

UNITED MICROELECTRONICS CORP

Form 6-K

November 17, 2005

1934 Act Registration No. 1-15128

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# **SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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## **FORM 6-K**

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**REPORT OF FOREIGN PRIVATE ISSUER**

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

**THE SECURITIES EXCHANGE ACT OF 1934**

Dated November 15, 2005

For the month of October 2005

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## **United Microelectronics Corporation**

(Translation of Registrant's Name into English)

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No. 3 Li Hsin Road II

Science Park

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**Hsinchu, Taiwan, R.O.C.**

(Address of Principal Executive Office)

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

Form 20-F  Form 40-F

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

Yes  No

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

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SIGNATURE

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

United Microelectronics Corporation

Date: 11/16/2005

By /s/ Chitung Liu

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Chitung Liu  
Chief Financial Officer

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**Exhibit**

<b>Exhibit</b>	<b>Description</b>
99.1	Announcement on October 17, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.2	Announcement on October 19, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.3	Announcement on October 20, 2005: To announce related materials on acquisition of machinery and equipment
99.4	Announcement on October 21, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.5	Announcement on October 25, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.6	Announcement on October 26, 2005: UMC announced its unconsolidated operating results for the third quarter of 2005
99.7	Announcement on October 27, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.8	Announcement on October 28, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.9	Announcement on October 31, 2005: Represent subsidiary Company Hsun Chieh Investment Co., Ltd to announce information on disposal of Unimicron Technology Corp. securities
99.10	Announcement on October 31, 2005: To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program
99.11	Announcement on November 2, 2005: To announce the completion of the 9th share buyback program
99.12	Announcement on November 7, 2005: To announce related materials on acquisition of machinery and equipment
99.13	Announcement on November 8, 2005: October Revenue
99.14	Announcement on November 15, 2005: 1) the trading and pledge of UMC common shares by directors, supervisors, executive officers and 10% shareholders of UMC 2) the acquisition and disposition of assets by UMC
99.15	United Microelectronics Corporation Financial Statements with Review Report of Independent Accountants for The Nine-Month Periods Ended September 30, 2005 and 2004

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/17
2. Number of shares repurchased this time: 17,000,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 338,254,595
5. Average repurchase price per share this time: NTD \$19.90
6. Cumulative number of own shares held during the repurchase period: 102,004,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 0.52%
8. Any other matters that need to be specified: None

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/19
2. Number of shares repurchased this time: 21,000,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 411,239,705
5. Average repurchase price per share this time: NTD \$ 19.58
6. Cumulative number of own shares held during the repurchase period: 123,004,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 0.62%
8. Any other matters that need to be specified: None

**To announce related materials on acquisition of machinery and equipment**

1. Name and nature of the subject matter (e.g. land located at Sublot XX, Lot XX, North District, Taichung City): Machinery and equipment
2. Date of the occurrence of the event: 2005/10/19
3. Transaction volume (e.g. XX square meters, equivalent to XX ping), unit price, total transaction price: Transaction volume: 8; average unit price: \$130,630,624 NTD; total transaction price: \$1,045,044,990 NTD
4. Counterparty to the trade and its relationship with the company (if the trading counterpart is a natural person and is not an actual related party of the Company, the name of the trading counterpart is not required to be disclosed): APPLIED MATERIALS ASIA PACIFIC LTD; non-related party transaction
5. Where the counterpart to the trade is an actual related party, a public announcement shall also include the reason for choosing the related party as trading counterpart and the identity of the previous owner (including its relationship with the company and the trading counterpart), price of transfer and the date of acquisition: Not applicable
6. Where a person who owned the property within the past five years has been an actual related person of the company, a public announcement shall also include the dates and prices of acquisition and disposal by the related person and the person's relationship to the company at those times: Not applicable
7. Anticipated loss or profit from the disposal (not applicable in cases of acquisition of assets) (where originally deferred, the status or recognition shall be stated and explained): Not applicable
8. Terms of delivery or payment (including payment period and monetary amount): 1) 90% paid upon shipment; 10% paid after acceptance  
2) 100% paid after acceptance
9. The manner of deciding on this transaction (such as tender invitation, price comparison, or price negotiation), the reference basis for the decision on price and the decision-making department: transaction: price negotiation; the reference basis for the decision on price: market price. The decision-making department: the Selection Meeting
10. Name of the professional appraisal institution and its appraisal amount: Not applicable
11. Reason for any significant discrepancy with the transaction amount, and opinion of the certifying CPA: Not applicable
12. Is the appraisal report price a limited price or specific price? Not applicable
13. Has an appraisal report not yet been obtained? Not applicable

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14. Reason an appraisal report has not yet been obtained: Not applicable
15. Broker and broker's fee: Not applicable
16. Concrete purpose or use of the acquisition or disposition: To produce integrated circuits
17. Do the directors have any objection to the present transaction? No
18. Any other matters that need to be specified: None



**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/21
2. Number of shares repurchased this time: 22,857,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 437,815,972
5. Average repurchase price per share this time: NTD \$ 19.15
6. Cumulative number of own shares held during the repurchase period: 145,861,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 0.74%
8. Any other matters that need to be specified: None

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/25
2. Number of shares repurchased this time: 20,173,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 383,068,168
5. Average repurchase price per share this time: NTD \$ 18.99
6. Cumulative number of own shares held during the repurchase period: 166,034,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 0.84%
8. Any other matters that need to be specified: None

**UMC announced its unconsolidated operating results for the third quarter of 2005**

1. Date of the investor/press conference: 2005/10/26
2. Location of the investor/press conference: B3 Yong Le Room, The Westin Taipei, 133 Nanking East Road, Sec. 3, Taipei
3. Financial and business related information:

United Microelectronics Corporation (NYSE: UMC; TSE: 2303) ( UMC or the Company ) today announced its unconsolidated operating results for the third quarter of 2005. Year-over-year revenue decreased by 31.8 % to NT\$23.58 billion from NT\$34.58 billion, and a 21.3% QoQ increase from NT\$19.44 billion in 2Q05. The net income is NT\$2.17 billion, increase 624.1% from NT\$0.3 billion in 2Q05. The EPS for the third quarter in 2005 was NT\$0.12.

Wafer shipments in the third quarter were 741 thousand 8-inch equivalent wafers, which increased 17.6% compared to 2Q05. The utilization rate for the quarter was 78%, which was higher than the approximately 75% level that we expected in our previous guidance. The blended average selling price (ASP) rose 2% in US dollar terms during 3Q05 due to increasing demand for advanced process technologies. The percentage of revenue from advanced 90nm business increased to 14%, compared to 9% in 2Q05. Revenue from the communication segment increased to 47% of total revenue in 3Q05.

The third quarter of 2005 marked a fairly significant turnaround for our operations, said UMC CEO, Dr. Jackson Hu. We noticed demand increasing across a wide range of applications, including wireless and wired communications, PC chipsets and LCD drivers in the computer segment, and DVD and MP3 products in the consumer segment. These positive developments all set a new stage for growth that started towards the end of the second quarter and continued into the third quarter. As a result, our blended ASP grew 2% and wafer shipments increased 17.6% sequentially to 741 thousand 8-inch equivalent wafers in Q3.

Dr. Hu continued, We are seeing strong demand for our 90nm technologies and we are building momentum in our development of new technologies at the leading edge. It will be exciting to watch as these 90nm products begin spreading within the mainstream markets in the coming months. UMC led all foundries in 90nm wafer shipments in July 2005 with over 10,000 shipments and by the end of August, UMC shipped over 100,000 90nm wafers in total. We believe this is a solid indication of the production maturity and readiness of UMC's 90nm process for every major advanced application. We are currently producing 90nm chips at two 300mm fabs and one 200mm fab, and now have over 20 different products that are currently being manufactured. In addition to UMC's standard 90nm device offering, customers are also utilizing either the company's 90nm low-power or high-speed device options, depending upon their product application.

I would also like to note that we have already delivered working 65nm product samples to customers. This not only demonstrates that this technology is a reality at UMC today, but is also a testament to our commitment to maintaining our leadership in the industry at the leading edge. About 70% of UMC's revenue comes from our fabless customers, and their dependency on System-on-Chip (SoC) solutions is increasing as process geometries shrink. In response to this, in the past two years we have particularly focused on enhancing our capabilities in system and architecture knowledge, Electronic Design Automation (EDA) methodology, and tape-out services, and expanding our IP portfolio. This intense focus on delivering premium value-added services to our customers has been at the center of our SoC Solution Foundry strategy and has been a primary factor in helping to drive our success with leading edge 90nm, and now 65nm technologies. As the semiconductor industry continues to evolve, we believe that this strategy will help lead UMC into a long-term phase of sustainable success and profitability.

4. Any other matters that need to be specified: None

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/27
2. Number of shares repurchased this time: 17,900,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 314,121,914
5. Average repurchase price per share this time: NTD \$ 17.55
6. Cumulative number of own shares held during the repurchase period: 183,934,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 0.93%
8. Any other matters that need to be specified: None

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/28
2. Number of shares repurchased this time: 25,000,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 419,322,547
5. Average repurchase price per share this time: NTD \$ 16.77
6. Cumulative number of own shares held during the repurchase period: 208,934,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 1.06%
8. Any other matters that need to be specified: None

**Represent subsidiary Company Hsun Chieh Investment Co., Ltd to announce information on disposal of Unimicron Technology Corp. securities**

1. Name of the securities: Common shares of Unimicron Technology Corp.
2. Trading date: 2005/10/15~2005/10/31
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 14,400,000 shares; average unit price: \$23.86 NTD; total amount: \$343,563,750 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): Gain of \$ 70,462,967 NTD
5. Relationship with the underlying company of the trade: None
6. Current cumulative volume, amount, and shareholding percentage of holdings of the security being traded (including the current trade) and status of any restriction of rights (e.g. pledges): cumulative volume: 24,145,265 shares; amount: 457,922,971 NTD; percentage of holdings: 2.52%; status of restriction of rights: no
7. Current ratio of long or short term securities investment (including the current trade) to the total assets and shareholder's equity as shown in the most recent financial statement and the operational capital as shown in the most recent financial statement: ratio of total assets: 69.29%; ratio of shareholder's equity: 69.46%; the operational capital as shown in the most recent financial statement: \$4,489,095 thousand NTD
8. Concrete purpose/objective of the acquisition or disposal: Financing operation
9. Do the directors have any objections to the present transaction? None
10. Any other matters that need to be specified: None

**To announce related materials on the Company has spend accumulately more than NTD 300,000,000 on the shares buyback program**

1. Date the cumulative number of shares repurchased in the current repurchase accounted for 2 percent or more of the shares issued by the company or the cumulative value of shares repurchased amounted to NT\$300 million or more: 2005/10/31
2. Number of shares repurchased this time: 40,000,000 shares
3. Type of shares repurchased this time: Common shares
4. Total monetary amount of shares repurchased this time: NTD \$ 703,534,579
5. Average repurchase price per share this time: NTD \$ 17.59
6. Cumulative number of own shares held during the repurchase period: 248,934,000 shares
7. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company s issued shares: 1.26%
8. Any other matters that need to be specified: None



**To announce the completion of the 9th share buyback program**

1. Originally determined ceiling on total monetary amount of the share repurchase: 83,847,040 thousand NTD
2. Original scheduled period for the repurchase: 2005/09/30~2005/11/29
3. Originally determined number of shares to be repurchased: 250,000,000
4. Originally determined type of shares to be repurchased: Common shares
5. Originally determined repurchase price range: NTD \$30.65~\$14.00 per share
6. Date of expiry of the repurchase period or completion of the repurchase: 2005/11/02
7. Number of shares repurchased: 250,000,000 shares
8. Type of shares repurchased: Common shares
9. Total monetary amount of shares repurchased: NTD \$4,804,867,505
10. Average repurchase price per share: NTD 19.22 per share
11. Cumulative number of own shares held: 942,067,000 shares
12. Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares: 4.77%
13. Reason for non-completion of the share repurchase at expiry of the repurchase period: N/A
14. Any other matters that need to be specified: None

**To announce related materials on acquisition of machinery and equipment**

1. Name and nature of the subject matter (e.g. land located at Sublot XX, Lot XX, North District, Taichung City): Machinery and equipment
2. Date of the occurrence of the event: 2005/10/04
3. Transaction volume (e.g. XX square meters, equivalent to XX ping), unit price, total transaction price: Transaction volume: 1; average unit price: \$1,165,268,860 NTD; total transaction price: \$1,165,268,860 NTD
4. Counterparty to the trade and its relationship with the company (if the trading counterpart is a natural person and is not an actual related party of the Company, the name of the trading counterpart is not required to be disclosed): ASML HONG KONG LTD. C/O; non-related party transaction
5. Where the counterpart to the trade is an actual related party, a public announcement shall also include the reason for choosing the related party as trading counterpart and the identity of the previous owner (including its relationship with the company and the trading counterpart), price of transfer and the date of acquisition: Not applicable
6. Where a person who owned the property within the past five years has been an actual related person of the company, a public announcement shall also include the dates and prices of acquisition and disposal by the related person and the person's relationship to the company at those times: Not applicable
7. Anticipated loss or profit from the disposal (not applicable in cases of acquisition of assets) (where originally deferred, the status or recognition shall be stated and explained): Not applicable
8. Terms of delivery or payment (including payment period and monetary amount): 1) 90% paid upon shipment; 10% paid after acceptance  
2) 100% paid after acceptance
9. The manner of deciding on this transaction (such as tender invitation, price comparison, or price negotiation), the reference basis for the decision on price and the decision-making department: transaction: price negotiation; the reference basis for the decision on price: market price. The decision-making department: the Selection Meeting
10. Name of the professional appraisal institution and its appraisal amount: Not applicable
11. Reason for any significant discrepancy with the transaction amount, and opinion of the certifying CPA: Not applicable
12. Is the appraisal report price a limited price or specific price? Not applicable
13. Has an appraisal report not yet been obtained? Not applicable

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14. Reason an appraisal report has not yet been obtained: Not applicable
15. Broker and broker's fee: Not applicable
16. Concrete purpose or use of the acquisition or disposition: To produce integrated circuits
17. Do the directors have any objection to the present transaction? No
18. Any other matters that need to be specified: None

## United Microelectronics Corporation

November 8, 2005

This is to report the changes or status of 1) Sales volume 2) Funds lent to other parties 3) Endorsements and guarantees 4) Financial derivative transactions for the period of October 2005

## 1) Sales volume (NT\$ Thousand)

<u>Period</u>	<u>Items</u>	<u>2005</u>	<u>2004</u>	<u>Changes</u>	<u>%</u>
October	Invoice amount	9,351,764	10,350,191	- 998,427	-9.65%
2005	Invoice amount	70,988,870	101,985,592	- 30,996,722	-30.39%
October	Net sales	9,037,949	10,064,217	- 1,026,268	-10.20%
2005	Net sales	72,345,371	99,147,283	- 26,801,912	-27.03%

## 2) Funds lent to other parties (NT\$ Thousand)

<u>Balance as of period end</u>	<u>This Month</u>	<u>Last Month</u>	<u>Limit of lending</u>
UMC	0	0	39,531,718
UMC s subsidiaries	23,226	22,936	565,680

## 3) Endorsements and guarantees (NT\$ Thousand)

	<u>Change in This Month</u>	<u>Balance as of period end</u>	<u>Limit of endorsements</u>
UMC	0	0	79,063,435
UMC s subsidiaries	0	0	8,054,240
UMC endorses for subsidiaries		0	0
UMC s subsidiaries endorse for UMC		0	0
UMC endorses for PRC companies		0	0
UMC s subsidiaries endorse for PRC companies		0	0

## 4) Financial derivatives transactions

## a Hedging purpose : NT\$ thousand

Financial instrumentsForwardsInterests SWAP

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<i>Deposit Paid</i>	0	0
<i>Royalty Income (Paid)</i>	0	0
<i>Unwritten-off Trading Contracts</i>	0	15,000,000
<i>Net Profit from Fair Value</i>	0	(733,454)
<i>Written-off Trading Contracts</i>	35,413,823	0
<i>Realized profit (loss)</i>	(415,155)	0

b Trading purpose : NT\$ thousand

<i>Financial instruments</i>	<i>Credit-linked Deposits</i>
<i>Deposit Paid</i>	0
<i>Unwritten-off Trading Contracts</i>	1,051,572
<i>Net Profit from Market Value</i>	8,582
<i>Written-off Trading Contracts</i>	651,345
<i>Realized profit (loss)</i>	31,993

**United Microelectronics Corporation**

For the month of October, 2005

This is to report 1) the trading of directors, supervisors, executive officers and 10% shareholders of United Microelectronics Corporation ( UMC ) (NYSE: UMC) 2) the pledge and clear of pledge of UMC common shares by directors, supervisors, executive officers and 10% shareholders of UMC 3) the acquisition assets by UMC 4) the disposition of assets by UMC for the month of October, 2005.

- 1) The trading of directors, supervisors, executive officers and 10% shareholders

<i>Title</i>	<i>Name</i>	<i>Number of shares</i>	<i>Number of shares</i>	<i>Changes</i>
		<i>held as of</i>	<i>held as of</i>	
		<i>September 30, 2005</i>	<i>October 31, 2005</i>	

- 2) The pledge and clear of pledge of UMC common shares by directors, supervisors, executive officers and 10% shareholders :

<i>Title</i>	<i>Name</i>	<i>Number of shares</i>	<i>Number of shares</i>	<i>Changes</i>
		<i>pledge as of</i>	<i>pledge as of</i>	
		<i>September 30, 2004</i>	<i>October 31, 2005</i>	
Vice President	Wen-Yang Chen	501,000	0	(501,000)

- 3) The acquisition assets (NT\$ Thousand)

<i>Description of assets</i>	<i>October</i>	<i>2005</i>
Semiconductor Manufacturing Equipment	1,684,664	11,215,223
Fixed assets	0	208,641

- 4) The disposition of assets (NT\$ Thousand)

<i>Description of assets</i>	<i>October</i>	<i>2005</i>
Semiconductor Manufacturing Equipment	22,970	103,138
Fixed assets	0	0

**UNITED MICROELECTRONICS CORPORATION**

**FINANCIAL STATEMENTS**

**WITH REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE NINE-MONTH PERIODS ENDED**

**SEPTEMBER 30, 2005 AND 2004**

**Address: No. 3 Li-Hsin Road II, Hsinchu Science Park, Hsinchu City, Taiwan, R.O.C.**

Telephone: 886-3-578-2258

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

**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**English Translation of a Report Originally Issued in Chinese**

To the Board of Directors and Shareholders of

United Microelectronics Corporation

We have reviewed the accompanying balance sheets of United Microelectronics Corporation as of September 30, 2005 and 2004, and the related statements of income and cash flows for the nine-month periods ended September 30, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to issue the review reports based on our reviews. As described in Note 4(7) to the financial statements, certain long-term investments were accounted for under the equity method based on financial statements as of September 30, 2005 and 2004 of the investees, which were reviewed by other auditors. Our review insofar as it relates to the investment income amounting to NT\$474 million and NT\$452 million for the nine-month periods ended September 30, 2005 and 2004, respectively, and the related long-term investment balances of NT\$4,479 million and NT\$4,109 million as of September 30, 2005 and 2004, respectively, is based solely on the reports of the other auditors.

We conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statement taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the reports of other auditors, we are not aware of any material modifications or adjustments that should have been made to the financial statements referred to above in order for them to be in conformity of "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

As described in Note 3 to the financial statements, effective from January 1, 2005, United Microelectronics Corporation has adopted the R.O.C. Statement of Financial Accounting Standards No.35, "Accounting for Asset Impairment" to account for the impairment of its assets.

October 14, 2005

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.

English Translation of Financial Statements Originally Issued in Chinese

## UNITED MICROELECTRONICS CORPORATION

## UNAUDITED BALANCE SHEETS

September 30, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	Notes	As of September 30,	
		2005	2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	2, 4(1)	\$ 71,791,902	\$ 85,270,452
Marketable securities, net	2, 4(2)	3,124,298	3,031,120
Notes receivable	4(3)	2,787	12,001
Notes receivable - related parties	5	56,463	41,996
Accounts receivable, net	2, 4(4)	4,563,070	5,229,855
Accounts receivable - related parties, net	2, 5	8,749,683	12,132,140
Other receivables	2	664,725	626,727
Other financial assets, current	2, 4(5), 10	66,220	189,613
Inventories, net	2, 4(6)	9,381,141	9,029,345
Prepaid expenses		591,088	397,065
Deferred income tax assets, current	2, 4(18)	3,519,989	3,886,965
<b>Total current assets</b>		<b>102,511,366</b>	<b>119,847,279</b>
<b>Funds and long-term investments</b>			
	2, 4(7)		
Long-term investments accounted for under the equity method		37,245,154	65,448,677
Long-term investments accounted for under the cost method		7,800,725	7,419,465
<b>Total funds and long-term investments</b>		<b>45,045,879</b>	<b>72,868,142</b>
<b>Other financial assets, noncurrent</b>			
	2, 4(5), 10	986,176	1,536,750
<b>Property, plant and equipment</b>			
	2, 4(8), 6, 7		
Land		1,132,576	1,132,576
Buildings		16,001,974	13,132,532
Machinery and equipment		360,899,914	293,935,079
Transportation equipment		88,498	80,546
Furniture and fixtures		2,182,011	1,952,955
Leased assets			47,783
<b>Total cost</b>		<b>380,304,973</b>	<b>310,281,471</b>
Less : Accumulated depreciation		(240,517,566)	(192,147,761)
Add : Construction in progress and prepayments		13,810,913	17,796,639
<b>Property, plant and equipment, net</b>		<b>153,598,320</b>	<b>135,930,349</b>
<b>Intangible assets</b>			
Goodwill	2, 4(20)	3,957,059	1,235,904

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Technological know-how	2	391,112	
<b>Total intangible assets</b>		<u>4,348,171</u>	<u>1,235,904</u>
<b>Other assets</b>			
Deferred charges	2	1,958,664	1,622,916
Deferred income tax assets, noncurrent	2, 4(18)	3,815,915	3,448,939
Other assets - others	2, 4(9), 6	2,061,131	2,181,479
<b>Total other assets</b>		<u>7,835,710</u>	<u>7,253,334</u>
<b>Total assets</b>		<u>\$ 314,325,622</u>	<u>\$ 338,671,758</u>
<b>Liabilities and Stockholders Equity</b>			
<b>Current liabilities</b>			
Short-term loans	4(10)	\$ 830,250	\$
Accounts payable		4,505,476	5,091,490
Accounts payable - related parties	5		1,339,709
Income tax payable	2	60,422	60,389
Accrued expenses		6,431,701	6,629,800
Payable on equipment		3,747,203	9,231,986
Other payables	10	84,406	
Current portion of long-term interest-bearing liabilities	4(11), 5, 6	5,250,000	8,390,003
Other current liabilities	7	904,320	1,281,266
<b>Total current liabilities</b>		<u>21,813,778</u>	<u>32,024,643</u>
<b>Long-term interest-bearing liabilities</b>			
Bonds payable	2, 4(11)	28,500,927	33,829,239
<b>Total long-term interest-bearing liabilities</b>		<u>28,500,927</u>	<u>33,829,239</u>
<b>Other liabilities</b>			
Accrued pension liabilities	2, 4(12)	3,098,527	2,599,798
Deposits-in		20,826	16,516
Deferred credits - intercompany profits	2	9,806	3,796,523
Other liabilities - others		629,723	
<b>Total other liabilities</b>		<u>3,758,882</u>	<u>6,412,837</u>
<b>Total liabilities</b>		<u>54,073,587</u>	<u>72,266,719</u>
<b>Capital</b>			
Common stock	2, 4(13), 4(14), 4(20)	197,658,588	177,478,439
Capital collected in advance		5,305	
<b>Capital reserve</b>	2, 4(13), 4(14), 4(20)		
Premiums		64,411,138	63,783,209
Change in equities of long-term investments		20,720,089	20,835,864
<b>Retained earnings</b>	4(16)		
Legal reserve		15,996,839	12,812,501
Special reserve		1,744,171	90,871
Unappropriated earnings		5,787,840	28,164,724
<b>Adjusting items in stockholders equity</b>	2		
Unrealized loss on long-term investments		(9,458,866)	(9,657,023)
Cumulative translation adjustment		469,429	581,917
<b>Treasury stock</b>	2, 4(15)	(37,082,498)	(27,685,463)
<b>Total stockholders equity</b>		<u>260,252,035</u>	<u>266,405,039</u>

<b>Total liabilities and stockholders equity</b>	<u>\$ 314,325,622</u>	<u>\$ 338,671,758</u>
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The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese

## UNITED MICROELECTRONICS CORPORATION

## UNAUDITED STATEMENTS OF INCOME

For the nine-month periods ended September 30, 2005 and 2004

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

	Notes	For the nine-month period ended September 30,	
		2005	2004
<b>Operating revenues</b>	2, 5		
Sales revenues		\$ 63,359,239	\$ 88,609,157
Less : Sales returns and discounts		(1,329,963)	(1,941,950)
Net sales		62,029,276	86,667,207
Other operating revenues		1,278,147	2,415,859
<b>Net operating revenues</b>		<b>63,307,423</b>	<b>89,083,066</b>
<b>Operating costs</b>	4(17)		
Cost of goods sold	5	(56,628,264)	(58,040,665)
Other operating costs		(503,115)	(1,588,974)
<b>Operating costs</b>		<b>(57,131,379)</b>	<b>(59,629,639)</b>
<b>Gross profit</b>		<b>6,176,044</b>	<b>29,453,427</b>
Unrealized intercompany profit	2	(107,954)	(227,535)
Realized intercompany profit	2	154,417	106,702
<b>Gross profit-net</b>		<b>6,222,507</b>	<b>29,332,594</b>
<b>Operating expenses</b>	4(17), 5		
Sales and marketing expenses		(1,668,483)	(1,538,748)
General and administrative expenses		(2,175,558)	(1,804,436)
Research and development expenses		(5,975,207)	(4,373,421)
Subtotal		(9,819,248)	(7,716,605)
<b>Operating (loss) income</b>		<b>(3,596,741)</b>	<b>21,615,989</b>
<b>Non-operating income</b>			
Interest revenue		643,405	668,460
Dividend income		764,728	1,031,297
Gain on disposal of property, plant and equipment	2	53,326	130,862
Gain on sales of investments	2, 4(11)	8,572,950	10,942,967
Exchange gain, net	2, 10	212,008	
Gain on recovery of market value of inventory	2	548,230	
Other income		530,176	240,311

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Subtotal		11,324,823	13,013,897
<b>Non-operating expenses</b>			
Interest expense	4(8), 5	(653,562)	(972,081)
Investment loss accounted for under the equity method, net	2, 4(7)	(2,761,674)	(544,418)
Other investment loss	2		(84,968)
Loss on disposal of property, plant and equipment	2	(64,799)	(216,900)
Exchange loss, net	2, 10		(327,622)
Loss on decline in market value and obsolescence of inventories	2		(457,477)
Financial expenses		(212,911)	(285,997)
Other losses	2, 4(11)	(51,723)	(1,196,855)
Subtotal		(3,744,669)	(4,086,318)
<b>Income before income tax</b>		3,983,413	30,543,568
<b>Income tax expense</b>	2, 4(18)	(662)	(33,793)
<b>Net income</b>		\$ 3,982,751	\$ 30,509,775
<b>Earnings per share-basic (NTD)</b>			
Income before income tax	2, 4(19)	\$ 0.22	\$ 1.63
Net income		\$ 0.22	\$ 1.63
<b>Earnings per share-diluted (NTD)</b>			
Income before income tax	2, 4(19)	\$ 0.21	\$ 1.60
Net income		\$ 0.21	\$ 1.60
<b>Pro forma information on earnings as if subsidiaries investment in the Company is not treated as treasury stock</b>			
Net income	2, 4(19)	\$ 3,982,751	\$ 30,509,775
Earnings per share-basic (NTD)		\$ 0.21	\$ 1.58
Earnings per share-diluted (NTD)		\$ 0.20	\$ 1.55

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

English Translation of Financial Statements Originally Issued in Chinese

## UNITED MICROELECTRONICS CORPORATION

## UNAUDITED STATEMENTS OF CASH FLOWS

For the nine-month periods ended September 30, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	For the nine-month period ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 3,982,751	\$ 30,509,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	34,064,535	28,412,720
Amortization	1,721,927	823,114
Bad debt expenses (reversal)	(120,266)	45,210
(Gain) loss on (recovery) decline in market value and obsolescence of inventories	(548,230)	457,477
Cash dividends received under the equity method	724,511	439,514
Investment loss accounted for under the equity method	2,761,674	544,418
Other loss on long-term investments		84,968
Write-off of deferred charges		269,325
Gain on sales of investments	(8,572,950)	(10,942,967)
Loss on disposal of property, plant and equipment	11,473	86,038
Exchange loss (gain) on long term liabilities	143,898	(72,890)
Amortization of bond premiums		(10,050)
Loss on reacquisition of bonds		59
Amortization of deferred income	(55,974)	
Changes in assets and liabilities:		
Notes and accounts receivable	(1,677,615)	(3,537,047)
Other receivables	(111,614)	(69,820)
Inventories	324,578	(1,424,469)
Prepaid expenses	(275,113)	335,899
Other financial assets	156,494	108,476
Accounts payable	(232,167)	1,970,394
Income tax payable		10,696
Accrued expenses	(2,194,935)	1,809,150
Other current liabilities	(64,207)	119,827
Compensation interest payable		(126,111)
Capacity deposits	(171,699)	(5,937)
Accrued pension liabilities	408,017	320,445
Other liabilities - others	229,690	
Net cash provided by operating activities	30,504,778	50,158,214
Cash flows from investing activities:		
Increase in marketable securities, net	(73,383)	(1,437,768)
Cash proceeds from merger	943,862	70,383
Decrease in other financial assets, net	630,928	1,481,004
Acquisition of long-term investments	(3,367,549)	(8,180,364)
Proceeds from sales of long-term investments	9,617,646	4,278,373
Proceeds from liquidation of long-term investments	95,090	
Acquisition of property, plant and equipment	(11,379,767)	(32,246,251)

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Proceeds from disposal of property, plant and equipment	120,175	267,430
Increase in deferred charges	(1,058,709)	(686,510)
(Increase) decrease in other assets, net	(114,149)	985,755
Increase in other receivables, net	(5,137,760)	
	<u>                    </u>	<u>                    </u>
Net cash used in investing activities	(9,723,616)	(35,467,948)
	<u>                    </u>	<u>                    </u>



English Translation of Financial Statements Originally Issued in Chinese

## UNITED MICROELECTRONICS CORPORATION

## UNAUDITED STATEMENTS OF CASH FLOWS

For the nine-month periods ended September 30, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

(continued)

	For the nine-month period ended September 30,	
	2005	2004
<b>Cash flows from financing activities:</b>		
Decrease in short-term loans, net	\$ (1,074,150)	\$ (400,000)
Repayment of long-term loans	(16,153,714)	(5,866,537)
Redemption of bonds	(2,820,004)	(10,766,941)
Reacquisition of bonds		(41,392)
Remuneration paid to directors and supervisors	(27,005)	(12,618)
Increase (decrease) in deposits-in, net	(1,258)	137
Cash dividends	(1,758,736)	
Purchase of treasury stock	(11,575,235)	(5,198,020)
Exercise of employees' stock options	1,133,330	
<b>Net cash used in financing activities</b>	<b>(32,276,772)</b>	<b>(22,285,371)</b>
<b>Currency exchange</b>	<b>(59,817)</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(11,555,427)</b>	<b>(7,595,105)</b>
Cash and cash equivalents at beginning of period	83,347,329	92,865,557
<b>Cash and cash equivalents at end of period</b>	<b>\$ 71,791,902</b>	<b>\$ 85,270,452</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 1,144,137	\$ 1,498,314
Cash paid (returned) for income tax	\$ (11,836)	\$ 51,375
<b>Investing activities partially paid by cash:</b>		
Acquisition of property, plant and equipment	\$ 8,849,034	\$ 37,335,622
Add: Payable at beginning of period	4,704,299	4,057,940
Payable transferred in from the Branch at beginning of period	1,573,637	84,675
Less: Payable at end of period	(3,747,203)	(9,231,986)
<b>Cash paid for acquiring property, plant and equipment</b>	<b>\$ 11,379,767</b>	<b>\$ 32,246,251</b>
<b>Investing and financing activities not affecting cash flows:</b>		
Principal amount of exchangeable bonds exchanged by bondholders	\$	\$ 11,614,141



UNITED MICROELECTRONICS CORPORATION

NOTES TO UNAUDITED FINANCIAL STATEMENTS

September 30, 2005 and 2004

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

1. HISTORY AND ORGANIZATION

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

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

Based on the resolution of the board of directors' meeting on August 26, 2004, UMCi had transferred its businesses, operations, and assets to newly incorporated Singapore branch ( the Branch ) since April 1, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Summary of significant accounting policies is as follows:

Use of Estimates

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

#### Foreign Currency Transactions

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

#### Translation of Foreign Currency Financial Statements

The financial statements of the Branch 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. The cumulative translation effects from the Branch 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, including commercial paper with original maturities of three months or less.

#### Marketable Securities

Marketable securities are recorded at cost at acquisition and are stated at the lower of aggregate cost or market value on the balance sheet date. Cash dividends are recognized as dividend income at the point of receipt. Costs of bond funds, equity funds and short-term notes are identified specifically while other marketable securities are determined on the weighted-average method. The market values of listed securities, convertible bonds and closed-end funds are determined by the average closing price during the last month of the fiscal year. The market value of open-end funds is determined by the net asset value at the balance sheet date. The amount for which the aggregate cost exceeds the market value is reported as a loss in the current period. If recovery of the market value occurs in subsequent periods, a gain will be recognized to the extent that the market value does not exceed the original aggregate cost of the investment.

#### Allowance for Doubtful Accounts

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

Inventories

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

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 5 years.

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

Investment income or loss from investments in both listed and unlisted investees is accounted for under the equity method provided that the Company owns at least 20% of the outstanding voting rights 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 5 years.

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

Unrealized intercompany gains and losses arising from downstream transactions with investees accounted for under the equity method are eliminated in proportion to the Company's ownership percentage while those from transactions with majority-owned (above 50%) subsidiaries are eliminated entirely.

Unrealized intercompany gains and losses arising from upstream transactions with investees accounted for under the equity method are eliminated in proportion to the Company's ownership percentage. Unrealized intercompany gains and losses arising from transactions between investees accounted for under the equity method are eliminated in proportion to the multiplication of the Company's ownership percentages; while those arising from transactions between majority-owned subsidiaries are eliminated in proportion to the Company's ownership percentage in the subsidiary.

In compliance with the Statements of Financial Accounting Standards of the Republic of China (R.O.C. SFAS) No.23 Interim Financial Reporting and Disclosures, gain or losses arising from investments accounted for under the equity method have been recognized as of September 30, 2005, in proportion to the Company's share ownership in the investees.

#### Property, Plant and Equipment

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

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

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

#### Intangible Assets

Patents are stated at cost and amortized over their estimated economic life using the straight-line method. Goodwill arising from the merger is amortized using the straight-line method over 15 years. As a result of the reorganization of UMCi Ltd., the difference between the acquisition cost and net equity is recognized as goodwill and amortized over 5 years. Technological know-how are recorded at cost of acquisition and amortized over their estimated economic life.

Where signs of permanent devaluation of intangible assets exist, with remote likelihood of value recovery, impairment loss shall be recognized in the current period. The carrying value after recognizing the impairment loss shall be recorded as the new cost.

#### Deferred Charges

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

Where signs of permanent devaluation of deferred charges exist, with remote likelihood of value recovery, impairment loss shall be recognized in the current period. The carrying value after recognizing the impairment loss shall be recorded as the new cost.

#### Convertible and Exchangeable Bonds

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

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

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

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

#### Pension Plan

All regular employees are covered by a defined benefit pension plan that is managed by an independently administered pension fund committee within the Company. The fund is deposited under the committee's name in the Central Trust of China and kept apart from the Company. The fund is not included in the Company's financial statements. Pension benefits for employees of the Branch are provided in accordance with the local regulations.

The Labor Pension Act of R.O.C. (the Act), which adopts a defined contribution plan, took effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to follow either the Act, and retain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees following the Act, the Company shall make monthly contributions to the employees' individual pension accounts of no less than 6% of the employees' monthly wages.

The accounting for pension is computed in accordance with the R.O.C. SFAS No.18. For the defined benefit pension, the net pension cost is calculated based on an actuarial valuation, and pension cost components such as service cost, interest cost, expected return on plan assets, the amortization of net obligation at transition, pension gain or loss, and prior service cost, are taken into consideration. For the defined contribution pension, the Company recognizes the pension amount as expense in the period in which the contribution occurs, on the basis of obligation.

#### Employee Stock Option Plan

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

#### Treasury Stock

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

#### Revenue Recognition

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



Capital Expenditure versus Operating Expenditure

Expenditure shall be capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the expenditure amount exceeds a predetermined level. Otherwise it is recognized as expense when incurred.

Income Tax

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

In compliance with the R.O.C. SFAS No. 12, the Company recognizes the tax benefit from the purchase of equipment and technology, research and development expenditure, employee training, and certain equity investments by the flow-through method.

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

Earnings Per Share

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

Derivative Financial Instruments

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

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

### Merger

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

### Asset Impairment

Pursuant to the R.O.C. SFAS No. 35, the Company assesses indicators of impairment for all its assets within the scope of the standard at each balance sheet date. If impairment is indicated, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (CGU) and write down the carrying amount to the recoverable amount where applicable. The recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at the balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company recalculates the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment each year, regardless of whether impairment is indicated. If impairment test reveals that the carrying amount (including goodwill) of CGU or group of CGUs is greater than its recoverable amount, impairment loss shall be recognized. While recognizing impairment losses, the portion of goodwill allocated shall be written down at the outset. After goodwill has been written off, the remaining impairment loss shall be shared among other assets pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

Impairment loss (reversal) is classified as non-operating losses/(income).

3. ACCOUNTING CHANGE

The Company had adopted the R.O.C. SFAS No. 35, Accounting for Asset Impairment to account for the impairment of its assets for its financial statements started on and after January 1, 2005. No retroactive adjustment is required under the standard. Such a change in accounting principles does not have any impact on the Company's net income, earnings per share and total assets as of September 30, 2005.

4. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
<b>Cash:</b>		
Cash on hand	\$ 1,705	\$ 1,397
Checking and savings accounts	1,595,213	438,864
Time deposits	61,325,143	73,748,105
<b>Subtotal</b>	<b>62,922,061</b>	<b>74,188,366</b>
<b>Cash equivalents:</b>		
Government bonds acquired under repurchase agreements	8,869,841	11,082,086
<b>Total</b>	<b>\$ 71,791,902</b>	<b>\$ 85,270,452</b>

(2) MARKETABLE SECURITIES, NET

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Beneficiary certificate	\$	\$ 10,000
Convertible bonds	1,490,673	1,624,648
Listed equity securities	1,633,625	1,396,472
<b>Total</b>	<b>\$ 3,124,298</b>	<b>\$ 3,031,120</b>

(3) NOTES RECEIVABLE

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Notes receivable	\$ 2,787	\$ 12,001

(4) ACCOUNTS RECEIVABLE, NET

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 4,755,657	\$ 5,972,387
Less: Allowance for sales returns and discounts	(112,523)	(650,419)
Less: Allowance for doubtful accounts	(80,064)	(92,113)
Net	\$ 4,563,070	\$ 5,229,855

(5) OTHER FINANCIAL ASSETS, CURRENT

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Credit-linked deposits and repackaging bonds	\$ 1,052,396	\$ 1,706,300
Interest rate swaps		20,063
Total	1,052,396	1,726,363
Less: Non-current portion	(986,176)	(1,536,750)
Net	\$ 66,220	\$ 189,613

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

(6) INVENTORIES, NET

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>

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Raw materials	\$ 281,061	\$ 200,699
Supplies and spare parts	1,704,681	1,950,332
Work in process	7,985,061	6,841,283
Finished goods	387,012	901,861
	<hr/>	<hr/>
Total	10,357,815	9,894,175
Less: Allowance for loss on decline in market value and obsolescence	(976,674)	(864,830)
	<hr/>	<hr/>
Net	\$ 9,381,141	\$ 9,029,345
	<hr/>	<hr/>

- a. The insurance coverage for inventories was sufficient as of September 30, 2005 and 2004, respectively.
- b. Inventories were not pledged.

(7) LONG-TERM INVESTMENTS

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

(Equity securities refer to common shares unless otherwise stated)

Investee Company	As September 30,			
	2005		2004	
	Amount	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights
<u>Investments accounted for under the equity method :</u>				
UMC Group (USA)	\$ 684,830	100.00	\$ 586,204	100.00
United Microelectronics (Europe) B.V.	286,536	100.00	305,929	100.00
UMC Capital Corporation	1,366,315	100.00	1,075,445	100.00
United Microelectronics Corp. (Samoa)	15,020	100.00	6,315	100.00
UMCi Ltd. (Note A)	9,440	100.00	27,102,233	94.55
Fortune Venture Capital Inc.	4,282,373	99.99	2,562,601	99.99
Hsun Chieh Investment Co., Ltd. (Hsun Chieh)	9,933,386	99.97	10,405,677	99.97
United Microdisplay Optronics Corp.	361,689	86.72	510,020	83.48
Pacific Venture Capital Co., Ltd.	287,236	49.99	308,903	49.99
UMC Japan	7,051,351	48.95	9,244,771	47.48
Toppan Photomasks Taiwan Ltd. (formerly DuPont Photomasks Taiwan Ltd.)	1,054,413	45.35	1,084,781	45.35
Unitech Capital Inc.	692,177	42.00	815,636	42.00
Holtek Semiconductor Inc.	747,910	24.88	685,424	25.23
ITE Tech. Inc.	301,000	23.78	288,082	22.23
Unimicron Technology Corp.	3,731,268	20.83	3,424,057	21.44
Faraday Technology Corp. (Note C)	816,914	18.33	762,725	18.38
XGI Technology Inc. (Note B)	224,613	16.54		
Silicon Integrated Systems Corp. (Note C)	4,098,440	16.50	4,468,303	16.16
Thintek Optronics Corp. (Note B)	26,047	14.26		
AMIC Technology Corporation (Note B)	52,290	11.86	115,140	11.83
Novatek Microelectronics Corp. (Note C)	1,221,906	11.80	1,588,603	19.63
United Foundry Service, Inc. (Note D)			107,828	100.00
United Fu Shen Chen Technology Corporation (formerly Applied Component Technology Corp.) (Note E)				18.48
Subtotal	37,245,154		65,448,677	

Investee Company	As September 30,			
	2005		2004	
	Amount	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights
<u>Investments accounted for under the cost method or the lower of cost or market value method :</u>				
United Fu Shen Chen Technology Corporation (formerly Applied Component Technology Corp.) (Note E)	\$ 40,000	16.60	\$	
United Industrial Gases Co., Ltd.	146,250	8.11	146,250	8.11
MediaTek Incorporation	655,659	6.67	1,035,256	10.75
Industrial Bank of Taiwan Corp.	1,139,196	4.95	1,139,196	4.95
Subtron Technology Co., Ltd.	172,800	4.92	172,800	4.92
South Epitaxy Corporation (Note F)	443,654	6.79		
Chipbond Technology Corporation (Note G)	235,893	4.48		
Billionton Systems Inc.	30,948	2.99	30,948	2.77
AU Optronics Corp. (Note H)	959,082	1.33	994,097	1.49
Mega Financial Holding Company	3,108,655	0.84	3,108,656	0.84
Premier Image Technology Corporation	27,964	0.60	27,964	0.59
Pacific Technology Partners, L.P. (Note I)	375,074		327,188	
Pacific United Technology, L.P. (Note I)	165,550		137,110	
Taiwan High Speed Rail Corporation (Note J)	300,000		300,000	
Subtotal	7,800,725		7,419,465	
Total	\$ 45,045,879		\$ 72,868,142	

Note A: During 2004, the Company acquired an additional 24.95% of interests in UMCi Ltd., totaling 227,938 thousand shares amounting to NT\$10,762 million. Based on the resolution of the board of directors meeting on August 26, 2004, UMCi had transferred its businesses, operations, and assets to the Branch since April 1, 2005.

Note B: The equity method was applied for investees in which the percentage of ownership directly and indirectly held by the Company was greater than 20%.

Note C: The equity method was applied for investees in which the Company held the highest percentage of the outstanding voting rights and had significant influences on operating decisions.

Note D: United Foundry Service, Inc. liquidated in April 2005. All businesses, operations, and assets of the company were transferred to UMC Group (USA).

- Note E: For the nine-month period ended September 30, 2004 the Company recognized permanent loss of NT\$84,968 thousand as the decline in market value was deemed irrecoverable. Since January 1, 2005, the Company was no longer a majority stockholder of United Fu Shen Chen Technology Corporation. As the Company had no majority voting rights or significant influences, the cost method was applied.
- Note F: As of August 1, 2005, the Company's former investee, Epitech Technology Corporation (accounted for under the cost method), was merged into South Epitaxy Corporation. One share of Epitech Technology Corporation was exchanged for 1.36 share of South Epitaxy Corporation. As the Company held less than 20% voting rights and had no significant influences, the cost method was applied.
- Note G: As of September 1, 2005 the Company's former investee, Aptos (Taiwan) Corp. (accounted for under the equity method), merged into Chipbond Technology Corporation. Three shares of Aptos (Taiwan) Corp. were exchanged for 1 share of Chipbond Technology Corporation. As the Company held less than 20% voting rights and had no significant influences, the cost method was applied.
- Note H: As of September 30, 2005 and 2004, 77,625 thousand shares and 73,815 thousand shares with book values of NT\$959 million and NT\$994 million, respectively, held by the Company in AU Optronics Corp. were utilized as reference shares for the Company's zero coupon exchangeable bonds.
- Note I: The amount represented the investment in limited partnership without voting rights. As the Company was not able to exercise significant influences, the investments were accounted for under the cost method.
- Note J: The amount represented investment in 30 million preferred shares. As the Company did not possess voting rights or significant influence, the cost method was applied.
- b. Total loss arising from investments accounted for under the equity method, which were based on the reviewed financial statements of the investees, were NT\$2,762 million and NT\$544 million for the nine-month periods ended September 30, 2005 and 2004, respectively. Among which, investment income amounting to NT\$474 million and NT\$452 million from the respective long-term investment balances of NT\$4,479 million and NT\$4,109 million as of September 30, 2005 and 2004, respectively, were determined based on the investees' financial statements reviewed by other auditors.
- c. The long-term investments were not pledged.



(8) PROPERTY, PLANT AND EQUIPMENT

	As of September 30, 2005		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,132,576	\$	\$ 1,132,576
Buildings	16,001,974	(4,487,400)	11,514,574
Machinery and equipment	360,899,914	(234,520,219)	126,379,695
Transportation equipment	88,498	(60,199)	28,299
Furniture and fixtures	2,182,011	(1,449,748)	732,263
Construction in progress and prepayments	13,810,913		13,810,913
<b>Total</b>	<b>\$ 394,115,886</b>	<b>\$ (240,517,566)</b>	<b>\$ 153,598,320</b>

	As of September 30, 2004		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 1,132,576	\$	\$ 1,132,576
Buildings	13,132,532	(3,693,988)	9,438,544
Machinery and equipment	293,935,079	(187,178,672)	106,756,407
Transportation equipment	80,546	(51,149)	29,397
Furniture and fixtures	1,952,955	(1,180,151)	772,804
Leased assets	47,783	(43,801)	3,982
Construction in progress and prepayments	17,796,639		17,796,639
<b>Total</b>	<b>\$ 328,078,110</b>	<b>\$ (192,147,761)</b>	<b>\$ 135,930,349</b>

- a. Total interest expense before capitalization amounted to NT\$894 million and NT\$1,118 million for the nine-month periods ended September 30, 2005 and 2004, respectively.

Details of capitalized interest are as follows :

	For the nine-month period ended	
	September 30,	
	2005	2004
Machinery and equipment	\$ 235,855	\$ 142,922
Other property, plant and equipment	4,397	3,078
<b>Total interest capitalized</b>	<b>\$ 240,252</b>	<b>\$ 146,000</b>
Interest rates applied	2.86%~ 4.20%	2.30%~ 3.38%



b. The insurance coverage for property, plant and equipment was sufficient as of September 30, 2005 and 2004, respectively.

c. Please refer to Note 6 for property, plant and equipment pledged as collateral.

(9) OTHER ASSETS-OTHERS

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Leased assets	\$ 1,362,190	\$ 1,380,613
Deposits-out	579,823	677,957
Others	119,118	122,909
<b>Total</b>	<b>\$ 2,061,131</b>	<b>\$ 2,181,479</b>

a. The insurance coverage for leased assets was sufficient as of September 30, 2005 and 2004, respectively.

b. Please refer to Note 6 for deposits-out pledged as collateral.

(10) SHORT-TERM LOANS

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Unsecured bank loans	\$ 830,250	\$
Interest rates	3.22%~3.93%	

The Company's unused short-term lines of credits amounted to NT\$8,237 million and NT\$11,932 million as of September 30, 2005 and 2004, respectively.

(11) BONDS PAYABLE

	<u>As of September 30,</u>	
	<u>2005</u>	<u>2004</u>
Secured domestic bonds payable	\$	\$ 1,140,003
Unsecured domestic bonds payable	30,500,000	37,750,000

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Exchangeable bonds payable	3,250,927	3,329,239
	<u>                    </u>	<u>                    </u>
Total	33,750,927	42,219,242
Less: Current portion	(5,250,000)	(8,390,003)
	<u>                    </u>	<u>                    </u>
Net	\$ 28,500,927	\$ 33,829,239
	<u>                    </u>	<u>                    </u>

- a. On April 27, 2000, the Company issued five-year secured bonds amounting to NT\$3,990 million. The interest was paid semi-annually with a stated interest rate of 5.6%. The bonds were repayable in installments every six months from April 27, 2002 to April 27, 2005. On April 27, 2005, the bonds were fully repaid.
- b. During the period from April 16 to April 27, 2001, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 5.1195% through 5.1850% and 5.2170% through 5.2850%, respectively. The five-year bonds and seven-year bonds are repayable starting from April 2004 to April 2006 and April 2006 to April 2008, respectively, both in three annual installments at the rates of 30%, 30% and 40%.
- c. During the period from October 2 to October 15, 2001, the Company issued three-year and five-year unsecured bonds totaling NT\$10,000 million, each with a face value of NT\$5,000 million. The interest is paid annually with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds were repaid at 100% of its principal amount during the period from October 2 to October 15, 2004. The five-year bonds will be repayable in October 2006, upon the maturity of the bonds.
- d. On December 12, 2001, the Company issued zero coupon convertible redeemable bonds amounting to US\$302.4 million on the Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:

(a) Final Redemption

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

(b) Redemption at the Option of the Company

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

- i. On or at any time after June 13, 2003, the closing price of the ADSs listed on the NYSE has been at least 130% of either the conversion price or the last adjusted conversion price, for 20 out of 30 consecutive ADS trading days ending at any time within the period of 5 ADS trading days prior to the redemption notice, or

- ii. At any time prior to maturity, at least 90% in principal amount of the bonds have already been redeemed, repurchased, cancelled or converted.

(c) Conversion Period

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

(d) Conversion Price

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

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

(e) Reacquisition of the Bonds

As of September 30, 2004, the Company had reacquired a total amount of US\$63 million of the bonds from the open market. The corresponding loss on the reacquisition amounting to NT\$0.06 million for the nine-month period ended September 30, 2004, was recognized as other losses.

(f) Redemption of the Bonds

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

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

(a) Final Redemption

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

(b) Redemption at the Option of the Company

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

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

(c) Redemption at the Option of Bondholders

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

(d) Tax Redemption

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

(e) Terms of Exchange

Subject to prior permitted redemption and as otherwise provided in the offering, the bonds are exchangeable at any time on or after June 19, 2002 and prior to April 10, 2007, into AUO shares or AUO ADSs at an exchange price of NT\$46.10 per share, determined on the basis of a fixed exchange rate of NT\$34.645 to US\$1.00; provided however, that if the exercise date falls within 5 business days from the beginning of, and during, any closed period, the right of the exchanging holder of the bonds to vote with respect to the shares it receives will be subject to certain restrictions.

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

(f) Exchange of the Bonds

As of September 30, 2005 and 2004, certain bondholders have exercised their rights to exchange their bonds with the total principal amount of US\$137 million and US\$137 million, respectively, into AUO shares. The corresponding gains on the exchange amounting to NT\$0 and NT\$3,457 million for the nine-month periods ended September 30, 2005 and 2004, respectively, were recognized as gain on disposal of investments.

- f. During the period from May 21 to June 24, 2003, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, each with a face value of NT\$7,500 million. The interest is paid annually with stated interest rates of 4.0% minus USD 12-Month LIBOR and 4.3% minus USD 12-Month LIBOR, respectively. Stated interest rates are reset annually based on the prevailing USD 12-Month LIBOR. The five-year bonds and seven-year bonds are repayable in 2008 and 2010, respectively, upon the maturity of the bonds.
  
- g. On July 15, 2003, the Company issued its second LSE listed zero coupon exchangeable bonds exchangeable for common shares of AUO with an aggregate principal amount of US\$206 million. The issue price was set at 103.0% of the principal amount. The terms and conditions of the bonds are as follows:
  - (a) Final Redemption

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

- (b) Redemption at the Option of the Company

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

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

- (c) Redemption at the Option of Bondholders

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

- (d) Tax Redemption

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



(e) Terms of Exchange

Subject to prior permitted redemption and as otherwise provided in the offering, the bonds are exchangeable at any time on or after August 14, 2003 and prior to June 30, 2008, into AUO shares at an exchange price of NT\$36.387 per share, determined on the basis of a fixed exchange rate of NT\$34.390 to 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 restrictions.

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

(f) Exchange of the Bonds

As of September 30, 2004, all bondholders have exercised their rights to exchange their bonds into AUO shares. The corresponding gain on the exchange amounting to NT\$4,349 million for the nine-month period ended September 30, 2004, was recognized as a gain on disposal of investments.

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

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

<u>Bonds repayable in</u>	<u>Amount</u>
2005 (4 <sup>th</sup> quarter thereafter)	\$
2006	10,250,000
2007	5,500,927
2008	10,500,000
2009	
2010 and thereafter	7,500,000
<b>Total</b>	<b>\$ 33,750,927</b>

(12) PENSION FUND

Pension costs amounting to NT\$ 613 million and NT\$396 million were recognized for the nine-month periods ended September 30, 2005 and 2004, respectively. The corresponding totals of the pension fund were NT\$1,036 million and NT\$926 million as of September 30, 2005 and 2004, respectively.

(13) CAPITAL STOCK

- a. As of September 30, 2004, 22,000,000 thousand common shares were authorized to be issued and 17,747,844 thousand common shares were issued, each at a par value of NT\$10.
- b. Based on the resolution of the board of directors meeting on February 26, 2004, the Company merged with SiSMC on July 1, 2004, the effective date, through the issuance of 357,143 thousand new shares at a par value of \$10 each. 2.24 shares of SiSMC were exchanged to 1 share of the Company, the surviving company.
- c. As recommended by the board of directors and amended by the shareholders meeting on June 1, 2004, the Company issued 1,399,685 thousand new shares from the capitalization of retained earnings that amounted to NT\$13,335 million and capital reserve that amounted to NT\$661 million, of which NT\$12,224 million were stock dividends and NT\$1,111 million were employees bonus.
- d. On July 22, 2004, the Company wrote off 149,728 thousand shares of treasury stock, which were bought back during the period from August 1 to September 28, 2001 and the period from August 14 to September 25, 2002 for conversion of the convertible bonds.
- e. On April 26, 2005, the Company wrote off 49,114 thousand shares of treasury stocks, which were bought back during the period from February 20 to April 19, 2002 to be transferred to employee.
- f. As recommended by the board of directors and amended by the shareholders meeting on June 13, 2005, the Company issued 1,956,022 thousand new shares from capitalization of retained earnings that amounted to NT\$19,560 million, of which NT\$17,587 million were stock dividends and NT\$1,973 million were employees bonus.
- g. The employee stock options issued by the Company on October 7, 2002, and January 3, 2003, were exercised into 111,107 thousand shares during the nine-month period ended September 30, 2005. Among the exercised employee stock options, 30,406 thousand common shares were issued on September 28, 2005, and registration is currently under process.
- h. As of September 30, 2005, 26,000,000 thousand common shares were authorized to be issued and 19,765,859 thousand common shares were issued, each at a par value of NT\$10.
- i. The Company has issued a total of 276,820 thousand ADSs which were traded on the NYSE as of September 30, 2005. The total number of common shares represented by all issued ADSs is 1,384,102 thousand shares (one ADS represents five common shares).

(14) EMPLOYEE STOCK OPTIONS

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

<u>Date of grant</u>	<u>Total number of options granted (in thousands)</u>	<u>Total number of options outstanding (in thousands)</u>	<u>Exercise price (NTD)</u>
October 7, 2002	939,000	697,389	\$ 15.9
January 3, 2003	61,000	49,388	\$ 17.9
November 26, 2003	57,330	49,000	\$ 25.0
March 23, 2004	33,330	26,900	\$ 23.2
July 1, 2004	56,590	48,350	\$ 20.9
October 13, 2004	20,200	16,820	\$ 18.0
April 29, 2005	23,460	21,160	\$ 16.6
August 16, 2005	54,350	53,020	\$ 21.9
September 29, 2005	51,990	50,930	\$ 20.0

- a. A summary of the Company's stock option plans, and related information for the nine-month periods ended September 30, 2005 and 2004, are as follows:

	<u>For the nine-month period ended September 30,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Option (in thousands)</u>	<u>Weighted-average Exercise Price (NTD)</u>	<u>Option (in thousands)</u>	<u>Weighted-average Exercise Price (NTD)</u>
Outstanding at beginning of period	973,858	\$ 17.0	980,664	\$ 16.5
Granted	129,800	\$ 20.2	89,920	\$ 21.8
Exercised	(66,969)	\$ 15.9		
Forfeited	(23,732)	\$ 18.5	(57,936)	\$ 17.1
Outstanding at end of period	1,012,957	\$ 17.4	1,012,648	\$ 16.9
Exercisable at end of period	327,153			
Weighted-average fair value of options granted during the period (NTD)	\$ 6.5		\$ 4.0	

- b. The information of the Company's outstanding stock options as of September 30, 2005, is as follows:

Authorization Date	Range of Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
		Option (in thousands)	Weighted-average Expected Remaining Years	Weighted-average Exercise Price (NTD)	Option (in thousands)	Weighted-average Exercise Price (NTD)
2002.09.11	\$ 15.9~\$17.9	746,777	1.4	\$ 16.0	327,153	\$ 16.1
2003.10.08	\$ 20.9~\$25.0	124,250	2.8	\$ 23.0		
2004.09.30	\$ 16.6~\$21.9	141,930	4.1	\$ 19.9		
		<u>1,012,957</u>	<u>2.0</u>	<u>\$ 17.4</u>	<u>327,153</u>	<u>\$ 16.1</u>

- c. The Company has used the intrinsic value method to recognize compensation costs for the employee stock options issued since January 1, 2004. The compensation costs for the nine-month period ended September 30, 2005 and 2004 are both NT\$0. Pro forma information using the fair value method on net income and earnings per share is as follows:

	For the nine-month period ended September 30,			
	2005		2004	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net Income	\$ 3,982,751	\$ 3,982,751	\$ 30,509,775	\$ 30,539,495
Earnings per share (NTD)	\$ 0.22	\$ 0.21	\$ 1.63	\$ 1.60
Pro forma net income	\$ 3,843,418	\$ 3,843,418	\$ 30,461,885	\$ 30,491,605
Pro forma earnings per share (NTD)	\$ 0.21	\$ 0.21	\$ 1.63	\$ 1.60

The fair value of the options granted after January 1, 2004, was estimated at the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions for the nine-month periods ended September 30, 2005 and 2004: expected dividend yields of 1.64% and 11.40%; volatility factors of the expected market price of the Company's common stock of 41.48% and 48.82%; risk-free interest rate of 1.92% and 2.79%; and a weighted-average expected life of the options of 4.4 years, respectively.

(15) TREASURY STOCK

- a. The Company bought back its own shares from the open market during the nine-month periods ended September 30, 2005 and 2004. Details of the treasury stock transactions are as follows:

For the nine-month period ended September 30, 2005*(In thousands of shares)*

<u>Purpose</u>	As of		As of
	January 1,	Increase	September 30,
	2005		2005
For transfer to employees	241,181		192,067
For conversion of the convertible bonds into shares		500,000	500,000
<b>Total shares</b>	<b>241,181</b>	<b>500,000</b>	<b>692,067</b>

For the nine-month period ended September 30, 2004*(In thousands of shares)*

<u>Purpose</u>	As of		As of
	January 1,	Increase	September 30,
	2004		2004
For transfer to employees	49,114	192,067	241,181
For conversion of the convertible bonds into shares	149,728		(149,728)
<b>Total shares</b>	<b>198,842</b>	<b>192,067</b>	<b>241,181</b>

- b. The eighth buyback plan of 500,000 shares was originally intended for the purpose of transfer to employees. However, as a result of the board of directors meeting held on September 9, 2005, the shares were approved to be used for the conversion of convertible bonds into shares instead. The buyback plan was approved by the relevant government authorities, and 500,000 thousand common shares were repurchased by the Company from the open market.
- c. According to the Securities and Exchange Law of the R.O.C., the total number of treasury stock should not exceed 10% of the Company's issued stock; total purchase amount should not exceed the sum of the retained earnings, capital reserve-premiums, and realized capital reserve. As such, the maximum number of treasury stock that the Company could hold as of September 30, 2005 and 2004, was 1,976,586 thousand shares and 1,774,784 thousand while the ceiling of the amount was NT\$88,397 million and NT\$87,751 million, respectively. As of September 30, 2005 and 2004, the Company held 692,067 thousand and 241,181 thousand treasury stock that amounted to NT\$16,773 million and NT\$7,376 million, respectively.

- d. In compliance with the Securities and Exchange Law of the R.O.C., treasury stock should not be pledged, nor should it entitle voting rights or receive dividends.
  
- e. As of September 30, 2005, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Inc., held 599,696 thousand shares and 21,847 thousand shares of the Company's stock, with a book value of NT\$20.40 and NT\$7.87 per share, respectively. The average closing price during September 2005 was NT\$20.40.

As of September 30, 2004, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Inc., held 543,732 thousand shares and 19,808 thousand shares of the Company's stock, with a book value of NT\$21.52 and NT\$8.68 per share, respectively. The average closing price during September 2004 was NT\$21.52.

(16) RETAINED EARNINGS AND DIVIDEND POLICIES

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

- 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, no less than 5% of the remaining amount together with the prior years' unappropriated earnings shall be allocated as employees' bonus which will be settled through issuance of new shares of the Company, or cash. Employees of the Company's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees' bonus.
  
- f. The distribution of the remaining portion, if any, will be recommended by the board of directors and approved through the shareholders' meeting.

The Company is currently in its growth stage; the policy for dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the benefit of shareholders, share bonus equilibrium, and long-term financial planning. The board of directors makes and presents the distribution proposal annually at the shareholders meeting. The Company's Articles of Incorporation further provide that no more than 80% of the dividends to shareholders, if any, must be paid in the form of stock dividends. Accordingly, at least 20% of the dividends must be paid in the form of cash.