent sales
Advance Materials Corporation	Taoyuan, Taiwan	Synthetic resin and electronic component production
Unimicron Technology Corp.	Taoyuan, Taiwan	PCB production
SerComm Corporation	Science-Based Ind. Park, Hsinchu	Server product and sales
Faraday Technology Corp.	Science-Based Ind. Park, Hsinchu	ASIC design and production
UMC Japan	Chiba, Japan	Sales and manufacturing of integrated circuits
Integrated Telecom Express, Inc.	Santa Clara, California, USA	Sales and manufacturing of integrated circuits

*Note Investment income/loss is to be recognized in the next year.*

(Amount in thousand NTD unless otherwise stated)

Initial Investment		Shares held by the Company			The net income (loss) of the invested company	The gain (loss) recognized	Note
Ending balance	Beginning balance	Number of shares (In thousands)	%	Book value			
US\$16,438,000	US\$16,438,000	16,438	100.00	\$473,297	US\$(3,099,000)	\$(119,874)	–
US\$2,005,000	US\$2,005,000	2,005	100.00	82,960	US\$137,000	4,734	–
US\$30,000,000	US\$10,000,000	30,000	100.00	1,007,444	US\$(341,000)	(11,784)	–
US\$500,000	–	500	100.00	7,114	US\$(308,000)	(10,636)	–
US\$5,421,000	–	9	100.00	217,493	US\$151,000	29,941	–
2,999,940	2,999,940	299,994	99.99	3,115,317	(136,125)	(136,112)	–
14,172,940	14,172,940	1,417,294	99.97	30,598,156	165,720	165,721	–
764,990	–	76,499	85.00	702,501	(73,517)	(62,489)	–
300,000	300,000	30,000	49.99	316,270	8,901	4,450	–
US\$212,250,000	US\$212,250,000	212,250	49.82	6,952,691	US\$(11,615,000)	(215,225)	–
¥20,126,316,000	¥20,126,316,000	479	47.06	7,610,901	¥(393,133,000)	506,878	–
773,795	777,016	99,748	45.51	1,145,403	156,480	71,722	–
US\$21,000,000	–	21,000	42.00	731,255	US\$(60,000)	875	–
–	–	14,200	26.49	–	–	–	–
138,030	140,010	74,611	25.83	1,193,740	1,083,274	277,441	–
357,628	392,176	44,854	25.61	568,554	350,737	94,071	–
205,025	239,770	24,111	24.58	309,672	147,004	43,526	–
2,592,013	2,592,013	168,930	23.81	3,004,762	1,020,032	190,292	–
49,284	64,557	12,068	23.66	91,581	(9,682)	(1,925)	–
81,032	62,455	33,710	19.71	570,675	691,252	136,970	–
US\$2,000,000	US\$2,000,000	7,000	16.36	513,134	US\$(23,258,000)	(113,954)	–
135,000	135,000	16,200	13.62	53,225	62,038	16,105	–
23,650	–	2,365	47.30	23,650	NA	NA	Note
22,030	–	2,203	46.82	22,030	NA	NA	Note
34,224	–	2,852	35.65	34,224	NA	NA	Note
161,225	161,225	5,000	35.45	174,264	(1,196)	(424)	Note
100,000	–	10,000	33.33	100,000	NA	NA	Note
69,009	31,500	6,499	32.50	59,232	(27,296)	(8,598)	Note
29,370	13,450	2,937	29.37	29,185	(687)	(185)	Note
262,429	162,945	16,329	21.99	277,203	107,861	25,847	Note
143,919	29,094	7,246	20.13	82,934	(126,625)	(21,095)	Note
22,356	22,356	720	18.00	16,543	(25,639)	(4,615)	Note
208,162	208,162	14,994	15.78	169,836	(84,732)	(13,373)	Note
1,070,213	1,070,213	88,440	12.47	1,537,397	947,150	118,079	–
61,744	58,619	8,367	11.48	159,465	12,306	828	Note
1,308,880	1,308,880	10,085	5.90	1,205,715	691,257	19,411	–
240,665	240,665	45	4.41	780,932	¥(393,133,000)	12,667	–
92,108	92,108	1,113	2.61	139,613	US\$(23,258,000)	(42,570)	–

UMC and its affiliated enterprises have not faced financial difficulties, therefore, there has been no impact on UMC’s financial status.

# Financial Forecast and Result

In thousand NTD

	2001 Forecast (reviewed)		2001 Actual (audited)	
	Original	Updated	Achievement	Achievement %
Net Operating Revenues	85,018,598	63,546,101	64,493,407	101
Operating Costs	(60,679,530)	(55,515,029)	(55,869,710)	101
Gross Profit	24,339,068	8,031,072	8,623,697	107
Realized (Unrealized) Intercompany Profit	197,254	459,949	507,298	110
Realized Gross Profit	24,536,322	8,491,021	9,130,995	108
Operating Expenses	(13,205,705)	(13,794,404)	(14,721,169)	107
Operating Income (Loss)	11,330,617	(5,303,383)	(5,590,174)	95
Non-operating Income	5,847,959	4,900,213	5,157,410	105
Non-operating Expenses	(3,840,101)	(5,999,892)	(5,919,983)	99
Income (Loss) Before Income Taxes	13,338,475	(6,403,062)	(6,352,747)	101
Net Income (Loss)	13,330,968	(3,207,525)	(3,157,302)	102

**Note** Date of forecast update: October 6, 2001

**Reasons for the forecast update** Due to the decline in the semiconductor industry, sales unit price and quantities were readjusted. Investment income was also expected to decrease. These factors prevented us from achieving our original forecast.

# Review and Analysis of Financial Position, Operating Results, and Risk Management and Evaluation



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# Analysis of Financial Position

In thousand NTD

	2002	2001	Difference	% Change
Current Assets	86,658,337	77,251,780	9,406,557	12
Property, Plant and Equipment	146,075,886	155,211,838	(9,135,952)	(6)
Other Assets	8,332,799	7,839,477	493,322	6
Total Assets	297,332,646	317,384,945	(20,052,299)	(6)
Current Liabilities	20,949,418	26,936,406	(5,986,988)	(22)
Long-term Liabilities	55,066,424	52,462,437	2,603,987	5
Total Liabilities	79,899,283	83,919,246	(4,019,963)	(5)
Capital	154,748,456	133,356,954	21,391,502	16
Capital Reserve	81,875,491	82,115,682	(240,191)	0
Retained Earnings	20,004,054	34,152,379	(14,148,325)	(41)
Total Equity	217,433,363	233,465,699	(16,032,336)	(7)

Explanation for significant changes (over 20%) in financial position include: The decrease in current liabilities was due to a decline in the acquisition of property, plant and equipment and the repayment of the current

portion of long-term loans; The decrease in retained earnings was the result of capitalizing 2001’s retained earnings in 2002.

# Analysis of Operating Results

	In thousand NTD			
	2002	2001	Difference	% Change
Sales Revenues	65,101,970	62,463,287	2,638,683	4
Sales Returns and Allowances	(719,276)	(954,254)	(234,978)	(25)
Net Sales	64,382,694	61,509,033	2,873,661	5
Other Operating Revenues	3,043,051	2,984,374	58,677	2
Net Operating Revenues	67,425,745	64,493,407	2,932,338	5
Operating Costs	(56,233,456)	(55,869,710)	363,746	1
Gross Profit	11,192,289	8,623,697	2,568,592	30
Realized (Unrealized) Intercompany Profit	2,861	507,298	(504,437)	(99)
Realized Gross Profit	11,195,150	9,130,995	2,064,155	23
Operating Expenses	(11,054,179)	(14,721,169)	(3,666,990)	(25)
Operating Income (Loss)	140,971	(5,590,174)	5,731,145	103
Non-operating Income	9,938,373	5,157,410	4,780,963	93
Non-operating Expenses	(2,995,250)	(5,919,983)	(2,924,733)	(49)
Income (Loss) from Continuing Operations Before Income Tax	7,084,094	(6,352,747)	13,436,841	212
Income Tax (Expense) Benefit	(12,062)	3,195,445	(3,207,507)	(100)
Net Income (Loss)	7,072,032	(3,157,302)	10,229,334	324

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

## Sales returns and allowances

The decrease in sales returns and allowances was primarily due to stabilization in product quality.

## Gross Profit

The increase in gross profit for 2002 was due primarily to increases in sales quantity and the capacity utilization rate, and a decrease in the product unit cost. Reasons for difference in gross profit are as follows:

	In thousand NTD
Average Selling Price	(4,658,043)
Unit cost	6,255,271
Product Mix	-
Quantity	963,218
Others	8,146
Difference	2,568,592

## Operating Expenses

The decline in operating expenses for 2002 was primarily a result of implementing a cost reduction program.

## Non-operating Income

The increase in non-operating income (expenses) was primarily due to gain on the disposal of long-term investments and less investment loss recognized from investees.

## Income Tax Benefit

The Company did not recognize significant income tax benefits compared with 2001, considering the overall economic situation and the possibility of realizing deferred income tax assets in the future.

Estimated Sales Quantities: With the industry shifting towards the vertical disintegration business model, UMC, with its position as an industry leader and pioneer in 300mm manufacturing and SoC (System-on-Chip) technologies, should be able to reach a revenue growth

rate higher than the overall semiconductor industry. Based on our capacity and customers’ demand forecast, the estimated sales quantity for 2003 is approximately 2.2 million 200mm wafer equivalents.

# Liquidity Analysis

## Analysis of Cash Flows for 2002

In thousand NTD

Cash and Cash Equivalents at the Beginning of the Year	Cash Flows Provided by Operating Activi- ties	Cash Flows Used in Investing and Financing Activities	Balance (Deficiency) of Net Cash and Cash Equivalents	Source of Funding in Case of Cash Flow Deficiency	
				Investment Plan	Financing Plan
58,517,186	28,049,524	(44,301,244)	42,265,466	-	-

Cash inflows from operating activities are the result of net income reconciled to net cash with depreciation as the largest adjustment. Cash outflows from investment activities are the result of capital expenditures for mass production and sustaining leading-edge technology. Cash outflows from financing activities are the result

of long-term loans and bonds repayment and the purchase of treasury stock for the transfer to employees and the conversion of the convertible bonds into shares. Cash outflows were partially offset by proceeds from the issuance of exchangeable bonds for acquiring advanced equipment.

## Analysis of Cash Flows for 2003

In thousand NTD

Cash and Cash Equivalents at the Beginning of the Year	Cash Flows Provided by Operating Activities	Cash Flows Used in Investing and Fi- nancing Activities	Balance (Deficiency) of Net Cash and Cash Equivalents	Source of Funding in Case of Cash Flow Deficiency	
				Investing Plan	Financing Plan
62,479,019	39,625,074	(19,688,055)	82,416,038	-	-

# Major Capital Expenditures and Sources of Funding

Execution Status of Major Capital Expenditures and Sources of Funding								
In thousand NTD								
Project	Actual or Expected Sources of Funding	Actual or Expected Completion date	Total Capital Expenditure	Actual or Projected Capital Expenditures Plan				
				2001	2002	2003	2004	2005
200mm wafer plant and equip-ment	Cash flows gener-ated from operations, issuance of convert-ible bonds and other sources.	2003.12	28,882,000	6,400,000	1,282,000	1,200,000	–	–
Expansion of fa-cilities and equip-ment in 200mm wafer fab	Cash flows generated from operations and bank loans.	2003.12	4,673,000	1,447,000	799,000	253,000	–	–
Expansion of fa-cilities and equip-ment in 200mm wafer fab	Cash flows generated from operations and bank loans.	2003.12	3,200,000	1,261,000	550,000	300,000	–	–
200mm wafer plant and equip-ment	Cash flows generated from operations, bank loans and issuance of depositary receipts.	2004.12	35,496,904	6,509,000	7,677,000	2,592,000	1,840,000	460,000
Expansion of fa-cilities and equip-ment in 200mm wafer fab	Cash flows generated from operations, bank loans and issuance of depositary receipts.	2004.12	21,381,000	3,700,000	2,508,000	1,279,000	2,880,000	720,000
Tainan 300mm wafer plant and equipment	Cash flows generated from operations and bank loans.	2004.12	8,525,990	1,194,990	2,491,000	2,200,000	960,000	240,000
Tainan 300mm wafer facilities and equipment	Cash flows generated from operations and bank loans.	2004.12	47,030,627	15,187,010	4,235,000	6,380,000	10,835,000	8,865,000
Expansion of R&D Equipment	Cash flows generated from operations and bank loans.	2004.12	6,342,000	1,910,000	2,458,000	1,474,000	400,000	100,000
Expansion of fa-cilities and equip-ment in 200mm wafer fab	Issuance of exchange-able bonds	2003.3	8,096,000	–	5,897,000	2,199,000	–	–
Note The figures represented for 2001 and 2002 are actual capital expenditures and the figures represented for 2003 to 2005 are projected capital expenditures.								

## Expected Benefit from Capital Expenditures

Expected benefits resulting from capital expenditures are as follows:					
In thousand NTD					
Year	Product	Projected Output (pcs)	Projected Shipments (pcs)	Projected Revenues	Projected Gross Profits
2003	200mm wafer equivalents	1,025,000	1,025,000	57,559,319	11,511,864
2004	200mm wafer equivalents	1,244,000	1,244,000	72,077,269	21,623,181
2005	200mm wafer equivalents	1,556,000	1,556,000	92,855,236	37,142,094

## Analysis for Investment Over 5% of Paid-in Capital in 2002

No disclosure is required since the Company does not meet the necessary criteria for disclosure.

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### Risk Management and Evaluation

**Impact on corporate profitability from fluctuating interest rates, exchange rates, and inflation**

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

**Profit or loss from activities in high risk and highly leveraged investments, loans provided to others, endorsements and guarantees, and derivatives**

The Company has not completed any transaction mentioned above in the recent fiscal year. If such transactions are necessary, the Company's objective is to elevate operating performance and reduce operating and financial risks.

**Upcoming R&D Plans and their status**

Many of the Company's technologies have been developed one to two years ahead of the ITRS roadmap, and the Company expects to continue this rapid pace of development. The Company began 90-nanometer pilot runs, and in 2003 successfully verified product for our customer using this technology, and the Company's 65-nanometer project is also underway. Already, re-search on key modules—lithography, etching, copper interconnects, low-k dielectric, and device technologies for 45-nanometer have begun. The Company is also developing Silicon Germanium (SiGe), strained silicon, and Silicon-on-Insulator (SOI) technologies to satisfy high frequency, low power and high-speed requirements. The Company expects R&D expenditures in 2003 to exceed 7% of total revenue.

The Company continues to aggressively recruit and train world-class R&D staff to meet the ongoing challenges of providing industry-leading technologies. The Company is committed to providing the shortest time-to-market for customers and offering comprehensive design resources (including libraries and IP) to comple-

ment the Company's technology, turning research achievements into profits for the Company's customers.

**Impact on the Company's financial operations and contingency action regarding recent changes in domestic and international policies and regulations**

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

**Impact on the Company's financial operations and contingency action regarding recent changes in technology**

The Company has been active in the development of advanced technology. In 2002, the Company's R&D expenses were approximately NT\$7 billion. Revenues from 0.18-micron and below technologies as a percentage of total revenues increased from 19% in 2001 to 29% in 2002. Revenues share generated by the most advanced process technology, 0.13-micron, reached 6% in fourth quarter of 2002. The Company's current financial situation is sound and cash on hand is sufficient for future technology development.

**Impact on the Company's risk management and contingency action regarding recent changes in corporate image**

The Company has focused on corporate governance and community relationships. Investor conferences are held periodically to increase financial transparency. The Company actively participates in community and public welfare activities. To minimize the impact of unexpected incidents, the Company has assigned dedicated personnel to respond as necessary.

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### Other Necessary Supplement

None.

# Balance Sheets

December 31, 2002 and 2001

Assets	Notes	2002	2001
<b>Current Assets</b>			
Cash and cash equivalents	2, 4(1)	\$62,479,019	\$58,517,186
Marketable securities	2, 4(2)	2,501,748	1,086,434
Notes receivable	4(3)	83,001	113,681
Notes receivable - related parties	5	2,370	102,011
Accounts receivable, net	2, 4(4)	3,214,909	2,848,724
Accounts receivable - related parties, net	2, 5	6,066,568	4,176,719
Other receivables	2	990,336	674,902
Inventories, net	2, 4(5)	7,692,278	5,190,134
Prepaid expenses		730,062	737,374
Deferred income tax assets	2, 4(16)	2,898,046	3,804,615
Subtotal		86,658,337	77,251,780
<b>Funds and Long-term Investments</b>			
Long-term investments	2, 3, 4(6)	56,246,744	77,051,045
Subtotal		56,246,744	77,051,045
<b>Property, Plant and Equipment</b>			
	2, 4(7), 5, 6, 7		
Land		1,618,731	1,692,677
Buildings		12,180,376	11,750,573
Machinery and equipment		233,423,940	199,390,426
Transportation equipment		61,368	50,855
Furniture and fixtures		1,908,301	1,325,953
Leased assets		47,783	–
Leasehold improvements		44,930	53,005
Total Cost		249,285,429	214,263,489
Less : Accumulated depreciation		(121,042,789)	(88,240,091)
Plus : Construction in progress and prepayments		17,833,246	29,188,440
Net		146,075,886	155,211,838
<b>Intangible Assets</b>			
Patents	2	18,880	30,805
Subtotal		18,880	30,805
<b>Other Assets</b>			
Assets leased to others		170,032	149,734
Idle assets	2	22,361	29,976
Deposits out		821,340	525,017
Deferred charges	2	2,079,314	2,426,275
Deferred income tax assets	2, 4(16)	5,117,101	4,210,532
Others		122,651	497,943
Subtotal		8,332,799	7,839,477
<b>Total Assets</b>			
		\$297,332,646	\$317,384,945

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

In thousand NTD

<b>Liabilities and Stockholders' Equity</b>	<b>Notes</b>	<b>2002</b>	<b>2001</b>
<b>Current Liabilities</b>			
Short-term loans	4(8)	\$100,000	\$–
Accounts payable		2,271,635	1,860,769
Accounts payable - related parties	5	389,906	490,775
Income tax payable	2	63,281	63,281
Accrued expenses		3,483,171	5,399,887
Other payables		7,015,908	9,893,511
Current portion of long-term debts	4(9), 4(10), 5	5,569,098	7,002,725
Other current liabilities	7	2,056,419	2,225,458
Subtotal		20,949,418	26,936,406
<b>Long-term Liabilities</b>			
Bonds payable	2, 4(9)	45,505,662	38,450,511
Long-term loans	4(10), 5	9,560,762	14,011,926
Subtotal		55,066,424	52,462,437
<b>Other Liabilities</b>			
Accrued pension liabilities	2, 4(11)	1,934,159	1,508,963
Capacity deposits and other deposits	7	2,698	1,279,551
Deferred credits	2	1,946,584	1,731,889
Subtotal		3,883,441	4,520,403
<b>Total Liabilities</b>		<b>79,899,283</b>	<b>83,919,246</b>
<b>Capital</b>			
Common stock	4(12)	154,748,456	133,356,954
<b>Capital Reserve</b>			
Premiums		41,729,589	41,729,589
Gain on disposal of property, plant and equipment		–	170,473
Change in equities of long-term investments		22,993,448	23,063,166
Excess from merger		17,152,454	17,152,454
<b>Retained Earnings</b>	4(14)		
Legal reserve		10,686,225	10,686,225
Special reserve		631,982	2,242,284
Unappropriated earnings		8,685,847	21,223,870
<b>Adjusting Items in Stockholders' Equity</b>			
Unrealized loss on long-term investments	2	(10,795,621)	(9,920,139)
Cumulative translation adjustment	2, 4(6)	728,851	(160,470)
<b>Treasury Stock</b>	2, 3, 4(13)	(29,127,868)	(6,078,707)
<b>Total Stockholders' Equity</b>		<b>217,433,363</b>	<b>233,465,699</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>\$297,332,646</b>	<b>\$317,384,945</b>

# Statements of Income

For the years ended December 31, 2002 and 2001		In thousand NTD	
Contents	Notes	2002	2001
<b>Operating Revenues</b>	2, 5		
Sales revenues		\$65,101,970	\$62,463,287
Less : Sales returns and allowances		(719,276)	(954,254)
Net Sales		64,382,694	61,509,033
Other operating revenues		3,043,051	2,984,374
Net Operating Revenues		67,425,745	64,493,407
<b>Operating Costs</b>			
Cost of goods sold	5	(53,652,787)	(53,642,740)
Other operating costs		(2,580,669)	(2,226,970)
Operating Costs		(56,233,456)	(55,869,710)
<b>Gross Profit</b>		11,192,289	8,623,697
Unrealized Intercompany Profit	2	(68,558)	(71,419)
Realized Intercompany Profit	2	71,419	578,717
Net		11,195,150	9,130,995
<b>Operating Expenses</b>			
Selling expenses		(831,432)	(1,705,073)
General and administrative expenses		(3,190,776)	(4,435,321)
Research and development expenses		(7,031,971)	(8,580,775)
Subtotal		(11,054,179)	(14,721,169)
<b>Operating Income (Loss)</b>		140,971	(5,590,174)
<b>Non-operating Income</b>			
Interest revenue		1,332,907	2,223,825
Gain on disposal of property, plant and equipment	2	65,077	59,401
Gain on disposal of investments		7,879,533	2,235,378
Exchange gain	2	117,896	438,105
Lease income		81,559	96,525
Written back of allowance for inventories	2	174,877	–
Other income		286,524	104,176
Subtotal		9,938,373	5,157,410
<b>Non-operating Expenses</b>			
Interest expense	4(7), 5	(1,418,142)	(2,488,239)
Investment loss	2, 4(6)	(256,193)	(1,730,447)
Loss on disposal of property, plant and equipment	2, 5	(29,539)	(101,119)
Inventory loss	2	(885,282)	(1,322,072)
Banking charges		(348,818)	(219,956)
Depreciation and loss on idle assets	2	(50,954)	(28,160)
Other losses		(6,322)	(29,990)
Subtotal		(2,995,250)	(5,919,983)
Income (Loss) Before Income Taxes		7,084,094	(6,352,747)
Income Tax (Expense) Benefit	2, 4(16)	(12,062)	3,195,445
<b>Net Income (Loss)</b>		\$7,072,032	\$(3,157,302)
<b>Earnings (Loss) per Share-Basic (in NTD)</b>	2, 4(15)		
Income (Loss) Before Income Taxes		\$0.48	\$(0.41)
Net Income (Loss)		\$0.48	\$(0.20)
<b>Earnings (Loss) per Share-Diluted (in NTD)</b>	2, 4(15)		
Income (Loss) Before Income Taxes		\$0.48	\$(0.41)
Net Income (Loss)		\$0.48	\$(0.20)
<b>Pro forma Information on Earnings as if Subsidiaries' Investment in the Company is not Treated as Treasury Stock</b>	2, 4(15)		
Net Income		\$7,072,032	
Earnings per Share -Basic (in NTD)		\$0.46	
Earnings per Share -Diluted (in NTD)		\$0.46	

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



# Statements of Changes in Stockholders' Equity

For the years ended December 31, 2002 and 2001

In thousand NTD

Contents	Common Stock	Capital Reserve	Retained Earnings			Treasury Stock	Unrealized Loss on Long-term Investments	Cumulative Translation Adjustment	Total
			Legal Reserve	Special Reserve	Unappropriated Earnings				
Balance as of Jan. 1, 2001	\$114,714,519	\$82,161,068	\$5,625,234	\$-	\$50,759,921	\$(1,479,064)	\$(13,804,227)	\$24,202	\$238,001,653
Appropriation of 2000 retained earnings:									
Legal reserve	-	-	5,060,991	-	(5,060,991)	-	-	-	-
Special reserve	-	-	-	2,242,284	(2,242,284)	-	-	-	-
Stock dividends	17,151,040	-	-	-	(17,151,040)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(433,039)	-	-	-	(433,039)
Employees' bonus	1,491,395	-	-	-	(1,491,395)	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(4,599,643)	-	-	(4,599,643)
Net loss for 2001	-	-	-	-	(3,157,302)	-	-	-	(3,157,302)
Adjustment of capital reserve accounted for under equity method	-	(192,472)	-	-	-	-	-	-	(192,472)
Issuance cost adjustment for American Depositary Shares	-	147,086	-	-	-	-	-	-	147,086
Changes in unrealized loss on long-term investments	-	-	-	-	-	-	1,514,297	-	1,514,297
Changes in unrealized loss on long-term investments of investees	-	-	-	-	-	-	2,369,791	-	2,369,791
Changes in cumulative translation adjustment	-	-	-	-	-	-	-	(184,672)	(184,672)
Balance as of Dec. 31, 2001	133,356,954	82,115,682	10,686,225	2,242,284	21,223,870	(6,078,707)	(9,920,139)	(160,470)	233,465,699
Appropriation of 2001 retained earnings:									
Special reserve	-	-	-	(1,610,302)	1,610,302	-	-	-	-
Stock dividends	19,680,182	-	-	-	(19,680,182)	-	-	-	-
Employees' bonus	1,711,320	-	-	-	(1,711,320)	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(2,739,918)	-	-	(2,739,918)
Treasury stock held by subsidiaries	-	-	-	-	-	(20,309,243)	-	-	(20,309,243)
Net income for 2002	-	-	-	-	7,072,032	-	-	-	7,072,032
Gain on disposal of assets adjusted from capital reserve	-	(170,473)	-	-	170,473	-	-	-	-
Investees' gain on disposal of assets adjusted from capital reserve	-	(672)	-	-	672	-	-	-	-
Adjustment of capital reserve accounted for under equity method	-	(69,046)	-	-	-	-	-	-	(69,046)
Changes in unrealized loss on long-term investments of investees	-	-	-	-	-	-	(875,482)	-	(875,482)
Changes in cumulative translation adjustment	-	-	-	-	-	-	-	889,321	889,321
Balance as of Dec. 31, 2002	\$154,748,456	\$81,875,491	\$10,686,225	\$631,982	\$8,685,847	\$(29,127,868)	\$(10,795,621)	\$728,851	\$217,433,363

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

# Statements of Cash Flows

For the years ended December 31, 2002 and 2001		In thousand NTD
Contents	2002	2001
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$7,072,032	\$(3,157,302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	33,531,540	31,998,131
Amortization	2,193,472	2,292,771
Inventory loss	885,282	1,322,072
Written back of allowance for inventories	(174,877)	–
Cash dividends received under the equity method	146,064	221,376
Long-term investment (income) loss accounted for under the equity method	(490,347)	1,461,275
Impairment loss of long-term investments	976,232	420,242
Gain on disposal of investments	(7,879,533)	(2,235,378)
(Gain) loss on disposal of property, plant and equipment	(35,538)	41,718
Depreciation and loss on idle assets	50,954	28,160
Exchange (gain) loss on long-term loans	(145,671)	431,142
Reversal of bad debts expense	(62,695)	(97,609)
Changes in assets and liabilities:		
Notes receivable	217,922	261,920
Accounts receivable	(2,731,240)	8,539,389
Other receivables	(146,072)	616,854
Inventories	(3,212,549)	3,578,289
Prepaid expenses	7,312	(409,478)
Deferred income tax assets	–	(3,413,341)
Accounts payable	309,997	(3,143,822)
Income tax payable	–	(185,204)
Accrued expenses	(1,938,438)	1,138,459
Other current liabilities	(43,661)	(712,324)
Compensation interest payable	78,977	4,415
Capacity deposit	(984,835)	236,902
Accrued pension liabilities	425,196	470,799
Net cash provided by operating activities	28,049,524	39,709,456
<b>Cash Flows from Investing Activities:</b>		
Increase in marketable securities, net	(1,381,478)	(1,060,106)
Acquisition of long-term investments	(3,546,762)	(7,353,051)
Proceeds from disposal of long-term investments	11,415,056	3,002,713
Acquisition of property, plant and equipment	(27,897,707)	(37,609,128)
Proceeds from disposal of property, plant and equipment	601,845	392,789
Increase in intangible assets	–	(35,773)
Decrease in restricted deposits	–	2,660,800
Increase in deferred charges	(1,580,610)	(2,373,213)
Increase in other assets	(296,323)	(285,145)
Net cash used in investing activities	(22,685,979)	(42,660,114)

Continued on next page

For the years ended December 31, 2002 and 2001

In thousand NTD

Contents	2002	2001
<i>Continued from previous page</i>		
<b>Cash Flows from Financing Activities:</b>		
<i>Increase (decrease) in short-term loans, net</i>	<b>\$100,000</b>	\$(3,489,325)
<i>Repayment of long-term loans</i>	<b>(5,718,446)</b>	(19,714,253)
<i>Proceeds from bonds issued</i>	<b>8,095,500</b>	35,596,096
<i>Redemption of bonds</i>	<b>(1,140,000)</b>	–
<i>Increase in deposits-in, net</i>	<b>1,152</b>	361
<i>Purchase of treasury stock</i>	<b>(2,739,918)</b>	(4,599,643)
<i>Directors' and supervisors' remuneration paid</i>	<b>–</b>	(433,039)
<i>Net cash (used in) provided by financing activities</i>	<b>(1,401,712)</b>	7,360,197
<i>Net increase in cash and cash equivalents</i>	<b>3,961,833</b>	4,409,539
<i>Cash and cash equivalents at beginning of year</i>	<b>58,517,186</b>	54,107,647
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$62,479,019</b>	\$58,517,186
<b>Supplemental Disclosures of Cash Flow Information:</b>		
<i>Cash paid for interest (excluding interest capitalized)</i>	<b>\$1,394,829</b>	\$2,111,416
<i>Cash paid for income tax</i>	<b>\$101,240</b>	\$482,815
<b>Investing Activities Partially Paid by Cash:</b>		
<i>Acquisition of property, plant and equipment</i>	<b>\$25,020,104</b>	\$36,233,451
<i>Add: Payable at beginning of year</i>	<b>9,893,511</b>	11,269,188
<i>Less: Payable at end of year</i>	<b>(7,015,908)</b>	(9,893,511)
<i>Cash paid for acquiring property, plant and equipment</i>	<b>\$27,897,707</b>	\$37,609,128

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

# Notes to Financial Statements

December 31, 2002 and 2001  
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

## Note 1 - History and Organization

United Microelectronics Corporation ("United Microelectronics" or "the Company") was incorporated in May 1980 and commenced operations in April 1982. The Company's major business activity is providing dedicated semiconductor wafer foundry services. The Company provides a variety of services to fit individual customer's needs, including 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 in July 1985 and its American Depositary Shares (ADSs) were listed on the New York Stock Exchange in September of 2000.

## Note 2 - Summary of Significant Accounting Policies

### Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates.

### Translation of Foreign Currency Transactions

The accounts of United Microelectronics 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 on 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. The financial statements of foreign subsidiaries and investees are translated into New Taiwan dollars using the spot rates as of each financial statement date for asset and liability accounts, average exchange rates for profit and loss accounts and historical exchange rates for equity accounts. The cumulative translation effects for subsidiaries and investees using functional currencies other than the New Taiwan dollars are included in the cumulative translation adjustment in stockholders' equity.

### 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. The market value of listed equity securities, convertible bonds or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-ended funds is determined by their equity per unit at the balance sheet date. The amount by which aggregate cost exceeds market value is reported as a loss in the current year. In subsequent periods, recoveries of 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 recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, 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 among affiliates, which will be amortized to income over a period of five years.

Investments in less than 20% owned listed companies where significant influence on operational 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 purposes is deducted from the stockholders' equity. The Company's investments in less than 20% owned unlisted companies are accounted for under the cost method, unless an other than temporary impairment is evident, in which case they are written down to fair value as a new cost basis.

Investment income or loss from investments in both listed and unlisted companies 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 operational decisions of the investees. The difference of the acquisition cost and the underlying equity in the investee's net assets is amortized over five years.

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized and recognized based on the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized. The increase 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 credited to a capital reserve account. Any decrease in the Company's proportionate share in the net assets of investee is debited against the existing balance of the similar capital reserve account, where the credit balance can only be offset to zero. If any excess amount exists, it will be debited against unappropriated retained earnings.

Consolidated financial statements include the accounts of the Company and certain majority owned (50% or more) subsidiaries are prepared at end of 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 constitute up to 30% of the Company's total non-consolidated assets or operating revenues, then each individual subsidiary with total assets or operating revenues up to 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 thereafter, unless the percentage of the combined total assets or operating revenues for all such subsidiaries becomes less than 20% of the Company's respective unconsolidated 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.

Depreciation is provided on the straight-line basis using the economic service lives of the assets less any salvage value. When the economic service lives are completed, property, plant and equipment, which are

still in use, are depreciated over the newly estimated remaining useful lives of the salvage value. The economic service lives of the property, plant and equipment are as follows: buildings - 20 to 55 years; leased assets and leasehold improvements - the lease period, or economic service lives, whichever is shorter; others - 5 years.

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

### ***Intangible Assets***

Patents are stated at cost and amortized over their economic service lives using straight-line method.

### ***Deferred Charges***

Deferred charges are stated at cost and amortized on a straight-line basis as follows: intellectual property and technology license fee - the term of contract or economic lives of the related technology; software - 3 years; and bonds issuance costs - over the life of the bonds.

### ***Convertible and Exchangeable 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 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 bonds is to be offset with the book value of the investment in reference shares and the related stockholder's equities accounts, with the difference recognized as gain or loss on disposal of investments.

### ***Revenue Recognition***

Revenue is recognized when title and liability for risk of loss or damage to the products have been transferred to customers usually upon shipment. Sales return and allowances taken into consideration of customers' com-

plaint and past experience are accrued in the same year of sales. The connected cost is to be deducted from the cost of goods sold.

**Income Tax**

Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred 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 tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.

Income taxes (10%) on unappropriated earnings generated from January 1, 1998 are recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

According to Statement of Financial Accounting Standards of the Republic of China (ROC SFAS) No. 12, the Company recognized the tax benefit from the tax credit incurred at the year equipment acquired, or the year the expenditure arises from research and development.

**Pension Plan**

The Company has a funded defined benefit pension plan covering all regular employees. The net pension cost is computed based on an actuarial valuation in accordance with the provision of ROC SFAS No. 18, which requires consideration of pension cost components such as service cost, interest cost, expected return on plan assets and amortization of net obligation at transition. The unrecognized net asset or obligation at transition is amortized on a straight-line basis over 15 years. The pension fund is managed by an independently administered pension fund association.

**Earnings per Share**

Earnings per share is calculated 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 calculated 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 derived from any underlying dilutive share equivalents. The weighted-average outstanding shares are restated for stock dividends and bonus share issues.

**Treasury Stock**

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

The Company's stock held by its subsidiaries is also treated as treasury stock in United Microelectronic's account since January 1, 2002.

**Note 3 - Accounting Change**

Since January 1, 2002, the Company has adopted ROC SFAS No. 30 to further include the Company's stock held by its subsidiaries as treasury stock in the Company's stand-alone account. This adoption has decreased the amount of long-term investment and stockholder's equity in the Company's balance sheet by NT\$11,722 million, respectively. The net impact caused by the accounting changes is considered insignificant.

**Note 4 - Contents of Significant Accounts**

**(1) Cash and Cash Equivalents**

As of December 31,	2002	2001
Cash:		
Cash on hand	\$1,470	\$1,590
Checking and savings accounts	1,437,824	9,246,309
Certificates of deposit	52,348,316	39,407,278
Subtotal	53,787,610	48,655,177
Cash equivalents:		
Commercial paper	2,412,525	592,644
Repurchase obligations	6,278,884	9,269,365
Subtotal	8,691,409	9,862,009
Total	\$62,479,019	\$58,517,186

**(2) Marketable Securities**

As of December 31,	2002	2001
Mutual funds	\$-	\$1,003,900
Listed equity securities	-	42,634
Convertible bonds	2,501,748	39,900
Total	\$2,501,748	\$1,086,434

**(3) Notes Receivable**

As of December 31,	2002	2001
Notes receivable	<b>\$83,001</b>	\$113,681

**(4) Accounts Receivable, Net**

As of December 31,	2002	2001
Accounts receivable	<b>\$3,345,509</b>	\$3,052,997
Less: Allowance for sales returns and discounts	<b>(89,301)</b>	(157,205)
Less: Allowance for doubtful accounts	<b>(41,299)</b>	(47,068)
Net	<b>\$3,214,909</b>	\$2,848,724

**(5) Inventories, Net**

As of December 31,	2002	2001
Raw materials	<b>\$260,382</b>	\$209,479
Supplies and spare parts	<b>1,312,516</b>	1,136,274
Work in process	<b>5,965,352</b>	3,463,727
Finished goods	<b>560,364</b>	1,040,138
Subtotal	<b>8,098,614</b>	5,849,618
Less: Allowance for loss on decline in market value and obsolescence	<b>(406,336)</b>	(659,484)
Net	<b>\$7,692,278</b>	\$5,190,134

- a. The insurance coverage for inventories was sufficient as of December 31, 2002 and 2001.  
b. Inventories were not pledged.

**(6) Long-term Investments**

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

As of December 31,		2002		2001
Invested Company	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
<b>Investments accounted for under the equity method:</b>				
UMC Group (USA)	<b>100.00</b>	<b>\$473,297</b>	100.00	\$593,171
United Foundry Service, Inc.	<b>100.00</b>	<b>82,960</b>	100.00	78,226
United Microelectronics (Europe) B.V.	<b>100.00</b>	<b>217,493</b>	—	—
UMC Capital Corporation	<b>100.00</b>	<b>1,007,444</b>	100.00	338,228
United Microelectronics Corp. (Samoa)	<b>100.00</b>	<b>7,114</b>	—	—
Fortune Venture Capital Corporation	<b>99.99</b>	<b>3,115,317</b>	99.99	3,413,388
Hsun Chieh Investment Co., Ltd.	<b>99.97</b>	<b>30,598,156</b>	99.97	31,062,635
United Microdisplay Optonics Corp.	<b>85.00</b>	<b>702,501</b>	—	—
Pacific Venture Capital Co., Ltd.	<b>49.99</b>	<b>316,270</b>	49.99	351,420
UMCi Pte. Ltd.	<b>49.82</b>	<b>6,952,691</b>	49.82	7,167,916
UMC Japan	<b>47.06</b>	<b>7,610,901</b>	47.10	7,149,137
DuPont Photomasks Taiwan Ltd.	<b>45.51</b>	<b>1,145,403</b>	46.32	1,093,113
Unitech Capital Inc.	<b>42.00</b>	<b>731,255</b>	—	—
Archtek Telecom Corporation	<b>26.49</b>	<b>—</b>	—	—
Novatek Microelectronics Corp.	<b>25.83</b>	<b>1,193,740</b>	26.82	1,019,532
Holtek Semiconductor Inc.	<b>25.61</b>	<b>568,554</b>	28.76	555,441
Integrated Technology Express Inc.	<b>24.58</b>	<b>309,672</b>	28.78	330,522
Unimicron Technology Corp.	<b>23.81</b>	<b>3,004,762</b>	24.20	2,850,322
Applied Component Technology Corporation	<b>23.66</b>	<b>91,581</b>	31.00	154,821
Faraday Technology Corp.	<b>19.71</b>	<b>570,675</b>	20.45	435,458
Integrated Telecom Express, Inc.	<b>16.36</b>	<b>513,134</b>	16.39	634,606
AMIC Technology (Taiwan), Inc.	<b>13.62</b>	<b>53,225</b>	13.62	37,120
Trecenti Technologies, Inc.	—	—	40.00	1,789,838
Broadmedia, Inc.	—	—	39.28	—
Subtotal		<b>59,266,145</b>		59,054,894

Continued on next page



Continued from previous page

As of December 31,	2002		2001	
Invested Company	Percentage of Owner-ship or Voting Rights	Amount	Percentage of Owner-ship or Voting Rights	Amount
<b>Investments accounted for under the cost method or the lower of cost or market value method:</b>				
Pacific United Technology, L.P.	25.00	\$34,600	25.00	\$34,600
PixTech, Inc.	17.63	–	17.63	561,080
MediaTek Incorporation	13.21	1,213,655	15.17	1,339,839
AU Optronics Corp. (Note)	11.37	6,758,766	18.86	8,317,535
Sino-Aerospace Investment Corp.	11.11	–	11.11	25,748
Pacific Technology Partners, L.P.	9.85	208,256	9.85	104,755
Aptos Corp.	9.68	23,087	9.68	23,087
United Industrial Gases Co., Ltd.	8.44	146,250	8.52	146,250
TECO Nanotech Co., Ltd.	8.05	–	8.05	145,654
Subtron Technology Co., Ltd.	7.41	240,000	7.41	240,000
Industrial Bank of Taiwan Corp.	5.00	1,150,000	5.00	1,150,000
Silicon Integrated Systems Corp.	4.46	1,267,580	–	–
TECO Electric & Machinery Co., Ltd.	4.02	1,535,298	3.94	1,535,895
SAMPO Corporation	1.73	224,044	2.95	443,598
Mega Financial Holding Company	0.83	3,108,656	3.07	3,108,656
Premier Image Technology Corporation	0.64	27,964	0.70	27,964
Tonbu, Inc.	–	–	–	243,750
Vialta, Inc.	8.90	622,835	–	622,835
Stark Technology Inc.	–	–	0.19	1,824
National Venture Capital Corp.	–	–	11.09	60,000
Subtotal		16,560,991		18,133,070
Cumulative translation adjustment		728,851		(136,919)
Treasury stock held by subsidiaries		(20,309,243)		–
Total		\$56,246,744		\$77,051,045

**Note** Among the shares held by the Company in AU Optronics Corp., approximately 139,770 thousand shares with the book value of NT\$2,075 million were

utilized as reference shares for the Company's zero coupon exchangeable bonds issued in May 2002.

- b. Investment income or loss accounted for under the equity method, which was based on the audited financial statements of the investees, were NT\$490 million and NT\$(1,446) million for the years ended December 31, 2002 and 2001, respectively. Among which, investment loss amounting to NT\$146 million and NT\$1,331 million for the years ended December 31, 2002 and 2001, respectively, and the related long-term investment balances of NT\$5,514 million and NT\$7,208 million as of December 31, 2002 and 2001, respectively, were determined based on the investees' financial statements audited by other auditors.
- c. The long-term equity investments were not pledged.

#### (7) Property, Plant and Equipment

- a. Total interest expense before capitalization amounted

to NT\$1,969 million and NT\$2,651 million for the years ended December 31, 2002 and 2001, respectively.

- b. Details of capitalized interest are as follows:

For the year ended December 31,	2002	2001
Machinery and equipment	\$545,551	\$161,220
Other property, plant and equipment	5,162	1,150
Total interest capitalized	\$550,713	\$162,370
Interest rates applied	3.34%~3.89%	4.08% ~ 7.25%

- c. The insurance coverage for property, plant and equipment was sufficient as of December 31, 2002 and 2001.
- d. Please refer to Note 6 for property, plant and equipment pledged as collateral.



### (8) Short-term Loans

As of December 31,	2002	2001
Unsecured bank loans	\$100,000	\$–
Interest rates	1.60%	–

The Company's unused short-term lines of credits amounted to NT\$16,667 million and NT\$20,097 million as of December 31, 2002 and 2001, respectively.

### (9) Bonds Payable

As of December 31,	2002	2001
Secured domestic bonds payable	\$2,850,001	\$3,990,000
Unsecured domestic bonds payable	25,000,000	25,000,000
Euro convertible bonds payable	10,529,568	10,596,096
Exchangeable bonds payable	8,182,700	–
Compensation interest payable	83,392	4,415
Subtotal	46,645,661	39,590,511
Less: Current portion	(1,139,999)	(1,140,000)
Net	\$45,505,662	\$38,450,511

a. On April 27, 2000, the Company issued five-year secured bonds amounting to NT\$3,990 million 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 billion, with face value of NT\$7.5 billion, and stated interest rates of 5.1850% through 5.1195% and 5.2850% through 5.2170%, 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 face value of NT\$5,000 million, and with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds and five-year bonds are repayable in October 2004 and October 2006, respectively, upon the maturity of the bonds.

d. On December 12, 2001, the Company issued zero coupon convertible bonds amounting to US\$302.4 million on the Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:

1) Final Redemption: Unless previously redeemed, repurchased, cancelled or converted, the bonds will be redeemed at 101.675% of their principal amount on March 1, 2004.

2) 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 and no 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 New York Stock Exchange 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 five 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.

#### 3) Conversion Period:

i. In respect of the Shares, on or after January 22, 2002 up to and including 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 resales of certain ADSs issuable upon conversion of the bonds has been declared effective by the US SEC, up to and including February 20, 2004.

#### 4) Conversion Price: The conversion price

i. In respect of the Shares, will be NT\$69.60 per Share, and

ii. In respect of the ADSs, will be US\$10.098 per ADS. The applicable conversion price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, including Shares represented by ADSs, bonus issues, right issues, distributions of cash and stock dividends and other dilutive events.

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

1) Final Redemption: Unless previously redeemed, exchanged or purchased and cancelled, the bonds will be redeemed at their principal amounts in US dollars on May 10, 2007.

2) 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 market price of the AU common shares, 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, at their principal amount if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.

3) 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.

4) Tax Redemption: The Company may redeem all, but not part, of the bonds, at any time at their principal amount in US dollars, 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, if any, at a rate exceeding 20%.

5) 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 AU shares or AU ADSs at an exchange price of NT\$58.25 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 five 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 restriction.

The exchange price will be subject to adjustment upon the occurrence of certain events including free distribution of AU common shares by AU; subdivision, consolidation or reclassification of AU common shares, distribution of stock dividends by AU, right issues and other dilutive events.

#### (10) Long-term Loans

As of December 31,	2002	2001
Secured bank loans	<b>\$13,989,861</b>	\$19,874,651
Less: Current portion	<b>(4,429,099)</b>	(5,862,725)
Net	<b>\$9,560,762</b>	\$14,011,926
Interest rates	<b>2.07%~3.35%</b>	2.69%~5.34%

- The above long-term loans will be repaid in installments with the last payment on May 14, 2009.
- The Company's long-term loans denominated in foreign currency amounted to US\$100 million and US\$176 million as of December 31, 2002 and 2001, respectively.
- Please refer to Note 6 for assets pledged for long-term loans.

#### (11) Pension Fund

- All of the regular employees of the Company are covered by the pension plan. 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. Pension benefits are generally based on service years. Retirement benefits are paid from funds previously provided.

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

For the year ended December 31,	2002	2001
Service cost	<b>\$377,985</b>	\$340,206
Interest cost	<b>102,189</b>	134,234
Expected return on plan assets	<b>(28,094)</b>	(30,232)
Recognition of transition assets	<b>28,167</b>	28,167
Recognition of actuarial loss	<b>-</b>	11,383
Net periodic cost	<b>\$480,247</b>	\$483,758

The actuarial assumptions underlying are as follows:

For the year ended December 31,	2002	2001
Discount rate	<b>4.00%</b>	4.5%
Rate of compensation increase	<b>5.50%</b>	6.5%
Expected return on plan assets	<b>3.25%</b>	4.5%

- The transition obligation is amortized equally over 15 years. The funding status of the pension plan is listed as follows:

As of December 31,	2002	2001
Vested benefit obligation	<b>\$(1,512)</b>	\$(4,513)
Non-vested benefit obligation	<b>(932,188)</b>	(528,543)
Accumulated benefit obligation	<b>(933,700)</b>	(533,056)
Effect from projected salary increase	<b>(1,896,036)</b>	(1,737,804)
Projected benefit obligation	<b>(2,829,736)</b>	(2,270,860)
Market-related value of plan assets	<b>737,911</b>	624,302
Funded status	<b>(2,091,825)</b>	(1,646,558)
Unrecognized transition obligation	<b>225,338</b>	253,505
Unrecognized gain or loss	<b>61,261</b>	(26,150)
Accrued pension cost per actuarial report	<b>(1,805,226)</b>	(1,419,203)
Over accrual	<b>(128,933)</b>	(89,760)
Accrued pension liabilities	<b>\$(1,934,159)</b>	\$(1,508,963)

(12) Capital Stock

- a. As recommended by the board of directors and approved by the shareholders’ meeting on May 30, 2001, the Company issued 1,864,243,516 new shares from the capitalization of retained earnings of NT\$17,151 million and employees’ bonus of NT\$1,491 million with the effective date on July 21, 2001.

b. As recommended by the board of directors and approved by the shareholders’ meeting on June 3, 2002, the Company issued 2,139,150,230 new shares from the capitalization of retained earnings of NT\$19,680 million and employees’ bonus of NT\$1,711 million. The effective date of the issuance was on August 11, 2002.

c. As of December 31, 2002, 22 billion common shares were authorized to be issued and 15,474,845,646 common shares were issued, each at par of NT\$10.

d. The Company has issued 173,693 thousand American Depositary Shares (ADSs) as of December 31, 2002.
- The number of common shares represented by the ADSs is 868,467 thousand shares.

e. On September 11, 2002, the Company was authorized by the relevant government authorities to issue Employee Stock Options. The total number of options to be granted under the plan is one billion units, with each unit entitling the optionee to subscribe for one share of the Company’s common stock. Settlement upon the exercise of the stock options will be made through the issuance of new shares by the Company. The grant period for options is six years and an optionee may exercise his/her options in accordance with certain schedules as prescribed by the plan starting from two years after the grant. The total number of option units outstanding as of December 31, 2002 was 928,059 thousand units and the exercise price for the options is NT\$20 per share.

(13) Treasury Stock

The Company bought back its own shares from the open market during the years ended December 31, 2002

and 2001. Details of the treasury stock transactions are as follows:

Purpose	As of January 1, 2002	Increase	Decrease	As of December 31, 2002
For transfer to employees	37,425	49,114	-	86,539
For conversion of the convertible bonds into shares	129,035	20,693	-	149,728
Total shares	166,460	69,807	-	236,267

According to Stock Exchange Regulations of Taiwan, total shares of treasury stock shall not exceed 10% of the Company’s stock issued. Total purchase amount shall not exceed sum of retained earnings and capital reserve-premiums and realized capital reserve. The Company’s treasury stock possession did not, at any time during 2002, violate the regulation stated above. As of December 31, 2002, the Company held 236,267 thousand shares of treasury stock, which amounted to NT\$8,819 million.

Treasury stock shall not be pledged, nor does it possess voting rights or receive dividends, in compliance with Stock Exchange Regulations of Taiwan.

As of December 31, 2002, the Company’s subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Corporation, held 484,045 thousand shares and 17,633 thousand shares of the Company’s stocks, with a book value of NT\$23.87 and NT\$9.75 per share, respectively. As of December 31, 2002, the market value per share was NT\$23.87.

(14) Retained Earnings

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

a. Payment of all taxes and dues;

b. Offset prior years’ operation losses;

c. 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, any portion of the remaining amount together with the prior years’ unappropriated earnings is to be allocated as follows: no less than 5% as employees’ bonus which will be settled through issuance of new shares of the Company.

f. The distribution of the remaining portion, if any, will be recommended by the board of directors and approved by the shareholders’ meeting.

The Company’s Articles of Incorporation further provides that at least 50% of the dividends to the Company’s 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 2002 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors.

Information on board of directors' recommendations and shareholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

Details of the settlement of 2001 employees' bonus and remuneration of directors and supervisors are as follows:

For the year ended December 31, 2001		As approved by the shareholders' meeting	As recommended by the board of directors	Differences
Settlement of employees' bonus by issuance of new shares	Number of shares (in thousands)	171,132	171,132	-
	Amount	\$1,711,320	\$1,711,320	-
	Percentage on total number of outstanding shares at end of year	1.30%	1.30%	-
Remuneration of directors and supervisors		-	-	-
Effect on earnings per share before retroactive adjustments	Original basic and diluted loss per share	\$(0.24)	\$(0.24)	-
	Revised basic and diluted loss per share taking into consideration of the employees' bonus	\$(0.37)	\$(0.37)	-

(15) Earnings (Loss) per Share

a. The calculation of basic and diluted earnings (loss) per share, for the years ended December 31, 2002 and 2001, is disclosed as follows:

For the year ended December 31,		2002	2001
Income (loss) before income taxes		\$7,084,094	\$(6,352,747)
Net income (loss)		7,072,032	(3,157,302)
Adjusted income (loss) before income taxes assuming dilution		7,163,071	(6,352,747)
Adjusted net income (loss) assuming dilution		7,131,265	(3,157,302)
Weighted average number of shares (in thousands)			
Basic		14,753,187	15,416,834
Diluted		14,944,510	15,416,834
Earnings (loss) per share-basic (in NTD)	Income (loss) before income taxes	\$0.48	\$(0.41)
	Net income (loss)	\$0.48	\$(0.20)
Earnings (loss) per share-di-luted (in NTD)	Income (loss) before income taxes	\$0.48	\$(0.41)
	Net income (loss)	\$0.48	\$(0.20)

According to financial guidelines issued in 2000, the Company's stock held by its subsidiaries are to be considered as Treasury Stock effective from 2002. Ac-

cording to ROC SFAS No. 30, "Accounting for Treasury Stock", the calculation of basic earnings per share for the year ended December 31, 2001 is not required to be adjusted retroactively the Company's stock held by subsidiaries.

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

		In thousand Shares	
For the year ended December 31,		2002	
		Basic	Diluted
Net income		\$7,072,032	\$7,131,265
Outstanding weighted average shares at beginning		13,169,235	13,169,235
Stock dividends and employees' bonus at 16.30%		2,146,586	2,146,586
Weighted average treasury stock		(55,284)	(55,284)
Weighted average employee stock options accounted for under treasury stock method		-	41,590
Weighted average shares assuming converted from convertible bonds		-	149,733
Outstanding weighted average shares		15,260,537	15,451,860
Earnings per share			
Net income (in NTD)		\$0.46	\$0.46

(16) *Income Tax*

Reconciliation between the income tax expense (benefit) and the income tax calculated on pre-tax financial income based on the statutory tax rate is as follows:

For the year ended December 31,	2002	2001
Tax on pre-tax income at statutory tax rate	\$1,771,024	\$(1,588,187)
Estimated temporary and permanent differences	(729,540)	(132,940)
Change in investment tax credit	(3,867,934)	(8,842,305)
Change in valuation allowance against deferred tax assets	2,826,450	6,459,593
Change in tax rate	–	(1,142,582)
10% income tax on unappropriated earnings	–	1,833,079
Adjustment of prior year's tax expense	–	196,209
Tax on interest revenue separately taxed	12,062	21,688
Income tax expense (benefit)	\$12,062	\$(3,195,445)

Deferred income tax assets and liabilities were as follows:

As of December 31,	2002	2001
Deferred income tax assets - current	\$10,477,877	\$7,100,615
Deferred income tax liabilities - current	(324,542)	–
Valuation allowance for deferred tax assets	(7,255,289)	(3,296,000)
Net	\$2,898,046	\$3,804,615
Deferred income tax assets - noncurrent	\$16,516,059	\$15,685,290
Deferred income tax liabilities - noncurrent	(5,282,085)	(4,225,046)
Valuation allowance for deferred tax assets	(6,116,873)	(7,249,712)
Net	\$5,117,101	\$4,210,532

Significant components of deferred income tax assets and liabilities were as follows:

As of December 31,	2002		2001	
	Amount	Tax effect	Amount	Tax effect
Current items:				
Temporary difference				
Allowance for sales returns and discounts	\$540,310	\$135,078	\$448,037	\$112,009
Unrealized exchange (gain) loss	(1,298,167)	(324,542)	242,565	60,641
Amortization of organization cost	550	137	120,975	30,244
Provision for loss on obsolescence of inventories	406,336	101,584	659,484	164,871
Others	167,158	41,789	71,419	17,855
Loss carryforward	11,776,000	2,944,000	13,666,452	3,416,613
Investment tax credits		7,255,289		3,298,382
Valuation allowance		(7,255,289)		(3,296,000)
Net		\$2,898,046		\$3,804,615
Non-current items:				
Temporary difference				
Depreciation	\$(21,128,340)	\$(5,282,085)	\$(16,793,892)	\$(4,198,473)
Recovery on loss of idle assets	–	–	(106,293)	(26,573)
Pension	1,822,417	455,604	1,397,221	349,305
Amortization of organization cost	–	–	550	138
Others	14,441	3,610	29,624	7,405
Loss carryforward	3,269,502	817,376	–	–
Investment tax credits		15,239,469		15,328,442
Valuation allowance		(6,116,873)		(7,249,712)
Net		\$5,117,101		\$4,210,532

The Company's income tax returns through the year 1999 have been assessed and approved by the Tax Authority except that of 1998.

Pursuant to the "Statute for the Establishment and Administration of Science-Based Industrial Park", the Company was granted several four-year income tax exemption periods with respect to income derived from expansion of operations located in Hsinchu Science-Based Industrial Park. The starting date of the exemption period attributable to the expansion in 1999 has not yet been decided by the Company. The other exemption periods will expire in December of 2007.

An enterprise earns an investment tax credit for the amount invested in production equipment, research and development expenditure, employee training expenditure and other related costs. This credit may be applied over a period of five years.

As of December 31, 2002, the Company's unused investment tax credit is as follows:

<i>Expiration Year</i>	<i>Investment tax credits</i>
<b>2002</b>	<b>\$3,280,896</b>
2003	3,974,393
2004	5,899,913
2005	3,393,150
2006	5,946,406
<i>Total</i>	<i>\$22,494,758</i>

Under the rules of Income Tax Law, operating loss can be carried forward for 5 years. As of December 31, 2002, the unutilized accumulative loss brought forward was amounted to NT\$15,046 million, which will expire in 2006 and 2007.

The new Taiwan imputation tax system requires that any undistributed current earnings, on tax basis of a company derived on or after January 1, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as tax credit against its individual income tax liability effective 1998.

The ending balance of unappropriated earnings available for 2002 appropriation amounted to NT\$23,005 million, of which NT\$64 million was earned prior to January 1, 1998.

As of December 31, 2002, the balance of imputation credit account (ICA) was NT\$90 million. The actual creditable ratio for the appropriation of 2001 and 2000 retained earnings was 1.79% and 1.04%, respectively.

**Note 5 – Related Party Transactions**

**(1) Name and Relationship of Related Parties**

<i>Name of related parties</i>	<i>Relationship with the Company</i>
UMC Group (USA) (UMC-USA)	Investee company
United Microelectronics (Europe) B.V. (UMC BV)	Investee company
United Microdisplay Optronics Corp. (UMO)	Investee company
DuPont Photomasks Taiwan Ltd. (DPT)	Investee company
Holtek Semiconductor Inc. (Holtek)	Investee company
Faraday Technology Corp. (Faraday)	Investee company
MediaTek Incorporation (MediaTek)	The Company is its supervisor
Industrial Bank of Taiwan Corp. (IBT)	The Company is its major shareholder
Chiao Tung Bank (Chiao Tung)	The Company is its parent company's director and supervisor
Shin-Etsu Handotai Taiwan Co., Ltd. (Shin-Etsu)	The Company's investee is its director



(2) Significant Related Party Transactions

a. Operating revenues

For the year ended December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$27,917,057	41	\$27,055,238	42
MediaTek	7,313,672	11	3,569,172	6
Others	10,567,630	16	11,287,896	17
Total	\$45,798,359	68	\$41,912,306	65

The sales to the above related parties were dealt with in the ordinary course of business with the sales price made in the way similar to the sales to third-party customers. The collection period for overseas sales was net 45~60 days for the related parties and third-party customers, while the terms for domestic sales were month-end 30~60 days for both the related parties as well as the third-party customers.

b. Purchases

For the year ended December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$2,273,128	15	\$1,805,200	17
Others	219,235	1	302,279	3
Total	\$2,492,363	16	\$2,107,479	20

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 30~60 days for the related parties and third-party suppliers, while the terms for domestic purchase were month-end 30~60 days and month-end 30~90 days for the related parties and third-party suppliers, respectively.

c. Notes receivable

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Holtek	\$-	-	\$77,843	36
Others	2,370	3	24,168	11
Total	\$2,370	3	\$102,011	47

d. Accounts receivable, net

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$3,284,149	35	\$2,482,744	35
MediaTek	1,431,362	16	1,046,372	15
Others	1,872,559	20	1,033,975	14
Subtotal	6,588,070	71	4,563,091	64
Less: Allowance for sales returns and discounts	(451,009)	(5)	(290,832)	(4)
Less: Allowance for doubtful accounts	(70,493)	(1)	(95,540)	(1)
Net	\$6,066,568	65	\$4,176,719	59

e. Accounts payable

As of December 31,	2002		2001	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$375,116	14	\$455,749	19
Others	14,790	1	35,026	2
Total	\$389,906	15	\$490,775	21

f. Loans

For the year ended December 31, 2002	Maximum balance		Ending balance	Interest rate	Interest expense
	Amount	Month			
Chiao Tung	\$1,224,575	January	\$868,195	2.07%~4.00%	\$32,717
IBT	998,750	January	783,296	2.89%~3.94%	16,216
			\$1,651,491		\$48,933

For the year ended December 31, 2001	Maximum balance		Ending balance	Interest rate	Interest expense
	Amount	Month			
Chiao Tung	\$4,091,316	January	\$1,224,575	4.00%~7.00%	\$221,359
IBT	998,750	January	998,750	3.94%~6.42%	54,582
			\$2,223,325		\$275,941

g. Disposal of property, plant and equipment

For the year ended December 31, 2002	Item	Amount	Loss
UMO	Machinery and equipment	\$276,645	\$6

For the year ended December 31, 2001	Item	Amount	Gain
Holtek	Building and facilities	\$173,250	\$31,468

h. Other transactions

The Company has made several other transactions, including joint intellectual property development contracts, processing expenditures, commissions and service charges with related parties for an approximate total of NT\$370 million and NT\$396 million for the years ended December 31, 2002 and 2001, respectively. Among the transactions, the Company has entered

into joint intellectual property development contracts, amounting to approximately NT\$1,154 million, with Faraday. As of December 31, 2002, a total amount of NT\$313 million was paid. In addition, the Company has purchased approximately NT\$917 million and NT\$1,081 million of supplies from DPT during the years ended December 31, 2002 and 2001, respectively.

Note 6 – Assets Pledged as Collateral

As of December 31,	2002	2001	Subject of collateral
Land	\$452,916	\$452,915	Long-term loans
Buildings	2,533,152	3,720,173	Long-term loans
Machinery and equipment	21,537,463	31,183,019	Long-term loans
Total	\$24,523,531	\$35,356,107	

Note 7 – Commitments and Contingent Liabilities

- (1) The Company's unused letters of credit for imports of machinery were approximately NT\$76 million as of December 31, 2002.
- (2) The Company has entered into contracts, amounting to approximately NT\$15.6 billion, with third parties for rights to use patents registered by the third parties. The contract period is from 1995 to 2011. Royalty

payables for the consecutive 5 years starting from 2003 through 2007 are approximately NT\$2.5 billion, NT\$1.3 billion, NT\$1.3 billion, NT\$1.2 billion, and NT\$1.3 billion, respectively.

(3) The Company has signed several construction contracts for the expansion of its factory space. As of December 31, 2002, these construction contracts amounted to approximately NT\$1.05 billion and the unaccrued portion of the contracts was approximately NT\$0.27 billion.

(4) On October 27, 1997, Oak Technology Inc. (Oak) filed a complaint seeking damages of US\$750 million in the Northern District of California alleging that the Company breached a Settlement Agreement entered on July 31, 1997 with respect to a settlement of a dispute between the Company and Oak concerning certain CD ROM controller products made by the Company and a patent owned by Oak. The Company denied Oak's allegations and on December 24, 1997, filed its answer and affirmative defenses refuting Oak's claims. Based on the allegations that it is Oak which has breached the



Settlement, the Company simultaneously filed a counterclaim against Oak, seeking damages and a return of the millions paid to Oak under the Settlement. In addition, the Company further seeks a declaration that the Oak patent is invalid and/or unenforceable. Though Oak filed a complaint later with the International Trade Commission (ITC) repeating the allegations made in the District Court, both the ITC and the Court of Appeals for the Federal Circuit issued a ruling affirming that there was no infringement and no violation.

Oak filed enforceable commitments that it would no longer seek recoveries in connection with the Oak patent and accordingly, the District Court concluded there was no longer dispute between Oak and United Microelectronics on the patent and the Company's claim for a declaration of invalidity and unenforceability will be dismissed. The Company intends to continue to defend these matters vigorously. Furthermore, the management does not believe the Oak complaints will have any material adverse impact on the Company's operations and/or financial performance.

(5) The Company entered into several operating lease contracts for land. Future minimum lease payments under those leases with original maturities, which extend for more than one year as of December 31, 2002, are as follows:

<i>For the year ended</i>	<i>Amount</i>
<i>December 31, 2003</i>	\$115,309
<i>December 31, 2004</i>	115,309
<i>December 31, 2005</i>	115,309
<i>December 31, 2006</i>	115,309
<i>December 31, 2007</i>	102,113
<i>January 1, 2008 and thereafter</i>	812,461
<i>Total</i>	<u>\$1,375,810</u>

(6) The Company entered into several wafer-processing contracts with its main clients. According to the contracts, the Company shall guarantee processing capacity, while the clients make deposits to the Company. In case the clients' orders do not meet the capacity guaranteed, the client needs to pay the Company penalties.

(7) The Company entered into two three-year purchase agreements that committed the Company to purchase at least 75% of its 200mm wafer consumption from two of its suppliers for the contract period.

(8) As a condition precedent to the making of the loan contemplated by a US\$600 million Amortizing Term Loan Facility Agreement among UMCi Pte. Ltd. (UMCi), a subsidiary of the Company, and several financial institu-

tions, the Company has provided a letter of undertaking to the financial institutions and Citicorp Investment Bank (Singapore) Ltd., the facility agent, to undertake that:

- a. The Company shall continue to own and control, directly or indirectly, a minimum of 40% of the total issued and outstanding shares of UMCi. The Company shall also provide technical support to UMCi and maintain management control with no less than half of the seats of the board of directors.
- b. The Company shall take necessary actions to ensure UMCi has at least US\$600 million of issued and paid-in capital in cash by December 31, 2003, to make investments necessary to complete the 300mm fab plant on time, and to meet all the obligations under the Facility Agreement.

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#### Note 8 – Significant Disaster Loss

None.

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#### Note 9 – Significant Subsequent Event

(1) The Company has granted 61 million units of employee stock options on January 3, 2003 with an exercise price of NT\$22.5 per share.

(2) After the special shareholder's meeting of Silicon Integrated Systems Corp. on January 14, 2003, the Company acquired three seats of the board of directors. Silicon Integrated Systems Corp. is an investment of the Company accounted for under the cost method as of December 31, 2002.

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#### Note 10 – Others

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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#### Note 11 – Additional Disclosures

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

- a. Loans to others attributed to financial activities as of December 31, 2002: Please see Attachment-1.
- b. The endorsements and guarantees provided to others as of December 31, 2002: Please see Attachment-2.
- c. The ending balance of securities held as of December

- 31, 2002: Please see Attachment-3.
- d. The cumulative buying or selling of one specific security exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002: Please see Attachment-4.
- e. Acquisition of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-5.
- f. Disposal of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-6.

- g. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the year 2002: Please see Attachment-7.
- h. Receivables from related parties exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2002: Please see Attachment-8.
- i. Related information on invested companies as of December 31, 2002: Please see Attachment-9.
- j. Financial instruments
- 1) Derivative Financial Instruments: None.

2) Non-derivative Financial Instruments:

As of December 31,	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
<i>Financial Assets</i>				
Cash and cash equivalents	\$62,479,019	\$62,479,019	\$58,517,186	\$58,517,186
Marketable securities	2,501,748	2,517,624	1,086,434	1,099,430
Notes and accounts receivable	10,357,184	10,357,184	7,916,037	7,916,037
Long-term investments	56,246,744	76,582,200	77,051,045	144,285,722
<i>Financial Liabilities</i>				
Short-term loans	100,000	100,000	–	–
Payables	13,223,901	13,223,901	17,708,223	17,708,223
Bonds payable (current portion included)	46,645,661	47,201,827	39,590,511	41,805,353
Long-term loans (current portion included)	13,989,861	13,989,861	19,874,651	19,874,651

- The methods and assumptions used to measure the fair value of non-derivative financial instruments are as follows:
- i. The carrying amounts of short-term financial assets and liabilities (excluding marketable securities) approximate fair values due to their short maturities.
- ii. The fair values of marketable securities and long-term investments are based on the market value of the

- securities or, if market value is unavailable, the net equities of the investee companies are used as fair value.
- iii. Fair value of bonds payable is determined by the market value.
- iv. The carrying value of long-term loans approximates the fair value as the loans bear floating rates.

(2) Investment in Mainland China: None.

Note 12 – Segmental Information

(1) Operations in different industries

The Company operates principally in one industry. The Company's major business activity is providing dedicated semiconductor wafer foundry services.

(2) Operations in different geographic areas

The Company has no significant foreign operations.

(3) Export sales

For the year ended December 31,	2002	2001
North America	\$25,793,685	\$25,776,028
Europe	7,751,122	10,384,521
Asia, other than Taiwan	4,532,832	4,430,729
Other	2,653	1,010,601
Total	\$38,080,292	\$41,601,879

(4) Major customers

For the year ended December 31, 2002	Sales amount	Percentage
Customer A	\$27,917,057	41
Customer B	7,313,672	11
Total	\$35,230,729	52

For the year ended December 31, 2001	Sales amount	Percentage
Customer A	\$27,055,238	42
Customer B	3,569,172	6
Total	\$30,624,410	48

# Attachments to Notes

## Attachment-1 Loans to others attributed to financial activities as of December 31, 2002

No.	Name of the lending company	Name of the borrowers	Accounts name	The highest balance during 2002	The ending balance	Interest rate	Nature of financing
1	UMC Group (USA)	Employees	Receivable from employees' loans	US\$2,708,451	US\$861,333	7.00%	Note 2
2	UMCi Pte. Ltd.	Infineon Technologies, Asia Pacific Pte Ltd.	Other receivable	US\$55,000,000	US\$55,000,000	Note 1	Note 2

Notes (1) 1.87%, based on 3-month LIBOR. (2) Need for short-term financing.

## Attachment-2 The endorsements and guarantees provided by the Company to others as of December 31, 2002

No.	Guarantor	Guarantee	Relationship with the Company	The limit of guarantee for such party	The highest outstanding guarantee amount during 2002
1	UMC Japan	Directors and employees	Directors and employees	N/A	¥112,896,000

## Attachment-3 The ending balance of securities held by the Company as of December 31, 2002

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company
<b>United Microelectronics Corporation</b>		
Convertible bonds	China Development Financial Holding Corporation	None
Convertible bonds	SpringSoft, Inc.	None
Convertible bonds	Billionton Systems Inc.	None
Stock	UMC Group (USA)	Investee company
Stock	United Foundry Service, Inc.	Investee company
Stock	UMC Capital Corporation	Investee company
Stock	United Microelectronics Corp. (Samoa)	Investee company
Stock	United Microelectronics (Europe) B.V.	Investee company
Stock	Fortune Venture Capital Corporation	Investee company
Stock	Hsun Chieh Investment Co., Ltd.	Investee company
Stock	United Microdisplay Optronics Corp.	Investee company
Stock	Pacific Venture Capital Co., Ltd.	Investee company
Stock	UMCi Pte. Ltd.	Investee company
Stock	UMC Japan	Investee company
Stock	DuPont Photomasks Taiwan Ltd.	Investee company
Stock	Unitech Capital Inc.	Investee company
Stock	Archtek Telecom Corporation	Investee company
Stock	Novatek Microelectronics Corp.	Investee company
Stock	Holtek Semiconductor Inc.	Investee company
Fund	Pacific United Technology, L.P.	None
Stock	Integrated Technology Express Inc.	Investee company
Stock	Unimicron Technology Corp.	Investee company
Stock	Applied Component Technology Corporation	Investee company

(Amount in thousand NTD unless otherwise stated)

<i>The yearly amount of sales to (purchase from) the borrower</i>	<i>The reason for lending</i>	<i>Bad debt allowance provided</i>	<i>Collateral</i>	<i>Value of collateral</i>	<i>The credit limit set up by the Company for its respective borrower</i>	<i>The ceiling of fund financing</i>
None	Employee loan	–	Securities	Higher	N/A	N/A
None	Company's loan	–	None	N/A	N/A	N/A

(Amount in thousand NTD unless otherwise stated)

<i>The outstanding guarantee amount at December 31, 2002</i>	<i>The amount of guarantee with collateral placed</i>	<i>The ratio of accumulated guarantee amount to net value of the Company</i>	<i>The ceiling of the outstanding guarantee for the respective party</i>
–	¥1,000,000,000	–	¥1,000,000,000

(Amount in thousand NTD unless otherwise stated)

<i>General ledger accounts</i>	<i>December 31, 2002</i>				<i>Shares as collateral (In thousands)</i>
	<i>Number of shares (In thousands)</i>	<i>Book value</i>	<i>Percentage</i>	<i>Market value</i>	
Short-term investment	60,000	\$2,052,000	N/A	\$2,067,576	None
Short-term investment	12,000	418,800	N/A	416,640	None
Short-term investment	300	30,948	N/A	33,408	None
Long-term investment	16,438	473,297	100.00	N/A	None
Long-term investment	2,005	82,960	100.00	N/A	None
Long-term investment	30,000	1,007,444	100.00	N/A	None
Long-term investment	500	7,114	100.00	N/A	None
Long-term investment	9	217,493	100.00	N/A	None
Long-term investment	299,994	3,115,317	99.99	N/A	None
Long-term investment	1,417,294	30,598,156	99.97	N/A	None
Long-term investment	76,499	702,501	85.00	N/A	None
Long-term investment	30,000	316,270	49.99	N/A	None
Long-term investment	212,250	6,952,691	49.82	N/A	None
Long-term investment	479	7,610,901	47.06	12,305,812	None
Long-term investment	99,748	1,145,403	45.51	N/A	None
Long-term investment	21,000	731,255	42.00	N/A	None
Long-term investment	14,200	–	26.49	N/A	None
Long-term investment	74,611	1,193,740	25.83	5,173,574	None
Long-term investment	44,854	568,554	25.61	1,159,697	None
Long-term investment	–	34,600	25.00	N/A	None
Long-term investment	24,111	309,672	24.58	615,173	None
Long-term investment	168,930	3,004,762	23.81	3,613,576	None
Long-term investment	12,068	91,581	23.66	144,234	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company
<b>United Microelectronics Corporation</b>		
<i>Continued from previous page</i>		
Stock	Faraday Technology Corp.	Investee company
Stock	PixTech, Inc.	None
Stock	Integrated Telecom Express, Inc.	Investee company
Stock	AMIC Technology (Taiwan), Inc.	Investee company
Stock	MediaTek Incorporation	The Company is its supervisor
Stock	AU Optronics Corp.	The Company is its director and supervisor
Stock	Sino-Aerospace Investment Corp.	None
Fund	Pacific Technology Partners, L.P.	None
Stock	Aptos Corp.	None
Stock	United Industrial Gases Co., Ltd.	None
Stock	TECO Nanotech Co., Ltd.	None
Stock	Subtron Technology Co., Ltd.	None
Stock	Industrial Bank of Taiwan Corp.	The Company is its major shareholder
Stock	Silicon Integrated Systems Corp.	None
Stock	TECO Electric & Machinery Co., Ltd.	The Company is its director and supervisor
Stock	SAMPO Corporation	None
Stock	Mega Financial Holding Company	The Company is its director and supervisor
Stock	Premier Image Technology Corporation	None
Stock	Tonbu, Inc.	None
Stock	Vialta, Inc.	None
<b>Hsun Chieh Investment Co., Ltd.</b>		
Stock	Shanghai Fudan Microelectronics Co., Ltd.	None
Stock	Afa Technologies, Inc.	Investee company
Stock	Star Semiconductor Corp.	Investee company
Stock	VistaPoint, Inc.	Investee company
Stock	UC Fund II	Investee company
Stock	Accelerated Communications, Inc.	Investee company
Stock	RiRa Electronics, Inc.	Investee company
Stock	United Radiotek Incorporation	Investee company
Stock	High Bandwidth Access, Inc.	Investee company
Stock	Harvatek Corp.	Investee company
Stock	Elite Flash Storage Technology, Inc.	The Company is its director and supervisor
Stock	Giga Solution Technology Co., Ltd.	The Company is its director
Stock	Everglory Resource Technology Co., Ltd.	None
Stock	Ayuttha Technology Corp.	The Company is its director and supervisor
Stock	Patentop, Ltd.	Investee company
Stock	Kits On Line Technology Corp.	The Company is its director
Stock	Aptos Corp.	None
Stock	InComm Technologies Co., Ltd.	The Company is its director
Stock	Advance Materials Corporation	Investee company
Stock	Enovation Group Inc.	None
Stock	Unimicron Technology Corp.	Investee company to UMC
Stock	SerComm Corporation	Investee company
Stock	Integrated Photonics, Inc.	None

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	33,710	\$570,675	19.71	\$2,748,909	None
Long-term investment	9,883	–	17.63	2,848	None
Long-term investment	7,000	513,134	16.36	383,833	None
Long-term investment	16,200	53,225	13.62	N/A	None
Long-term investment	60,806	1,213,655	13.21	17,788,807	None
Long-term investment	455,276	6,758,766	11.37	9,883,592	None
Long-term investment	28,500	–	11.11	N/A	None
Long-term investment	–	208,256	9.85	N/A	None
Long-term investment	1,772	23,087	9.68	N/A	None
Long-term investment	13,185	146,250	8.44	N/A	None
Long-term investment	19,417	–	8.05	N/A	None
Long-term investment	16,000	240,000	7.41	N/A	None
Long-term investment	119,425	1,150,000	5.00	N/A	None
Long-term investment	48,483	1,267,580	4.46	1,198,403	None
Long-term investment	77,079	1,535,298	4.02	848,718	None
Long-term investment	17,773	224,044	1.73	221,915	None
Long-term investment	91,901	3,108,656	0.83	1,505,519	None
Long-term investment	2,940	27,964	0.64	165,548	None
Long-term investment	938	–	–	N/A	None
Long-term investment	8,360	622,835	8.90	105,103	None
Short-term investment	7,280	24,617	1.17	24,617	None
Long-term investment	2,365	23,650	47.30	N/A	None
Long-term investment	2,203	22,030	46.82	N/A	None
Long-term investment	2,852	34,224	35.65	N/A	None
Long-term investment	5,000	174,264	35.45	N/A	None
Long-term investment	10,000	100,000	33.33	N/A	None
Long-term investment	6,499	59,232	32.50	N/A	None
Long-term investment	2,937	29,185	29.37	N/A	None
Long-term investment	7,246	82,934	20.13	N/A	None
Long-term investment	16,329	277,203	21.99	1,111,513	None
Long-term investment	1,950	19,500	19.50	N/A	None
Long-term investment	8,750	105,000	19.44	N/A	None
Long-term investment	3,700	74,000	15.14	N/A	None
Long-term investment	1,100	16,500	11.00	N/A	None
Long-term investment	720	16,543	18.00	N/A	None
Long-term investment	3,200	38,656	16.41	N/A	None
Long-term investment	3,000	81,774	16.39	N/A	None
Long-term investment	3,200	44,480	16.00	N/A	None
Long-term investment	14,994	169,836	15.78	N/A	None
Long-term investment	1,148	11,809	14.34	N/A	None
Long-term investment	88,440	1,537,397	12.47	1,891,820	None
Long-term investment	8,367	159,465	11.48	270,750	None
Long-term investment	300	–	11.46	N/A	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
<b>Hsun Chieh Investment Co., Ltd.</b>		
<i>Continued from previous page</i>		
Stock	Golden Technology Venture Capital Investment Corp.	The Company is its director
Stock	NCTU Spring I Technology Venture Capital Investment Corp.	None
Stock	Ascend Semiconductor Corp.	The Company is its director and supervisor
Stock	Union Technology Corp.	None
Stock	Fortune Semiconductor Corporation	The Company is its director
Stock	ProSys Technology Integration, Inc.	None
Stock	NCTU Spring Venture Capital Co., Ltd.	The Company is its director
Stock	Faraday Technology Corp.	Investee company to UMC
Stock	Advanced Microelectronic Products, Inc.	None
Stock	Cosmos Technology Venture Capital Investment Corp.	The Company is its director
Stock	Parawin Venture Capital Corp.	The Company is its director
Stock	Coretronic Corp.	The Company is its director and supervisor
Stock	RF Integration Corporation	The Company is its director
Stock	UMC Japan	Investee company to UMC
Fund	Taiwan Asia Pacific Venture Fund	None
Stock	Prokia Technology Co., Ltd.	None
Stock	IBT Venture Co.	The Company is its director
Stock	Subtron Technology Co., Ltd.	The Company is its director and supervisor
Stock	United Microelectronics Corporation	Investor company
Stock	Hantek Technology Co., Ltd.	None
Stock	Integrated Telecom Express, Inc.	Investee company to UMC
Stock	Sheng-Hua Venture Capital Corp.	None
Stock	Pixart Imaging Inc.	None
Stock	Largan Optoelectronics, Co., Ltd.	The Company is its director
Stock	TECO Nanotech Co., Ltd.	None
Stock	Ingenus Corp.	None
Stock	Mega Financial Holding Company	None
Stock	King Yuan Electronics Co., Ltd.	None
Stock	Averlogic Corporation	None
Stock	Amkor Technology, Inc.	None
Stock	Vialta, Inc.	None
Stock	Broadcom Communications	None
Stock	Chip Express Corporation	None
Stock	AEM Technology Inc.	None
Stock	Alpha and Omega Semiconductor, Inc.	None
Stock	Aurora System, Inc.	None
Stock	ChinaYES InfoMedia (Cayman), Inc.	None
Stock	Epogy Communications, Inc.	None
Stock	Formerica International Holding, Inc.	None
Stock	ForteMedia, Inc.	None
Stock	LightCross, Inc.	None
Stock	Linden Technologies, Inc.	None
Stock	NetEmpower Software Technologies, Inc.	None
Stock	Netlogic Microsystems, Inc.	None
Stock	Lattice Semiconductor Corporation	None



(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	8,000	\$80,000	10.67	N/A	None
Long-term investment	4,284	43,482	10.06	N/A	None
Long-term investment	1,440	14,400	9.00	N/A	None
Long-term investment	1,800	18,000	9.00	N/A	None
Long-term investment	1,700	71,500	8.72	N/A	None
Long-term investment	1,200	4,258	6.70	N/A	None
Long-term investment	2,000	20,000	6.28	N/A	None
Long-term investment	10,085	1,205,714	5.90	822,394	None
Long-term investment	7,420	126,000	5.50	N/A	None
Long-term investment	4,000	40,000	5.03	N/A	None
Long-term investment	5,000	50,000	5.00	N/A	None
Long-term investment	14,865	276,192	4.59	506,301	None
Long-term investment	3,900	98,610	9.76	N/A	None
Long-term investment	45	780,932	4.41	1,145,742	None
Long-term investment	115	29,295	4.15	N/A	None
Long-term investment	4,000	48,000	3.13	N/A	None
Long-term investment	9,000	90,000	3.81	N/A	None
Long-term investment	7,800	99,000	3.61	N/A	None
Long-term investment	484,045	29,592,654	3.13	11,553,197	None
Long-term investment	1,623	42,330	2.70	N/A	None
Long-term investment	1,113	139,613	2.61	61,029	None
Long-term investment	5,000	50,000	2.50	N/A	None
Long-term investment	780	10,140	1.95	N/A	None
Long-term investment	1,235	79,989	1.45	260,147	None
Long-term investment	2,926	–	1.21	N/A	None
Long-term investment	240	29,812	0.62	21	None
Long-term investment	57,249	1,882,974	0.52	937,859	None
Long-term investment	1,600	70,000	0.35	26,800	None
Long-term investment	46	1,600	0.22	2,207	None
Long-term investment	218	101,696	0.13	38,773	None
Long-term investment	8,360	625,622	8.90	105,103	None
Long-term investment	3	7,092	–	1,676	None
Long-term investment	2,667	68,198	–	N/A	None
Long-term investment	1,760	–	–	N/A	None
Long-term investment	1,500	46,883	–	N/A	None
Long-term investment	550	72,226	–	N/A	None
Long-term investment	10,000	63,146	–	N/A	None
Long-term investment	3,200	–	–	N/A	None
Long-term investment	2,000	30,898	–	N/A	None
Long-term investment	4,000	65,000	–	N/A	None
Long-term investment	3,896	206,880	–	N/A	None
Long-term investment	300	92,385	–	N/A	None
Long-term investment	1,500	–	–	N/A	None
Long-term investment	100	3,195	–	N/A	None
Long-term investment	492	65,740	0.44	153,140	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
<b>Hsun Chieh Investment Co., Ltd.</b>		
<i>Continued from previous page</i>		
Stock	Primarion, Inc.	None
Stock	SandCraft, Inc.	None
Stock	The Supply, Inc.	None
Stock	Tonbu, Inc.	None
Stock	Triscend Corp.	None
Stock	Smart Idea Holding Limited	None
Stock	VenGlobal Capital Fund III, L.P.	None
Membership Card	Golf Club Membership Card	None
<b>UMC Capital Corporation</b>		
Stock	UMC Capital (USA)	Investee company
Stock	Corrent Corp.	None
Stock	LightCross, Inc.	None
Stock	MaXXan Systems, Inc.	None
Stock	Lead Systems, Inc.	None
Stock	Virtual Silicon Technology, Inc.	None
Stock	Programmable Silicon Solutions	None
Stock	Integrated Optics Comm. Corp.	None
Stock	Aicent Technology, Inc.	None
<b>Fortune Venture Capital Corporation</b>		
Stock	Aptos (Taiwan) Corp.	Investee company
Stock	Davicom Semiconductor, Inc.	Investee company
Stock	Pixart Imaging Inc.	The Company is its director
Stock	Thin Film Module, Inc.	The Company is its director and supervisor
Stock	Advance Materials Corporation	Investee company
Stock	AMIC Technology (Taiwan), Inc.	Investee company to UMC
Stock	Urex Precision, Inc.	None
Stock	High Bandwidth Access, Inc.	Investee company
Stock	Epitech Corp.	The Company is its director and supervisor
Stock	Integrated Telecom Express, Inc.	Investee company to UMC
Stock	Shin-Etsu Handotai Taiwan Co., Ltd.	The Company is its director
Stock	Trident Technologies, Inc.	The Company is its director and supervisor
Stock	ProSys Technology Integration, Inc	None
Stock	Averlogic Corporation	The Company is its director and supervisor
Fund	Iglobe Partners Fund, L.P.	None
Stock	Programmable Microelectronics (Taiwan) Corp.	None
Stock	CTS Computer Technology System Corp.	None
Stock	Vialta, Inc.	None
Fund	Crystal Internet Venture Fund II	None
Stock	Monterey Design Systems Inc.	None
Stock	SpringSoft, Inc.	None
Stock	Orchid BioSciences, Inc.	None
Stock	United Microelectronics Corporation	Investor company
Stock	Cadence Design Systems, Inc.	None
Stock	Triscend Corporation	None

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	500	\$38,816	–	N/A	None
Long-term investment	450	43,063	–	N/A	None
Long-term investment	588	–	–	N/A	None
Long-term investment	2,000	–	–	N/A	None
Long-term investment	360	17,409	–	N/A	None
Long-term investment	6,000	205,069	11.88	N/A	None
Long-term investment	–	33,195	–	N/A	None
Long-term investment	–	60,000	–	N/A	None
Long-term investment	200	US\$226,491	100.00	N/A	None
Long-term investment	1,732	US\$1,472,815	–	N/A	None
Long-term investment	649	US\$1,000,000	–	N/A	None
Long-term investment	1,655	US\$1,000,021	–	N/A	None
Long-term investment	1,600	US\$2,506,000	–	N/A	None
Long-term investment	619	US\$1,000,000	–	N/A	None
Long-term investment	216	US\$540,000	–	N/A	None
Long-term investment	2,000	US\$2,000,000	–	N/A	None
Long-term investment	2,000	US\$1,000,000	–	N/A	None
Long-term investment	43,705	436,346	26.49	N/A	None
Long-term investment	12,200	114,108	22.96	N/A	None
Long-term investment	6,530	105,409	16.32	N/A	None
Long-term investment	5,287	52,870	13.91	N/A	None
Long-term investment	12,800	145,196	13.47	N/A	None
Long-term investment	15,259	146,958	12.83	N/A	None
Long-term investment	2,537	–	12.68	N/A	None
Long-term investment	4,308	56,869	11.97	N/A	None
Long-term investment	6,137	73,916	11.16	N/A	None
Long-term investment	4,000	337,955	9.38	219,333	None
Long-term investment	10,500	105,000	7.00	N/A	None
Long-term investment	1,350	–	6.75	N/A	None
Long-term investment	1,200	4,258	6.70	N/A	None
Long-term investment	1,148	24,820	5.58	55,063	None
Long-term investment	–	80,603	6.30	N/A	None
Long-term investment	3,392	33,920	6.17	N/A	None
Long-term investment	1,717	–	2.04	N/A	None
Long-term investment	4,180	313,205	4.45	52,551	None
Long-term investment	–	41,757	0.99	N/A	None
Long-term investment	394	34,201	1.23	N/A	None
Long-term investment	88	1,621	0.23	7,324	None
Long-term investment	56	13,310	0.14	956	None
Long-term investment	17,633	171,857	0.11	420,872	None
Long-term investment	66	7,342	0.03	28,286	None
Long-term investment	3,500	469,902	–	N/A	None

Continued on next page

**Attachment-3 The ending balance of securities held by the Company as of December 31, 2002**

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company
<b>Fortune Venture Capital Corporation</b>		
<i>Continued from previous page</i>		
Stock	Aurora Systems, Inc.	None
Stock	Systematic Designs International, Inc.	None
Stock	SiRF Technology Holdings, Inc.	None
Stock	Alpha and Omega Semiconductor, Inc.	None
Stock	Velio Communications, Inc.	None
Stock	Arcadia Design Systems, Inc.	None
Stock	EPIC Technologies, Inc.	None
Stock	Rise Technology, Inc.	None
Stock	The 3CX USA	None
<b>UMC Japan</b>		
Bond	Morgan Stanley Repackage Bond	None

**Attachment-4 The cumulative buying or selling of one specific security exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

Name of the securities	Beginning balance		Addition	
	No. of shares (In thousands)	Amount	No. of shares (In thousands)	Amount
<b>United Microelectronics Corporation</b>				
China Development Financial Holding Corporation- Convertible bond	–	\$–	60,000	\$2,052,000
SpringSoft Inc.- Convertible bond	–	–	12,000	418,800
MediaTek Incorporation	47,949	1,339,839	–	–
Trecenti Technologies, Inc.	240	1,789,838	–	–
AU Optronics Corp.	560,276	8,317,535	–	–
SAMPO Corporation	35,190	443,599	–	–
United Microdisplay Optronics Corporation	–	–	76,499	764,990
UMC Capital Corporation	10,000	338,228	20,000	681,000
Unitech Capital Inc.	–	–	21,000	730,380
Silicon Integrated Systems Corp.	–	–	48,483	1,267,580
<b>Hsun Chieh Investment Co., Ltd.</b>				
High Bandwidth Access, Inc.	2,861	19,191	5,741	114,825
Accelerated Communications, Inc.	–	–	10,000	100,000
Harvatek Corp.	14,033	179,295	2,618	99,484
Plato Electronics (Cayman) Limited	14,193	657,858	–	–
Smart Idea Holding Limited	–	–	6,000	205,069
AU Optronics Corp.- Convertible bond	2,000	200,000	–	–
<b>Fortune Venture Capital Corporation</b>				
Triscend Corporation	1,750	188,957	1,750	280,945
<b>UMC Japan</b>				
Morgan Stanley Repackage Bond	–	–	–	¥3,000,000,000

**Note** The ending balance also includes other additions or deductions not shown on the above schedule, including long-term equity investment income or loss, cumulative translation adjustment, changes in long-term investment due to unproportionate changes in ownership, and unrealized loss in long-term investment, etc.

(Amount in thousand NTD unless otherwise stated)

General ledger accounts	December 31, 2002				Shares as collateral (In thousands)
	Number of shares (In thousands)	Book value	Percentage	Market value	
Long-term investment	4,167	\$308,957	–	N/A	None
Long-term investment	1,300	–	–	N/A	None
Long-term investment	875	119,436	–	N/A	None
Long-term investment	1,500	46,313	–	N/A	None
Long-term investment	110	30,817	–	N/A	None
Long-term investment	162	26,204	–	N/A	None
Long-term investment	23	–	–	N/A	None
Long-term investment	500	–	–	N/A	None
Long-term investment	513	–	–	N/A	None
Long-term investment	–	¥3,000,000,000	–	N/A	None

(Amount in thousand NTD unless otherwise stated)

No. of shares (In thousands)	Amount	Cost	Disposal	Ending balance	
			Gain (Loss) from disposal	No. of shares (In thousands)	Amount
–	\$–	\$–	\$–	60,000	\$2,052,000
–	–	–	–	12,000	418,800
4,750	3,030,043	126,184	2,903,859	60,806	1,213,655
240	2,806,610	1,409,614	1,396,996	–	–
105,000	4,792,995	1,558,769	3,234,226	455,276	6,758,766
17,417	228,246	219,555	8,691	17,773	224,044
–	–	–	–	76,499	702,501
–	–	–	–	30,000	1,007,444
–	–	–	–	21,000	731,255
–	–	–	–	48,483	1,267,580
1,356	26,944	18,296	8,648	7,246	82,934
–	–	–	–	10,000	100,000
2,563	107,901	37,203	70,698	16,239	277,203
14,193	753,946	656,108	97,838	–	–
–	–	–	–	6,000	205,069
2,000	577,350	200,000	377,350	–	–
–	–	–	–	3,500	469,902
–	–	–	–	–	¥3,000,000,000

**Attachment-5 Acquisition of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

None
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**Attachment-7 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 2002**

Name of related parties transactions	Relationship with the Company
<b>United Microelectronics Corporation</b>	
UMC Group (USA)	Investee company
United Microelectronics (Europe) B.V.	Investee company
Integrated Technology Express Inc.	Investee company
Holtek Semiconductor Inc.	Investee company
Novatek Microelectronics Corp.	Investee company
Faraday Technology Corp.	Investee company
AMIC Technology (Taiwan) Inc.	Investee company
MediaTek Incorporation	The Company is its supervisor
Davicom Semiconductor, Inc.	The investee of Fortune Venture Capital Corporation
Averlogic Corporation	The Company's investee is its director and supervisor
Fortune Semiconductor Corp.	The Company is its director
Pixart Imaging Inc.	The Company is its director
Applied Component Technology Corp.	Investee company
Shin - Etsu Handotai Taiwan Co., Ltd.	The Company is its director
<b>UMC Group (USA)</b>	
United Microelectronics Corporation	Investor company

**Attachment-8 Receivable from related parties exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2002**

Name of the counter party	Relationship with the counter party	Balance of receivable from related party			
		Notes receivable	Accounts receivable	Other receivables	Amount
<b>United Microelectronics Corporation</b>					
UMC Group (USA)	Investee company	–	\$3,284,149	–	\$3,284,149
United Microelectronics (Europe) B.V.	Investee company	–	542,296	–	542,296
Novatek Microelectronics Corp.	Investee company	–	446,927	–	446,927
Holtek Semiconductor Inc.	Investee company	–	191,755	–	191,755
Integrated Technology Express Inc.	Investee company	–	120,180	–	120,180
Faraday Technology Corp.	Investee company	–	202,151	–	202,151
AMIC Technology (Taiwan) Inc.	Investee company	–	131,625	–	131,625
MediaTek Incorporation	The Company is its supervisor	–	1,431,362	–	1,431,362

**Attachment-6 Disposal of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002**

None					
(Amount in thousand NTD unless otherwise stated)					
Purchase (Sales)	Amount	% of purchase (sales)	Transactions	Notes & accounts receivable (payable)	
			Term	Balance	% of account
Sales	\$27,917,057	41.40	60 days	\$3,284,149	32.78
Sales	3,822,123	5.67	60 days	542,296	5.41
Sales	617,191	0.92	45 days	120,180	1.20
Sales	834,088	1.24	60 days	191,755	1.91
Sales	2,810,606	4.17	45 days	446,927	4.46
Sales	1,176,094	1.74	45 days	202,151	2.02
Sales	623,759	0.93	45 days	131,625	1.31
Sales	7,313,672	10.85	45 days	1,431,362	14.29
Sales	126,934	0.19	45 days	7,142	0.07
Sales	113,191	0.17	45 days	5,859	0.06
Sales	120,589	0.18	45 days	37,565	0.37
Sales	146,159	0.22	45 days	46,377	0.46
Purchase	219,235	1.42	30 days	14,790	0.55
Purchase	2,273,128	14.76	60 days	375,116	14.10
Purchase	US\$811,693,816	100.00	Net 55 days	US\$94,569,549	100.00

(Amount in thousand NTD unless otherwise stated)				
Turnover rate (times)	Amount	Overdue receivable Collection	Subsequent received amount	Bad debt allowance provided
9.68	\$-	Credit Collecting	\$307,641	\$32,841
11.60	31,457	Credit Collecting	20	5,738
7.93	688	Credit Collecting	-	4,476
5.32	89,558	Credit Collecting	-	2,813
6.47	-	Credit Collecting	-	1,202
6.49	4,186	Credit Collecting	-	2,063
3.07	252	Credit Collecting	252	1,319
5.90	-	Credit Collecting	-	14,314

**Attachment-9 Related information on invested companies as of December 31, 2002**

<i>Invested company</i>	<i>Address</i>	<i>Main business scopes</i>
<b>United Microelectronics Corporation</b>		
UMC Group (USA)	Sunnyvale, California, USA	IC Sales
United Foundry Service, Inc.	Sunnyvale, California, USA	Supervising and monitoring group projects
UMC Capital Corporation	Cayman, Cayman Islands	Investment
United Microelectronics Corp. (Samoa)	Apia, Samoa	Investment
United Microelectronics (Europe) B.V.	Holland	IC Sales
Fortune Venture Capital Corporation	Taipei, Taiwan	Consulting and planning for investment in new business
Hsun Chieh Investment Co., Ltd.	Taipei, Taiwan	Investment
United Microdisplay Optronics Corporation	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of LCOS
Pacific Venture Capital Co., Ltd.	Taipei, Taiwan	Venture capital consultation
UMCi Pte. Ltd.	Singapore	Sales and manufacturing of integrated circuits
UMC Japan	Chiba, Japan	Sales and manufacturing of integrated circuits
DuPont Photomasks Taiwan Ltd.	Science-Based Ind. Park, Hsinchu	Manufacturing of photomasks
Unitech Capital Inc.	British Virgin Islands	Investment
Archtek Telecom Corp.	Taipei, Taiwan	Sales and manufacturing of broadband access products
Novatek Microelectronics Corp.	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of integrated circuits
Holtek Semiconductor Inc.	Science-Based Ind. Park, Hsinchu	IC design production and sales
Integrated Technology Express, Inc.	Science-Based Ind. Park, Hsinchu	Sales and manufacturing of integrated circuits
Unimicron Technology Corp.	Taoyuan, Taiwan	PCB production
Applied Component Technology Corp.	Taipei, Taiwan	IC product sales
Faraday Technology Corp.	Science-Based Ind. Park, Hsinchu	ASIC design and production
Integrated Telecom Express, Inc.	Santa Clara, California, USA	Sales and manufacturing of integrated circuits
AMIC Technology (Taiwan) Inc.	Science-Based Ind. Park, Hsinchu	IC design, production and sales



(Amount in thousand NTD unless otherwise stated)

<i>Initial Investment</i>		<i>Shares held by the Company</i>			<i>The net income</i>	<i>The gain (loss)</i>	<i>Note</i>
<i>Ending balance</i>	<i>Beginning balance</i>	<i>Number of shares (In thousands)</i>	<i>%</i>	<i>Book value</i>	<i>(loss) of the invested company</i>	<i>recognized</i>	
US\$16,438,000	US\$16,438,000	16,438	100.00	\$473,297	US\$(3,099,000)	\$(119,874)	–
US\$2,005,000	US\$2,005,000	2,005	100.00	82,960	US\$137,000	4,734	–
US\$30,000,000	US\$10,000,000	30,000	100.00	1,007,444	US\$(341,000)	(11,784)	–
US\$500,000	–	500	100.00	7,114	US\$(308,000)	(10,636)	–
US\$5,421,000	–	9	100.00	217,493	US\$151,000	29,941	–
2,999,940	2,999,940	299,994	99.99	3,115,317	(136,125)	(136,112)	–
14,172,940	14,172,940	1,417,294	99.97	30,598,156	165,720	165,721	–
764,990	–	76,499	85.00	702,501	(73,517)	(62,489)	–
300,000	300,000	30,000	49.99	316,270	8,901	4,450	–
US\$212,250,000	US\$212,250,000	212,250	49.82	6,952,691	US\$(11,615,000)	(215,225)	–
¥20,126,316,000	¥20,126,316,000	479	47.06	7,610,901	¥(393,133,000)	506,878	–
773,795	777,016	99,748	45.51	1,145,403	156,480	71,722	–
US\$21,000,000	–	21,000	42.00	731,255	US\$(60,000)	875	–
–	–	14,200	26.49	–	–	–	–
138,030	140,010	74,611	25.83	1,193,740	1,083,274	277,441	–
357,628	392,176	44,854	25.61	568,554	350,737	94,071	–
205,025	239,770	24,111	24.58	309,672	147,004	43,526	–
2,592,013	2,592,013	168,930	23.81	3,004,762	1,020,032	190,292	–
49,284	64,557	12,068	23.66	91,581	(9,682)	(1,925)	–
81,032	62,455	33,710	19.71	570,675	691,252	136,970	–
US\$2,000,000	US\$2,000,000	7,000	16.36	513,134	US\$(23,258,000)	(113,954)	–
135,000	135,000	16,200	13.62	53,225	62,038	16,105	–

# Special Disclosures



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# Summary of Affiliated Enterprises

## Organization Chart

United Microelectronics Corporation			
Fortune Venture Capital Corporation	99.99%		
Hsun Chieh Investment Co., Ltd.	99.97%		
UMC Group (USA)	100.00%		
UMC Japan	47.06%		
United Foundry Service, Inc.	100.00%		
UMC Capital Corporation	100.00%	> UMC Capital (USA)	100.00%
UMCi Pte. Ltd.	49.82%		
United Microelectronics Corp. (Samoa)	100.00%		
United Microelectronics (Europe) B.V.	100.00%		
United Microdisplay Optronics Corp.	85.00%		

## Basic Data of Affiliated Enterprises

*In thousand NTD*

<i>Name of Corporation</i>	<i>Date of Establishment</i>	<i>Address</i>	<i>Capital</i>	<i>Major Business / Production Items</i>
Fortune Venture Capital Corporation	1993.9.21	2Fl., No. 76, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan 106, ROC	3,000,000	Consulting and planning for investment in new business
Hsun Chieh Investment Co., Ltd.	2000.1.12	2Fl., No. 76, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan 106, ROC	14,177,110	Investment
UMC Group (USA)	1997.8.11	488 DeGuigne Drive Sunnyvale, CA 94085, USA	568 (US\$16,438)	IC sales
UMC Japan	1984.5.15	No. 1580, Yamamoto, Tateyama-City, Chiba, Japan	7,467,884 (¥27,028,174,000)	IC foundry business
United Foundry Service, Inc.	1996.7.29	488 DeGuigne Drive Sunnyvale, CA 94085, USA	69 (US\$2,005)	Supervising and monitoring group projects
UMC Capital Corporation	2001.1.16	P.O. Box 1034GT, Grand Cayman, Cayman Islands	1,037,280 (US\$30,000,000)	Investment
UMC Capital (USA)	2001.2.13	488 DeGuigne Drive Sunnyvale, CA 94085, USA	7 (US\$200)	Investment
UMCi Pte. Ltd.	2001.1.18	6 Temasek Boulevard, #26-01 Suntec Tower Four, Singapore 038986	14,729 (US\$426,000)	IC foundry business
United Microelectronics Corp. (Samoa)	2002.1.9	Offshore Chambers, PO Box 217, Apia, Samoa	17,288 (US\$500,000)	Investment
United Microelectronics (Europe) B.V.	1989.05.23	Hogehilweg 19, 1101 CB, Amsterdam, The Netherlands	133,993 (US\$3,875,309)	IC sales
United Microdisplay Optronics Corp.	2002.09.11	2F, No. 3, Li-Hsin Rd. II Science-Based Industrial Park, Hsinchu City, Taiwan 300, ROC	900,000	Manufacturing and sales of chips for LCOS

**Note** USD:NTD = 1:34.576; JPY:NTD = 1:0.2763

## Data of Common Shareholders of Treated-as Controlled Companies and Affiliates

None.

Business of United Microelectronics Corporation (UMC) and its Affiliated Enterprises

The business of UMC and its affiliated enterprises includes investment activities, manufacturing, trade, electronics, and semiconductor wafer manufacturing.

Directors, Supervisors and Presidents of Affiliated Enterprises

Name of Corporation	Title	Name or Representative	Shareholding	
			Shares	%
Fortune Venture Capital Corpora- tion	Chairman	United Microelectronics Corporation	299,994,000	99.99
		Representative: Robert H.C. Tsao	0	0.00
	Director	United Microelectronics Corporation	299,994,000	99.99
		Representative: John Hsuan	0	0.00
	Director	United Microelectronics Corporation	299,994,000	99.99
		Representative: Frank Jang	0	0.00
	Director	United Microelectronics Corporation	299,994,000	99.99
		Representative: Stan Hung	0	0.00
	Director	Antonius Wu	1,000	0.00
Hsun Chieh Investment Co., Ltd.	Chairman	United Microelectronics Corporation	299,994,000	99.99
		Representative: Tzyy-Jang Tseng	0	0.00
	Chairman	United Microelectronics Corporation	1,417,294,000	99.97
		Representative: Robert H.C. Tsao	0	0.00
	Director	United Microelectronics Corporation	1,417,294,000	99.97
		Representative: John Hsuan	0	0.00
	Director	United Microelectronics Corporation	1,417,294,000	99.97
		Representative: Ing-Dar Liu	0	0.00
	Supervisor	United Microelectronics Corporation	1,417,294,000	99.97
		Representative: Stan Hung	0	0.00
UMC Group (USA)	President	Henry Liu	0	0.00
	Director	Peter J. Courture	0	0.00
	Director	Tony Yu	0	0.00
UMC Japan	Chairman	Robert H.C. Tsao	0	0.00
	Director	John Hsuan	0	0.00
	Director	Peter Chang	0	0.00
	Director and President	Hong-Jen Wu	0	0.00
	Director	Stan Hung	0	0.00
	Director	Gary Hong	0	0.00
	Director	Henry Liu	1028	0.10
	Director	Jenn Tsao	0	0.00
	Director	Wei Chung Lian	100	0.01
	Director	Keiichi Hamazaki	1132	0.11
	Supervisor	Minetaka Suzuki	70	0.01
	Supervisor	Tsing-Yuan Hwang	0	0.00
	Supervisor	Eiichi Arakawa	172	0.02
United Foundry Service, Inc.	Director and President	Peter J. Courture	0	0.00
UMC Capital Corporation	Director	United Microelectronics Corporation	30,000,000	100.00
		Representative: Robert H.C. Tsao	0	0.00

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Name of Corporation	Title	Name or Representative	Shareholding	
			Shares	%
UMC Capital (USA)	Director and President	Peter J. Courture	0	0.00
	Director	Stan Hung	0	0.00
UMCi Pte. Ltd.	Chairman	Robert H.C. Tsao	4,500,010	1.06
	Director	John Hsuan	1,687,510	0.40
	Director	Peter Chang	562,500	0.13
	Director and President	Chris Chi	562,500	0.13
	Director	Liow Voon Kheong	0	0.00
	Director	Loh Kin Wah	0	0.00
	Director	Werner Eugen Mohr	0	0.00
United Microelectronics Corp. (Samoa)	Director	United Microelectronics Corporation	500,000	100.00
		Representative: Stan Hung	0	0.00
United Microelectronics (Europe) B.V.	Director	Robert H.C. Tsao	0	0.00
	Director	John Hsuan	0	0.00
United Microdisplay Optronics Corp.	Chairman	United Microelectronics Corporation	76,499,000	85.00
		Representative: Robert H.C. Tsao	0	0.00
	Director	United Microelectronics Corporation	76,499,000	85.00
		Representative: John Hsuan	0	0.00
	Director	United Microelectronics Corporation	76,499,000	85.00
		Representative: Ker Wen Teng	0	0.00
	Supervisor	United Microelectronics Corporation	76,499,000	85.00
		Representative: Stan Hung	0	0.00

Summarized Operation Results of Affiliated Enterprises

Name of Corporation	Capital	Total Assets	Total Liabilities	Net Worth	In thousand NTD			
					Net Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings (Loss) per Share (NTD)
Fortune Venture Capital Corporation	3,000,000	3,273,380	70,961	3,202,419	416,296	(61,896)	(136,125)	(0.45)
Hsun Chieh Investment Co., Ltd.	14,177,110	22,174,229	89,490	22,084,740	1,646,940	229,440	165,720	0.12
UMC Group (USA)	568	5,770,002	5,283,690	486,312	28,612,474	(128,270)	(107,167)	(6.52)
UMC Japan	7,467,884	29,461,136	12,313,337	17,147,799	7,298,697	186,344	(108,623)	(182.61)
United Foundry Service, Inc.	69	92,544	1,647	90,897	121,233	7,965	4,735	2.36
UMC Capital Corporation	1,037,280	1,026,345	2,150	1,024,195	5,209	(12,648)	(11,784)	(0.39)
UMC Capital (USA)	7	7,985	154	7,831	17,546	836	731	3.65
UMCi Pte. Ltd.	14,729	16,383,347	2,084,254	14,299,093	0	(562,135)	(401,586)	(0.94)
United Microelectronics Corp. (Samoa)	17,288	6,653	0	6,653	0	(10,651)	(10,635)	(21.27)
United Microelectronics (Europe) B.V.	133,993	738,623	545,987	192,636	3,891,956	4,950	5,214	579.35
United Microdisplay Optronics Corp.	900,000	863,311	36,828	826,483	0	(76,204)	(73,517)	(0.82)

Note USD:NTD = 1:34.576; JPY:NTD = 1:0.2763

# Status of Internal Control

## Statement of Internal Control

The self-assessment of UMC's internal control was conducted for the year ended December 31, 2002 based on UMC's internal control system. The results are described as follows:

1. UMC acknowledges that the board of directors and the management are responsible for establishing, executing and maintaining a sufficient internal control system, which has been already set up. The purposes of the internal control system are to provide a reasonable assurance of achieving the goals of efficiency and effectiveness of the operations, such as profitability, performance and the safeguard of the assets, the reliability of the financial reports and the compliance with the applicable laws and regulations.
2. The internal control system has its inherent constraints, and it can only provide reasonable assurance of achieving the three goals mentioned above, no matter how well it has been designed. The effectiveness of the internal control system may vary due to changes in the environment and circumstances. UMC has established an internal control system with self-monitoring capabilities which can undertake corrective actions whenever a shortcoming is identified.
3. UMC's assessment of the effectiveness of the design and execution of the internal control system is based on the Standards governing the establishment of internal control system by public companies (the Standards). The Standards are covered by the guidelines of establishing the public company's internal control system issued by the Securities and Futures Commission of the Ministry of Finance, which specify the judgement items for evaluating the effectiveness of internal control.

The internal control is divided into five components, based on the process of management control, according to the judgement items for internal control

employed by the Standards, such as: (1) Control Environment, (2) Risk Assessments, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. Each component consists of certain items, which could be referred to the Standards.

4. UMC has employed the judgement items mentioned above to evaluate the effectiveness of the design and execution of the internal control system.
5. UMC believes that the effectiveness of the design and execution of its internal control system during the above mentioned assessment period provides reasonable assurance of achieving the goals of the efficiency and effectiveness of operations, the reliability of financial reports and the compliance with applicable laws and regulations.
6. The Statement of Internal Control will be an integral part of UMC's annual report and prospectus that are open to the public, and within which any illegal acts, such as misstatement or concealment, would subject to the legal liabilities of Code 20, Code 32, Code 171 and Code 174 of the Securities Exchange Laws.
7. UMC's board of directors has approved the Statement of Internal Control (the Statement) on March 25, 2003. Nine directors attended and agreed with the content of the Statement.



UMC Chairman



UMC President

March 25, 2003

The Company was not required to engage a CPA to attest to the internal control system, therefore there is no CPA's audit report on internal control to be disclosed for 2002.

## Directors' or Supervisors' Objections on the Important Resolution of Board Meeting

None.

# Current Status and Future Improvements to Corporate Governance Practices

Item	Yes/No	Current Status	Explanation for Incompletion	Future Plan	Note
<i>Corporate governance structure and principles</i>					
Has the Company established a corporate governance mechanism which follows recognized corporate governance principles?	Yes	The Company bases its corporate governance structures and practices on Taiwan's Company Law, the Securities and Exchange Law, and their related rules and regulations. The Company's corporate governance mechanism follows recognized corporate governance principles.	–	–	–
Has the Company set up a comprehensive internal control system and effectively executed it?	Yes	The internal audit division performs regular and surprise audits on other departments in the Company, and makes proposals for improvements.	–	–	–
<i>Corporate shareholder structure and shareholders' rights</i>					
Has the Company mandated a meeting agenda and rules for shareholders' meetings?	Yes	The Company has mandated a meeting agenda and rules for shareholders' meetings, which were approved in a general shareholders' meeting.	–	–	–
Has the Company assigned a specific body to handle shareholders' recommendations or disputes?	Yes	The Company has designated a specific body and established an email address to handle shareholders' recommendations or disputes	–	–	–
Has the Company regularly monitored the list of key shareholders who have management control of the Company, or those who have ultimate control of key shareholders?	No	–	No single shareholder holds more than 10% of the Company's total outstanding shares.	–	–
Has the Company disclosed information when major shareholders change their shareholdings or use their shares as collateral?	No	–	No single shareholder holds more than 10% of the Company's total outstanding shares. However, the Company does disclose information when directors or supervisors change their shareholdings or use their shares as collateral.	–	–
Has the Company established proper risk control mechanisms and firewalls between the Company and its affiliated enterprises?	Yes	The obligations and rights between the Company and its affiliated enterprises have been clearly defined. Any transaction between the Company and its affiliated enterprises complies with related regulations.	–	–	–
<i>Structure of the board of directors and the board's independence</i>					
Are there two or more independent Company board directors?	No	–	The Company has two independent supervisors.	–	–
Is there an audit committee within the board of directors of the Company?	No	–	Based upon Taiwan's regulations, the Company has entrusted its supervisors with the same responsibilities as an audit committee.	–	–
Are the Chairman, CEO, and President of the Company different people and not immediate family members?	Yes	The Chairman, CEO, and President of the Company are different people and are not immediate family members.	–	–	–
Is there a policy to ensure board members avoid introducing topics of discussion that would advance their own vested interests?	Yes	The board is well disciplined and enforces a strict policy of separating personal and company interests amongst its members.	–	–	–

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Item	Yes/No	Current Status	Explanation for Incompletion	Future Plan	Note
<i>Duties of the board of directors and managers</i>					
Has the Company mandated a meeting agenda and rules for board of directors' meetings?	No	–	The board meetings of the Company comply with the Company's Articles of Incorporation, Taiwan Company Law, and their related regulations.	The Company may implement this if there is a need in the future.	–
Are there regulations for special committees to exercise their authority?	No	–	The current corporate structure serves the needs of the Company.	The Company may implement this if there is a need in the future.	–
Has the Company periodically evaluated the independence of its auditors?	Yes	The Company's auditor is one of the largest and best regarded in its industry. The auditor assiduously avoids conflicts of interests.	–	–	–
Has the Company purchased liability insurance for its board members?	Yes	The Company has purchased liability insurance for its board members since 2000.	–	–	–
Has the Company established any educational programs for its board members?	Yes	The Company provides information related to professional educational opportunities to all board members.	–	–	–
Has the Company established a risk management policy and standards for evaluating risk and implementing its risk management policy?	N/A	–	–	–	Applies to securities firms only.
<i>The composition, duties and independence of the supervisory body</i>					
Is there at least one independent supervisor of the Company?	Yes	The Company currently has two independent supervisors.	–	–	–
Are the supervisors of the Company able to communicate with the Company's employees, shareholders, and stakeholders?	Yes	At any time, a supervisor may individually investigate the business and financial conditions of the Company, and may ask the board of directors or executive managers to prepare a report.	–	–	–
Has the Company scheduled supervisors meetings and mandated the agenda and rules of supervisors' meetings?	No	–	Supervisors may exercise their rights at any time, and may express their opinions at board meetings.	The Company may implement this if there is a need in the future.	–
Has the Company purchased liability insurance for its supervisors?	Yes	The Company has purchased liability insurance for its supervisors since 2000.	–	–	–
Has the Company established any education programs for its supervisors?	Yes	The Company provides information related to professional educational opportunities to all supervisors.	–	–	–
<i>Stakeholders' rights and relationships</i>					
Has the Company established communication channels for its stakeholders?	Yes	The Company has designated a specific unit and established an email address to handle stakeholders' concerns.	–	–	–
Has the Company valued its social responsibilities?	Yes	The Company is actively participates in environmental protection and philanthropic activities. The Company believes it has a responsibility to give back to the community.	–	–	–
Has the Company established policies to protect consumers or its customers and regularly evaluate the policies' implementation?	N/A	–	–	–	Applies to securities firms only.

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Item	Yes/No	Current Status	Explanation for Incompletion	Future Plan	Note
<i>Information Disclosure</i>					
Has the Company designated a specific body to collect and disclose information about the Company?	Yes	The Company has designated a specific body to collect and disclose information about the Company.	–	–	–
Has the Company designated a spokesperson?	Yes	The Company has established standard procedures for an authorized spokesperson to make statements for the Company. The Company has one main spokesperson and two deputy spokespersons.	–	–	–
Has the Company established a website to disclose financial and corporate governance information?	Yes	The Company regularly publishes up-to-date detailed financial and corporate governance information on its website.	–	–	–
<i>Other disclosures</i>					
None	–	–	–	–	–

## Disclosure Committee

The primary purpose of the Disclosure Committee is to assist the Company in establishing and maintaining “disclosure controls and procedures” designed to ensure the quality of filing reports on a timely basis.

## Issuance of Private Placement Securities

None.

## Acquisition or Disposal of UMC Shares by Subsidiaries

<i>In thousand NTD, Share</i>									
Subsidiary	Paid-in Capital	Source of Capital	Holding % by the Company	Acquisition or Disposal Date	Acquisition Shares and Amount	Disposal Shares and Amount	Profit / Loss	As of Annual Report Printing Date	
								Shares	Amount
Fortune Venture Capital Corporation	3,000,000	New shares for cash	99.99	2002	2,299,999 Note 1	0	0	17,633,331	171,857
				2003	0	0	0	17,633,331	171,857
Hsun Chieh Investment Co., Ltd.	14,177,110	Merger	99.97	2002	63,136,363 Note 2	0	0	484,045,453	29,592,654
				2003	0	0	0	484,045,453	29,592,654

**Note** (1) 2,299,999 shares of stock were distributed as a dividend in 2002. (2) 63,136,363 shares of stock were distributed as a dividend in 2002. (3) Data represented for 2003 was gathered up until March 25, 2003. (4) None of the above companies pledged UMC shares as collateral. (5) The Company did not provide endorsements or guarantees to these subsidiaries. (6) The Company did not provide loans to these subsidiaries.

## Major Resolutions of Shareholders' Meeting and Board's Meeting

### Discussions and major resolutions of the 2002 regular shareholders' meeting

- 1) To approve the policy of election on the Company's directors and supervisors. Resolution: After Chairman's request, all attending shareholders unanimously agreed.
- 2) To approve allowing the Company's director, Robert H.C. Tsao, and five other directors serve as directors of the companies that are in the same or similar industry as UMC. Resolution: After Chairman's request, all attending shareholders unanimously agreed.
- 3) To approve reinvesting as capital NT\$21,391,502,300 of the unappropriated earnings in and prior to the year 2000 in order to accommodate fab expansion and investment plans. Resolution: After Chairman's request, all attending shareholders unanimously agreed.
- 4) It is proposed that Articles 2, 5 to 10, 12, 16-1, 19 to 22 and 25 of the Company's Articles of Incorporation be amended. Resolution: Except for the following two items stated below, requested by Chairman and agreed unanimously from all attending shareholders, after Chairman's request, all attending shareholders unanimously agreed.

Article 5 Item 2 is amended as follows: "Within the authorized share capital stated in previous item, depending upon the business needs of the Company, the board of directors is authorized to issue corporate bonds with equity warrants in installments of no more than NT\$15 billion, which represents one thousand five hundred million shares at a par value of NT\$10 per share. In addition, depending upon the business needs of the Company, the board of directors is authorized to issue stock warrants in installments of no more than NT\$20 billion, which represents two billion shares at a par value of NT\$10 per share."

Article 5 Item 1 of the Company's Articles of Incorporation authorizes that within the authorized share capital and depending on the business needs of the Company, the board of directors is authorized to issue domestic and overseas convertible bonds and corporate bonds with equity warrants in installments of no more than NT\$15 billion, which represents one thousand five hundred million shares, at a par value of NT\$10 per share.

### Discussions and major resolutions of board's meeting

- 1) To propose launching the fourth round of the share buy-back program, which will begin discus-

sion of buying back Company shares on the stock exchange, issuing the transfer rules for the shares to be bought back and a statement clarifying that the program will not affect the Company's capital maintenance. Resolution: All attending directors unanimously agreed.

- 2) To approve amending the Company's loan procedures. Resolution: All attending directors unanimously agreed.
- 3) To approve the policy of election on the Company's directors and supervisors. Resolution: All attending directors unanimously agreed.
- 4) To approve proposing at the shareholders' meeting to allow the Company's director Tsao, and five other directors serve as directors of other companies that are in the same or similar industry as UMC. Resolution: All attending directors unanimously agreed.
- 5) To approve proposing at the shareholders' meeting to transfer from the capital reserve account to the retained earnings account the net gain after tax from disposal of assets. Resolution: All attending directors unanimously agreed.
- 6) To approve the Company's 2001 business report and financial statement. Resolution: All attending directors unanimously agreed.
- 7) To approve the Company's 2001 retained earnings distribution chart. Resolution: All attending directors unanimously agreed.
- 8) To approve capitalizing NT\$21,391,502,300 of unappropriated retained earnings from 2000 and earlier to paid-in capital for the purpose of investment and expansion. Resolution: All attending directors unanimously agreed.
- 9) To approve amending Articles No.2, 5-10, 12, 16-1, 19-22, and 25 of the company's Articles of Incorporation. Resolution: All attending directors unanimously agreed.
- 10) To approve convening the shareholders' meeting on June 3, 2002 in the Hsinchu Science Park. The shareholders' meeting agenda will be distributed before the meeting on that date. Resolution: All attending directors unanimously agreed.
- 11) To approve selling common stock held in AU Optronics Corp., through public offering in the maximum amount of 80 million shares, in order to provide working capital. Resolution: All attending directors unanimously agreed.
- 12) To approve issuing exchangeable bonds in the amount of approximately US\$ 270 million in order to procure machinery and equipment for UMC's Fab 8D

- plant. Resolution: All attending directors unanimously agreed.
- 13) To approve issuing employee stock options totaling 1,000,000,000 units in order to motivate employees. Resolution: All attending directors unanimously agreed.
  - 14) To approve launching the fifth round of the share buy-back program on the stock exchange to accommodate the conversion of the Company's overseas convertible bonds and issuing a statement clarifying that the program will not affect the maintenance of the Company's capital. Resolution: All attending directors unanimously agreed.
  - 15) To approve the audited semi-annual financial reports of first half of 2002. Resolution: All attending directors unanimously agreed.
  - 16) To approve amending Articles 13 to 15 of the first employee stock option plan. Resolution: All attending directors unanimously agreed.
  - 17) To approve the subscription roll and quantity of the first employee stock option plan. Resolution: All attending directors unanimously agreed.
  - 18) To approve revising the statement of the Company's internal control in 2001 to supervise the internal control operation of the subsidiaries of the Company. Resolution: All attending directors unanimously agreed.
  - 19) To approve launching the sixth round of the share buy-back program on the stock exchange, and issuing the transfer rule for the shares to be bought back and a statement clarifying that the program will not affect the maintenance of the Company's capital. Resolution: All attending directors unanimously agreed.
  - 20) To approve the statement of the Company's internal control in 2002. Resolution: All attending directors unanimously agreed.
  - 21) To approve the amendment of the Company's Procedure of Acquisition or Disposal of Assets. Resolution: 1. All attending directors unanimously agreed. 2. Will forward the Procedure to supervisors and propose the Procedure to the Company's shareholders' meeting for its approval.
  - 22) To approve the amendment of the Company's "Endorsements and Guarantees Method", and change its title to "Endorsements and Guarantees Procedures". Resolution: 1. All attending directors unanimously agreed. 2. Will forward the Procedure to supervisors and propose the Procedure to the Company's shareholders' meeting for its approval.
  - 23) To approve the amendment of the Company's "Loan Procedures". Resolution: 1. All attending directors unanimously agreed. 2. Will forward the Procedure to supervisors and propose the Procedure to the Company's shareholders' meeting for its approval.
  - 24) To approve the amendment of the Company's "Financial Derivatives Transactions Procedures". Resolution: 1. All attending directors unanimously agreed. 2. Will forward the Procedure to supervisors and propose the Procedure to the Company's shareholders' meeting for its approval.
  - 25) To approve allowing the Company's director, John Hsuan serving as director of the companies that are in the same or similar industry as UMC. Resolution: All attending directors unanimously agreed.
  - 26) To approve the Company's 2002 business report and the 2002 financial statement. Resolution: 1. All attending directors unanimously agreed. 2. Will forward the business report and the financial statement to supervisors and propose the documentation to the Company's shareholders' meeting for its approval.
  - 27) To approve the Company's 2002 surplus earning distribution chart. Resolution: 1. All attending directors unanimously agreed. 2. The Company's 2002 surplus earning distribution chart was attached. 3. Will forward the chart to supervisors and propose the chart to the Company's shareholders' meeting for its approval.
  - 28) It was proposed that the Company will capitalize NT\$6,658,978,170 of unappropriated earnings from 2002 and previous years to paid-in capital for the purpose of investment and fab expansion. Resolution: 1. All attending directors unanimously agreed. 2. The surplus earning distribution chart was attached.
  - 29) To approve the amendment of Articles of Incorporation No.2 and 25. Resolution: All attending directors unanimously agreed.
  - 30) It was proposed that the Company's shareholders' meeting is to be held on June 9, 2003 in the Auditorium of Activity Center, No.2, Hsin-An Rd., Science-Based Industrial Park, Hsinchu, 300, Taiwan, ROC. The shareholders' meeting agenda containing the cause and/or subject of the meeting to be convened and the operation timeline for the Company's shareholders' meeting will be distributed on the date of the board meeting. Resolution: 1. The Company's shareholders' meeting is to be held on June 9, 2003. The meeting agenda was attached. 2. The operation timeline for the Company's shareholders' meeting was attached.

## Description of Violations/Infringement of Regulations and the Company's Response

For failing to establish a contractor coordination organization at Fab 8C and thus violating Article 18 of the Labor Safety Health Law, the Company was fined	NT\$ 60,000 by the Hsinchu Science-Based Industrial Park Administration in 2002. Since then, the Company has fully complied with the Law.
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# Other Necessary Supplements

None.

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Disclosures of events which may have significant influence on stockholders' equity or share price, in compliance with Item 2, Paragraph 2 in Article 36 of the Securities and Exchange Law of ROC

None.

# US GAAP Adjusted Financial Statements



- 157 US GAAP Financial Information
- 158 Consolidated Balance Sheets
- 160 Consolidated Statements of Income

# US GAAP Financial Information

The Company’s complete 2002 US GAAP reconciled financial statements and footnotes will be available in our full annual report, which will be filed with US SEC in the form of Form 20-F on or before June 30, 2003, and be accessible on both SEC and UMC websites.

# Consolidated Balance Sheets

December 31, 2002 and 2001

Assets	2002		2001
	NT\$	US\$	NT\$
<b>Current Assets</b>			
Cash and cash equivalents	\$80,883,408	\$2,330,934	\$76,904,068
Marketable securities, net	2,526,365	72,806	1,286,434
Notes receivable	83,001	2,392	113,681
Notes receivable - related parties	2,370	68	102,011
Accounts receivable, net	9,800,607	282,438	7,126,712
Accounts receivable - related parties, net	2,201,045	63,431	1,760,888
Other receivables	1,249,212	36,000	1,081,576
Other receivables - related parties	1,910,268	55,051	1,949,597
Inventories, net	8,440,005	243,228	5,717,203
Prepaid expenses	800,491	23,069	788,936
Deferred income tax assets	2,994,572	86,299	3,954,867
Other current assets	30,833	889	567
Subtotal	110,922,177	3,196,605	100,786,540
<b>Funds and Long-term Investments</b>			
Long-term investments	39,727,700	1,144,891	41,225,981
Prepaid long-term investments	54,486	1,570	-
Allowance for loss on decline in market value	(1,108,690)	(31,951)	(469,303)
Subtotal	38,673,496	1,114,510	40,756,678
<b>Property, Plant and Equipment</b>			
Land	1,796,419	51,770	1,854,306
Buildings	16,985,813	489,505	15,458,094
Machinery and equipment	253,898,858	7,316,970	214,105,828
Transportation equipment	63,416	1,827	52,718
Furniture and fixtures	2,424,267	69,864	1,785,562
Leased assets	47,783	1,377	-
Leasehold improvements	86,319	2,487	93,535
Total Cost	275,302,875	7,933,800	233,350,043
Less : Accumulated depreciation	(131,461,473)	(3,788,515)	(95,327,241)
Plus : Construction in progress and prepayments	23,235,508	669,611	31,098,366
Net	167,076,910	4,814,896	169,121,168
<b>Intangible Assets</b>			
Trademarks	728	21	806
Patents	18,880	544	30,805
Technological know-how	631,462	18,198	646,312
Others	34,625	998	72,063
Subtotal	685,695	19,761	749,986
<b>Other Assets</b>			
Assets leased to others	170,032	4,900	149,734
Idle assets	22,361	644	29,976
Deposits out	937,995	27,032	617,787
Deferred charges	2,879,026	82,969	2,935,595
Deferred income tax assets	5,232,928	150,805	4,371,231
Restricted deposits	-	-	264,700
Others	428,267	12,342	910,862
Subtotal	9,670,609	278,692	9,279,885
<b>Total Assets (as reported under ROC GAAP)</b>	<b>\$327,028,887</b>	<b>\$9,424,464</b>	<b>\$320,694,257</b>
<b>US GAAP Adjustments:</b>			
Change in fair value of marketable securities	18,617,474	536,526	40,325,522
Impairment loss in marketable securities	(3,654,106)	(105,306)	(3,304,929)
Equity investments	2,247,057	64,757	1,032,432
Compensation	73,338	2,113	-
Treasury stock	(8,024)	(231)	(176,221)
Goodwill upon conversion of convertible bonds	325,302	9,375	325,302
Goodwill due to acquisition	98,268,000	2,831,931	98,268,000
Income tax effect	(323,000)	(9,308)	(300,000)
Consolidation of unconsolidated subsidiaries	70,113	2,020	15,078
<b>Total Assets (as reported under US GAAP)</b>	<b>\$442,645,041</b>	<b>\$12,756,341</b>	<b>\$456,879,441</b>

The USD amounts are presented solely for the convenience of the readers and were translated at the noon buying rate of NT\$34.70 to US\$1.00 in effect on December 31, 2002 at the Federal Reserve, the central bank of the United States.



In thousands

Liabilities and Stockholders' Equity	2002		2001
	NT\$	US\$	NT\$
<b>Current Liabilities</b>			
Short-term loans	\$1,178,800	\$33,971	\$753,450
Notes payable	89,313	2,574	21,128
Accounts payable	4,420,351	127,388	2,439,892
Accounts payable - related parties	398,681	11,489	490,427
Income tax payable	284,678	8,204	219,877
Accrued expenses	4,032,474	116,210	5,678,713
Other payables	8,788,838	253,281	12,482,283
Current portion of long-term debts	7,781,598	224,253	9,720,178
Other current liabilities	2,172,680	62,613	2,718,257
Subtotal	29,147,413	839,983	34,524,205
<b>Long-term Liabilities</b>			
Bonds payable	49,441,484	1,424,827	38,450,511
Long-term loans	12,879,512	371,167	16,244,823
Subtotal	62,320,996	1,795,994	54,695,334
<b>Other Liabilities</b>			
Accrued pension liabilities	2,030,786	58,524	1,591,022
Capacity deposits and other deposits	2,698	78	865,546
Minority interests	16,023,886	461,784	15,594,468
Others	78,623	2,266	101,429
Subtotal	18,135,993	522,652	18,152,465
<b>Total Liabilities (as reported under ROC GAAP)</b>	<b>109,604,402</b>	<b>3,158,629</b>	<b>107,372,004</b>
<b>US GAAP Adjustments:</b>			
Compensation	6,365	183	—
Accrued interest for convertible bonds	490,545	14,137	—
Bifurcation of exchangeable feature from exchangeable bonds	(1,551,190)	(44,703)	—
Consolidation of unconsolidated subsidiaries	70,113	2,020	15,078
Others	(11)	—	126
<b>Total Liabilities (as adjusted under US GAAP)</b>	<b>108,620,224</b>	<b>3,130,266</b>	<b>107,387,208</b>
<b>Stockholders' Equity</b>			
<b>Capital</b>			
Common stock	154,748,456	4,459,610	133,356,954
<b>Capital Reserve</b>			
Premiums	41,729,589	1,202,582	41,729,589
Gain on disposal of property, plant and equipment	—	—	170,473
Change in equities of long-term investments	22,993,448	662,635	23,063,166
Excess from merger	17,152,454	494,307	17,152,454
<b>Retained Earnings</b>			
Legal reserve	10,686,225	307,960	10,686,225
Special reserve	631,982	18,213	2,242,284
Unappropriated earnings	8,685,847	250,313	21,223,870
<b>Adjusting Items in Stockholders' Equity</b>			
Unrealized loss on long-term investments	(1,349,248)	(38,883)	(470,931)
Cumulative translation adjustment	728,851	21,004	(160,470)
<b>Treasury Stock</b>	<b>(38,583,119)</b>	<b>(1,111,906)</b>	<b>(35,671,361)</b>
<b>Total Stockholders' Equity (as reported under ROC GAAP)</b>	<b>217,424,485</b>	<b>6,265,835</b>	<b>213,322,253</b>
<b>US GAAP Adjustments:</b>			
Compensation	66,973	1,930	—
Equity investments	967,853	27,892	(169,976)
Change in fair value of marketable securities	18,617,474	536,526	40,325,522
Impairment loss on marketable securities	(3,654,106)	(105,306)	(3,304,929)
Treasury stock	(8,024)	(231)	(176,221)
Adjustments due to change in interest of investee companies	1,604,517	46,240	1,527,584
Convertible/Exchangeable bonds	(691,394)	(19,925)	—
Embedded derivatives	1,752,039	50,491	—
Unamortized goodwill due to acquisition	98,268,000	2,831,931	98,268,000
Income tax effect	(323,000)	(9,308)	(300,000)
<b>Total Stockholders' Equity (as reported under US GAAP)</b>	<b>334,024,817</b>	<b>9,626,075</b>	<b>349,492,233</b>
<b>Total Liabilities and Stockholders' Equity (as reported under US GAAP)</b>	<b>\$442,645,041</b>	<b>\$12,756,341</b>	<b>\$456,879,441</b>

# Consolidated Statements of Income

For the years ended December 31, 2002 and 2001

In thousands

Contents	2002		2001
	NT\$	US\$	NT\$
<b>Operating Revenues</b>			
Sales revenues	\$73,803,609	\$2,126,905	\$67,611,481
Less : Sales returns and allowances	(1,418,433)	(40,877)	(711,210)
Net Sales	72,385,176	2,086,028	66,900,271
Other operating revenues	3,040,180	87,613	2,916,528
Net Operating Revenues	75,425,356	2,173,641	69,816,799
<b>Operating Costs</b>			
Cost of goods sold	(60,309,494)	(1,738,025)	(60,498,905)
Other operating costs	(2,580,669)	(74,371)	(489,353)
Operating Costs	(62,890,163)	(1,812,396)	(60,988,258)
<b>Gross Profit</b>	12,535,193	361,245	8,828,541
Unrealized Intercompany Profit	(68,558)	(1,976)	(71,419)
Realized Intercompany Profit	71,419	2,058	491,768
Net	12,538,054	361,327	9,248,890
<b>Operating Expenses</b>			
Selling expenses	(1,526,907)	(44,003)	(2,275,884)
General and administrative expenses	(3,530,756)	(101,751)	(4,425,568)
Research and development expenses	(7,368,133)	(212,338)	(8,959,691)
Subtotal	(12,425,796)	(358,092)	(15,661,143)
<b>Operating Income (Loss)</b>	112,258	3,235	(6,412,253)
<b>Non-operating Income</b>			
Interest revenue	1,644,100	47,380	2,487,485
Gain on disposal of property, plant and equipment	66,236	1,909	186,013
Gain on disposal of investments	8,473,213	244,185	2,347,219
Exchange gain	–	–	648,169
Lease income	72,782	2,097	96,525
Other income	629,033	18,128	504,889
Subtotal	10,885,364	313,699	6,270,300
<b>Non-operating Expenses</b>			
Interest expense	(1,455,374)	(41,942)	(2,525,937)
Investment loss	(931,756)	(26,852)	(1,828,341)
Loss on disposal of property, plant and equipment	(45,814)	(1,320)	(231,536)
Exchange loss	(103,703)	(2,988)	–
Inventory loss	(955,074)	(27,524)	(1,529,823)
Banking charges	(426,560)	(12,293)	(220,610)
Depreciation and loss on idle assets	(50,954)	(1,468)	(28,160)
Other losses	(12,139)	(350)	(59,677)
Subtotal	(3,981,374)	(114,737)	(6,424,084)
Income (Loss) Before Income Taxes and Minority Interests	7,016,248	202,197	(6,566,037)
Income Tax (Expense) Benefit	(270,731)	(7,802)	3,039,989
Income (Loss) Before Minority Interests	6,745,517	194,395	(3,526,048)
Minority Interests Loss	326,515	9,410	368,746
<b>Net Income (Loss) (as reported under ROC GAAP)</b>	<b>\$7,072,032</b>	<b>\$203,805</b>	<b>\$(3,157,302)</b>
<b>US GAAP Adjustments:</b>			
Compensation	(7,348,917)	(211,784)	(4,525,785)
Equity investments	(597,772)	(17,227)	(1,787,063)
Change in fair value of marketable securities	30,477	879	315,737
Impairment loss in marketable securities	(349,177)	(10,063)	(3,304,929)
Adjustments due to change in interests of investee companies	449,365	12,950	795,851
Embedded derivatives	1,752,039	50,491	–
Convertible/Exchangeable bonds	(691,394)	(19,925)	–
Consolidated goodwill amortization	–	–	(12,283,500)
Income tax effect	(23,000)	(663)	700,000
<b>Net Income (Loss) (as reported under US GAAP)</b>	<b>\$293,653</b>	<b>\$8,463</b>	<b>\$(23,246,991)</b>

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