

UNITED MICROELECTRONICS CORP
Form 6-K
May 17, 2006

1934 Act Registration No. 1-15128

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

Dated May 16, 2006

For the month of April 2006

United Microelectronics Corporation

(Translation of Registrant's Name into English)

No. 3 Li Hsin Road II

Science Park

Hsinchu, Taiwan, R.O.C.

(Address of Principal Executive Office)

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

Form 20-F Form 40-F

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

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Yes No

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

SIGNATURE

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

United Microelectronics Corporation

Date: 5/16/2006

By /s/ Chitung Liu
Chitung Liu
Chief Financial Officer

Exhibit

Exhibit	Description
99.1	Announcement on April 18, 2006: To announce related materials on acquisition of machinery and equipment
99.2	Announcement on April 20, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.3	Announcement on April 21, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.4	Announcement on April 24, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.5	Announcement on April 24, 2006: The Change of Deputy Spokesperson
99.6	Announcement on April 26, 2006: UMC announced its unconsolidated operating results for the first quarter of 2006
99.7	Announcement on May 3, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.8	Announcement on May 5, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.9	Announcement on May 8, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.10	Announcement on May 9, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.11	Announcement on May 9, 2006: April Revenue
99.12	Announcement on May 11, 2006: To announce related materials on acquisition of machinery and equipment
99.13	Announcement on May 11, 2006: To announce related materials on acquisition of machinery and equipment
99.14	Announcement on May 11, 2006: To announce related materials on disposal of MediaTek Incorporation securities
99.15	Announcement on May 15, 2006: 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
99.16	UNITED MICROELECTRONICS CORPORATION FINANCIAL STATEMENTS WITH REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
99.17	UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS WITH REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
99.18	UNITED MICROELECTRONICS CORPORATION FINANCIAL STATEMENTS WITH REVIEW REPORT OF INDEPENDENT ACCOUNTANTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

Exhibit 99.1

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: 2005/10/21~2006/04/18
3. Transaction volume (e.g. XX square meters, equivalent to XX ping), unit price, total transaction price: Transaction volume: 18; average unit price: \$28,761,570 NTD; total transaction price: \$517,708,260 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

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

13. Has an appraisal report not yet been obtained? Not applicable
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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/01/05~2006/04/20
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,355,000 shares; average unit price: \$374.30 NTD; total amount: \$507,174,500 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$491,757,608 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 51,761,272 shares; amount: 588,928,363 NTD; percentage of holdings: 5.99%; 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: 16.47% ratio of shareholder's equity: 19.89%; the operational capital as shown in the most recent financial statement: \$80,697,588 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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/04/21
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,639,000 shares; average unit price: \$378.12 NTD; total amount: \$619,737,000 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$601,088,819 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 50,122,272 shares; amount: 570,280,182 NTD; percentage of holdings: 5.80%; 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: 16.27% ratio of shareholder's equity: 19.65%; the operational capital as shown in the most recent financial statement: \$80,697,588 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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/04/24
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,000,000 shares; average unit price: \$391.85 NTD; total amount: \$391,848,000 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 380,470,220 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 49,122,272 shares; amount: 58,902,402 NTD; percentage of holdings: 5.69%; 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: 16.27% ratio of shareholder's equity: 19.65%; the operational capital as shown in the most recent financial statement: \$80,697,588 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

The Change of Deputy Spokesperson

1. Change person (please enter: spokesperson , acting spokesperson , financial officer , accounting officer , research and development officer , internal officer): acting spokesperson

2. Date of occurrence of the change: 2006/04/24

3. Name, title, and resume of the replaced person:
Sheng-Yui Wang, The Director of Finance Division

The Director of Finance Division, UMC

4. Name, title, and resume of the replacement:
Bowen Huang, Senior Manager

Senior Manager, UMC

5. Reason for the change: Job rotation

6. Effective date: 2006/04/24

7. Contact telephone number of the replacement: 886-2-27006999

8. Any other matters that need to be specified: none

UMC announced its unconsolidated operating results for the first quarter of 2006

1. Date of occurrence of the event: 2006/04/26
2. Name of the company: United Microelectronics Corp.
3. Relationship to the company (listed company or affiliated company): Listed company
4. The shareholding ratios of mutual holding: N/A

5. Cause of occurrence:

United Microelectronics Corporation (NYSE: UMC; TSE: 2303) (UMC or the Company) today announced its unconsolidated operating results for the first quarter of 2006. Year-over-year revenue increased by 20.2% to NT\$24.38 billion from NT\$20.29 billion, and a 11.2% QoQ decrease from NT\$27.47 billion in 4Q05. The net income is NT\$12.29 billion, significantly increase 303.6% from NT\$3.04 billion in 4Q05. The EPS for the first quarter in 2006 was NT\$0.67.

Effectuated by the traditional seasonal factors, revenue and shipments in 1Q06 were decreased compared to last quarter. But the overall performance was close to our original expectations. Wafer shipments in the first quarter were 754 thousand 8-inch equivalent wafers. The utilization rate for the quarter was 79%. The blended average selling price (ASP) decreased by 2% during 1Q06 due to lower demand for leading-edge process technologies.

Demand in Q1 was very close to our original expectations, said UMC Chairman and CEO, Dr. Jackson Hu. In fact, it was even slightly better. Our performance in the quarter was at the upper range of our guidance, with revenue reaching NT\$24.4 billion and profitability beating our earlier projections.

Dr. Hu continued, For Q2, as a whole, we believe that demand will be in line with seasonal norms. Computer sector demand will be relatively weak due to seasonal inventory adjustments. At the same time, we have seen handset demand start to accelerate, which is about one to two months earlier than typical seasonal trends. Our understanding is that demand for entry-level handsets in developing markets such as India, Africa, Indonesia and China will see very high growth this year. Therefore, handset related components should be in strong demand. In particular, our production of 90nm and 0.13um wafers for existing customers as well as new customers that have recently entered volume production will increase significantly. In addition, it is worth noting that we will start volume production for a graphic chip customer during the quarter. Therefore, our visibility looking beyond to the 3rd quarter is good, and we are expecting double-digit revenue growth and a large improvement in profitability.

We are also seeing strong demand for 65nm technologies, and are progressing smoothly in the roll-out of this process. UMC led all foundries with the delivery of its first 65nm customer product back into June 2005. We are currently producing these 65nm chips at Fab 12A in

small volume quantities and expect to receive eleven product tape-outs from eight customers by the end of this summer. We believe UMC's success at 65nm will lead the Company to continued growth in the coming years.

6. Countermeasures: none

7. Any other matters that need to be specified: none

To announce related materials on disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/04/25~2006/05/03
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 975,000 shares; average unit price:\$391.13 NTD; total amount: \$381,351,500 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 370,258,165 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 48,147,272 shares; amount: 547,809,067 NTD; percentage of holdings: 5.57%; 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: 13.51% ratio of shareholder's equity: 16.69%; the operational capital as shown in the most recent financial statement: \$96,736,519 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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/05/04~2006/05/05
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,590,000 shares; average unit price: \$384.50 NTD; total amount: \$611,347,500 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 593,256,830 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 46,557,272 shares; amount: 529,718,397 NTD; percentage of holdings: 5.39%
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: 13.50% ratio of shareholder's equity: 16.68%; the operational capital as shown in the most recent financial statement: \$96,736,519 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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/05/08
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,720,000 shares; average unit price: \$395.15 NTD; total amount: \$679,662,000 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 660,092,218 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 44,837,272 shares; amount: 510,148,615 NTD; percentage of holdings: 5.19%; 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: 13.49% ratio of shareholder's equity: 16.67%; the operational capital as shown in the most recent financial statement: \$96,736,519 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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/05/09
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,634,000 shares; average unit price: \$412.73 NTD; total amount: \$674,403,000 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 655,811,708 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 43,203,272 shares; amount: 491,557,323 NTD; percentage of holdings: 5.00%; 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: 13.49% ratio of shareholder's equity: 16.67%; the operational capital as shown in the most recent financial statement: \$96,736,519 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

United Microelectronics Corporation

May 9, 2006

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 April 2005

1) Sales volume (NT\$ Thousand)

Period	Items	2006	2005	Changes	%
April	Invoice amount	8,036,247	5,859,663	2,176,584	37.15%
2006	Invoice amount	29,994,089	25,792,259	4,201,830	16.29%
April	Net sales	8,463,302	6,366,921	2,096,381	32.93%
2006	Net sales	32,847,468	26,652,641	6,194,827	23.24%

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

Balance as of period end	This Month	Last Month	Limit of lending
UMC	0	0	39,690,468
UMC's subsidiaries	22,052	22,438	565,680

3) Endorsements and guarantees (NT\$ Thousand)

	Change in This Month	Balance as of period end	Limit of endorsements
UMC	30,160	2,894,320	79,380,936
UMC's subsidiaries	0	0	7,631,821
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 instruments	Forwards	Interests SWAP
Deposit Paid	0	0
Royalty Income (Paid)	0	0

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

<i>Unwritten-off Trading Contracts</i>	0	15,000,000
<i>Net Profit from Fair Value</i>	0	(793,803)
<i>Written-off Trading Contracts</i>	0	
<i>Realized profit (loss)</i>	0	

b Trading purpose : NT\$ thousand

	Credit-linked	
<i>Financial instruments</i>	Deposits	
<i>Deposit Paid</i>		0
<i>Unwritten-off Trading Contracts</i>		4,103,036
<i>Net Profit from Market Value</i>		-711,108
<i>Written-off Trading Contracts</i>		0
<i>Realized profit (loss)</i>		0

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: 2005/06/22~2006/05/10
3. Transaction volume (e.g. XX square meters, equivalent to XX ping), unit price, total transaction price: Transaction volume: 5; average unit price: \$105,929,950 NTD; total transaction price: \$529,649,750 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): AXCELIS TECHNOLOGIES, INC.; 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

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

13. Has an appraisal report not yet been obtained? Not applicable
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 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: 2006/03/23~2006/05/10
3. Transaction volume (e.g. XX square meters, equivalent to XX ping), unit price, total transaction price: Transaction volume: 13; average unit price: \$52,069,017 NTD; total transaction price: \$676,897,224 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): TOKYO ELECTRON LIMITED; 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

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

13. Has an appraisal report not yet been obtained? Not applicable
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 disposal of MediaTek Incorporation securities

1. Name of the securities: Common shares of MediaTek Incorporation
2. Trading date: 2006/05/10~2006/05/11
3. Trading volume, unit price, and total monetary amount of the transaction: trading volume: 1,436,000 shares; average unit price: \$416.27 NTD; total amount: \$597,765,500 NTD
4. Gain (or loss) (not applicable in case of acquisition of securities): \$ 581,313,230 NTD
5. Relationship with the underlying company of the trade: MediaTek Incorporation, 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: 41,757,272 shares; amount: 475,105,053 NTD; percentage of holdings: 4.83%; 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: 13.48% ratio of shareholder's equity: 16.66%; the operational capital as shown in the most recent financial statement: \$96,736,519 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

United Microelectronics Corporation

For the month of April, 2006

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 April, 2006.

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

<i>Title</i>	<i>Name</i>	<i>Number of shares held as of</i>	<i>Number of shares held as of</i>	<i>Changes</i>
		<i>March 31, 2006</i>	<i>April 30, 2006</i>	

Note: Shares transferred to children.

- 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>March 31, 2006</i>	<i>April 30, 2006</i>	

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

<i>Description of assets</i>	<i>April</i>	<i>2006</i>
Semiconductor Manufacturing Equipment	1,556,141	6,638,478
Fixed assets	86,711	93,232

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

<i>Description of assets</i>	<i>April</i>	<i>2006</i>
Semiconductor Manufacturing Equipment	1,725	74,573
Fixed assets	0	0

UNITED MICROELECTRONICS CORPORATION
FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED
DECEMBER 31, 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.

REPORT OF INDEPENDENT AUDITORS

English Translation of a Report Originally Issued in Chinese

To the Board of Directors and Shareholders of

United Microelectronics Corporation

We have audited the accompanying balance sheets of United Microelectronics Corporation as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As described in Note 4(7) to the financial statements, certain long-term investments were accounted for under the equity method based on the 2005 and 2004 financial statements of the investees, which were audited by other auditors. Our opinion insofar as it relates to the investment income amounting to NT\$821 million and NT\$631 million for the years ended December 31, 2005 and 2004, respectively, and the related long-term investment balances of NT\$5,898 million and NT\$5,380 million as of December 31, 2005 and 2004, respectively, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of United Microelectronics Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted 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.

We have also audited the consolidated financial statements of United Microelectronics Corporation as of and for the years ended December 31, 2005 and 2004, and have expressed an unqualified opinion with explanatory paragraph on such financial statements.

February 17, 2006

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

BALANCE SHEETS

December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	As of December 31,	
		2005	2004
Current assets			
Cash and cash equivalents	2, 4(1)	\$ 96,596,623	\$ 83,347,329
Marketable securities, net	2, 4(2)	4,883,121	3,058,579
Notes receivable	4(3)	193	1,771
Notes receivable - related parties	5	62,136	39,034
Accounts receivable, net	2, 4(4)	4,774,618	3,208,457
Accounts receivable - related parties, net	2, 5	7,522,953	7,446,462
Other receivables	2, 5	708,552	506,195
Other financial assets, current	2, 4(5), 10		453,845
Inventories, net	2, 4(6)	9,963,253	8,543,462
Prepaid expenses		421,787	244,230
Deferred income tax assets, current	2, 4(19)	3,334,510	3,524,289
Total current assets		128,267,746	110,373,653
Funds and long-term investments	2, 4(7), 4(10)		
Long-term investments accounted for under the equity method		27,311,723	64,251,399
Long-term investments accounted for under the cost method		7,778,751	7,316,603
Total funds and long-term investments		35,090,474	71,568,002
Other financial assets, noncurrent	2, 4(5), 10	977,856	1,303,644
Property, plant and equipment	2, 4(8), 5, 6, 7		
Land		1,132,576	1,132,576
Buildings		16,287,803	13,133,658
Machinery and equipment		366,982,250	301,773,287
Transportation equipment		88,413	79,610
Furniture and fixtures		2,199,773	1,976,487
Leased assets			47,783
Total cost		386,690,815	318,143,401
Less : Accumulated depreciation		(252,474,004)	(202,373,050)
Add : Construction in progress and prepayments		15,592,805	21,584,900
Property, plant and equipment, net		149,809,616	137,355,251
Intangible assets			
Goodwill	2, 4(21)	3,745,122	1,214,956
Technological know-how	2	359,556	
Total intangible assets		4,104,678	1,214,956

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Other assets			
Deferred charges	2	1,963,950	1,860,419
Deferred income tax assets, noncurrent	2, 4(19)	4,001,394	3,811,615
Other assets - others	2, 4(9), 4(10)	2,005,523	2,075,951
Total other assets		7,970,867	7,747,985
Total assets		\$ 326,221,237	\$ 329,563,491

Liabilities and Stockholders Equity	Notes	As of December 31,	
		2005	2004
Current liabilities			
Short-term loans	4(11)	\$	\$ 1,904,400
Accounts payable		4,100,708	3,642,421
Accounts payable - related parties	5		800,805
Income tax payable	2	60,389	60,389
Accrued expenses		7,596,727	8,185,618
Payable on equipment		5,277,863	4,704,299
Other payables	10	95,668	
Current portion of long-term interest-bearing liabilities	2, 4(12), 6	10,250,000	2,820,003
Other current liabilities	7	922,607	1,159,096
Total current liabilities		28,303,962	23,277,031
Long-term interest-bearing liabilities			
Bonds payable	2, 4(12)	36,009,055	33,607,029
Total long-term interest-bearing liabilities		36,009,055	33,607,029
Other liabilities			
Accrued pension liabilities	2, 4(13)	3,003,778	2,690,511
Deposits-in		20,827	21,891
Deferred credits - intercompany profits	2	9,806	3,584,275
Other liabilities - others		590,256	
Total other liabilities		3,624,667	6,296,677
Total liabilities		67,937,684	63,180,737
Capital			
Common stock	2, 4(14), 4(15), 4(21)	197,947,033	177,919,819
Capital collected in advance		36,600	4,040
Capital reserve			
Premiums	2, 4(14), 4(15), 4(21)	64,600,076	64,126,182
Change in equities of long-term investments		20,781,523	20,807,013
Retained earnings			
Legal reserve	4(17)	15,996,839	12,812,501
Special reserve		1,744,171	90,871
Unappropriated earnings		8,831,782	29,498,329
Adjusting items in stockholders equity			
Unrealized loss on long-term investments		(9,527,362)	(9,871,086)
Cumulative translation adjustment		(241,153)	(1,319,452)
Treasury stock	2, 4(16)	(41,885,956)	(27,685,463)
Total stockholders equity		258,283,553	266,382,754

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Total liabilities and stockholders equity	\$ 326,221,237	\$ 329,563,491
--	----------------	----------------

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

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

	Notes	For the year ended December 31,	
		2005	2004
Operating revenues	2, 5		
Sales revenues		\$ 90,780,340	\$ 115,165,087
Less : Sales returns and discounts		(1,840,345)	(1,170,521)
Net sales		88,939,995	113,994,566
Other operating revenues		1,835,444	3,317,274
Net operating revenues		90,775,439	117,311,840
Operating costs	4(18)		
Cost of goods sold	5	(78,836,403)	(79,249,792)
Other operating costs		(777,750)	(2,193,389)
Operating costs		(79,614,153)	(81,443,181)
Gross profit		11,161,286	35,868,659
Unrealized intercompany profit	2	(120,153)	(154,417)
Realized intercompany profit	2	154,417	106,702
Gross profit-net		11,195,550	35,820,944
Operating expenses	4(18), 5		
Sales and marketing expenses		(2,280,674)	(2,197,181)
General and administrative expenses		(3,225,165)	(2,644,595)
Research and development expenses		(8,358,430)	(6,524,176)
Subtotal		(13,864,269)	(11,365,952)
Operating (loss) income		(2,668,719)	24,454,992
Non-operating income			
Interest revenue		945,610	871,598
Dividend income		922,562	1,041,415
Gain on disposal of property, plant and equipment	2	62,884	137,267
Gain on sales of investments	2, 4(12)	10,096,375	12,513,933
Exchange gain, net	2,10	252,303	
Gain on recovery of market value of inventory	2	919,884	
Other income		671,924	331,238
Subtotal		13,871,542	14,895,451
Non-operating expenses			

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Interest expense	4(8)	(918,173)	(1,179,145)
Investment loss accounted for under the equity method, net	2, 3, 4(7), 4(10)	(2,677,263)	(2,509,287)
Other investment loss	2		(84,968)
Loss on disposal of property, plant and equipment	2	(81,544)	(224,049)
Exchange loss, net	2, 10		(1,081,949)
Loss on decline in market value and obsolescence of inventories	2		(844,906)
Financial expenses		(258,110)	(371,751)
Impairment loss	2, 3, 4(10)	(160,191)	
Other losses	2, 4(12)	(80,012)	(1,177,098)
Subtotal		(4,175,293)	(7,473,153)
Income before income tax		7,027,530	31,877,290
Income tax expense	2, 4(19)	(838)	(33,909)
Net income		\$ 7,026,692	\$ 31,843,381
Earnings per share-basic (NTD)	2, 4(20)		
Income before income tax		\$ 0.38	\$ 1.70
Net income		\$ 0.38	\$ 1.70
Earnings per share-diluted (NTD)	2, 4(20)		
Income before income tax		\$ 0.38	\$ 1.68
Net income		\$ 0.38	\$ 1.67
Pro forma information on earnings as if subsidiaries investment in the Company is not treated as treasury stock	2, 4(20)		
Net income		\$ 7,026,692	\$ 31,843,381
Earnings per share-basic (NTD)		\$ 0.36	\$ 1.64
Earnings per share-diluted (NTD)		\$ 0.36	\$ 1.62

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the years ended December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	Notes	Common Stock	Capital Collected in Advance Capital Reserve	Legal Reserve	Retained Earnings Special Reserve	Unappropriated Earnings	Unrealized Loss on Long-term Investments	Cumulative Translation Adjustment	Treasury Stock	Total
Balance as of January 1, 2004	4(14)	\$ 161,407,435	\$ 80,074,184	\$ 11,410,475	\$ 1,346,994	\$ 14,036,822	\$ (9,537,237)	\$ 913,877	\$ (27,410,626)	\$ 232,241,924
Appropriation of 2003 retained earnings	4(17)									
Legal reserve				1,402,026		(1,402,026)				
Special reserve					(1,256,123)	1,256,123				
Stock dividends		12,224,284				(12,224,284)				
Directors and supervisors remuneration						(12,618)				(12,618)
Employees bonus		1,111,273				(1,111,273)				
Transfer of capital reserve to common stock	4(17)	661,298	(661,298)							
Stock issued for merger	2, 4(21)	3,571,429	6,100,571							9,672,000
Purchase of treasury stock	2, 4(16)								(5,198,020)	(5,198,020)
Cancellation of treasury stock	2, 4(16)	(1,497,280)	(538,107)			(2,887,796)			4,923,183	
Net income in 2004						31,843,381				31,843,381
Adjustment of capital reserve accounted for under the equity method	2		(385,128)							(385,128)
Changes in unrealized loss on long-term investments of investees	2						(333,849)			(333,849)
Exercise of employee stock options	2, 4(15)	441,380	4,040	342,973						788,393
Changes in cumulative translation adjustment	2							(2,233,329)		(2,233,329)

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Balance as of December 31, 2004	4(14)	177,919,819	4,040	84,933,195	12,812,501	90,871	29,498,329	(9,871,086)	(1,319,452)	(27,685,463)	266,382,754
Appropriation of 2004 retained earnings	4(17)										
Legal reserve				3,184,338			(3,184,338)				
Special reserve					1,653,300		(1,653,300)				
Cash dividends							(1,758,736)				(1,758,736)
Stock dividends		17,587,364					(17,587,364)				
Directors and supervisors remuneration							(27,006)				(27,006)
Employees bonus		1,972,855					(1,972,855)				
Purchase of treasury stock	2, 4(16)								(16,378,692)		(16,378,692)
Cancellation of treasury stock	2, 4(16)	(491,140)		(177,419)			(1,509,640)		2,178,199		
Net income in 2005							7,026,692				7,026,692
Adjustment of capital reserve accounted for under the equity method	2			(28,491)							(28,491)
Changes in unrealized loss on long-term investments of investees	2							343,724			343,724
Exercise of employee stock options	2, 4(15)	954,095	36,600	654,314							1,645,009
Common stock transferred from capital collected in advance	2	4,040	(4,040)								
Changes in cumulative translation adjustment	2								1,078,299		1,078,299
Balance as of December 31, 2005		\$ 197,947,033	\$ 36,600	\$ 85,381,599	\$ 15,996,839	\$ 1,744,171	\$ 8,831,782	\$ (9,527,362)	\$ (241,153)	\$ (41,885,956)	\$ 258,283,553

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

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	For the year ended December 31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 7,026,692	\$ 31,843,381
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	46,129,225	38,595,954
Amortization	2,387,679	1,181,379
Bad debt expenses (reversal)	(151,042)	107,404
Loss (gain) on decline (recovery) in market value and obsolescence of inventories	(919,884)	844,906
Cash dividends received under the equity method	724,510	439,514
Investment loss accounted for under the equity method	2,677,263	2,509,287
Other investment loss		84,968
Write-off of deferred charges		269,325
Transfer of property, plant and equipment to losses and expenses	9,370	2,059
Impairment loss	160,191	
Gain on sales of investments	(10,096,375)	(12,513,933)
Loss on disposal of property, plant and equipment	18,660	86,782
Exchange loss (gain) on long-term liabilities	65,827	(295,100)
Amortization of bond premiums		(10,050)
Loss on reacquisition of bonds		59
Amortization of deferred income	(89,762)	
Changes in assets and liabilities:		
Notes receivable and accounts receivable	(658,907)	3,129,517
Other receivables	(128,727)	32,434
Inventories	104,968	(1,326,015)
Prepaid expenses	(108,025)	488,734
Other financial assets	169,799	54,374
Accounts payable	(1,087,713)	(17,577)
Income tax payable		10,696
Accrued expenses	(547,542)	3,198,386
Other current liabilities	(57,471)	134,847
Compensation interest payable		(126,111)
Capacity deposits	(193,249)	(143,127)
Accrued pension liabilities	313,267	432,879
Other liabilities - others	263,017	
Net cash provided by operating activities	46,011,771	69,014,972
Cash flows from investing activities:		
Increase in marketable securities, net	(1,764,839)	(1,418,762)
Cash proceeds from merger	943,862	70,383
Decrease in other financial assets, net	705,468	1,503,980
Acquisition of long-term investments	(7,055,801)	(11,427,179)
Proceeds from sales of long-term investments	11,152,735	6,028,428
Proceeds from capital reduction settlement and liquidation of long-term investments	13,346,789	
Acquisition of property, plant and equipment	(18,586,587)	(48,503,388)
Proceeds from disposal of property, plant and equipment	129,468	283,803

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Increase in deferred charges	(1,356,305)	(978,741)
Decrease (increase) in other assets - others	(161,341)	1,065,478
Increase in other receivables	(5,137,760)	
Net cash used in investing activities	(7,784,311)	(53,375,998)

English Translation of Financial Statements Originally Issued in Chinese

UNITED MICROELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	For the year ended December 31,	
	2005	2004
(continued)		
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	\$ (1,904,400)	\$ 1,504,400
Repayment of long-term loans	(16,153,714)	(5,866,537)
Redemption of bonds	(2,820,004)	(16,336,941)
Reacquisition of bonds		(41,392)
Issuance of bonds	12,478,603	
Remuneration paid to directors and supervisors	(27,006)	(12,618)
Increase (decrease) in deposits-in, net	(1,254)	5,513
Cash dividends	(1,758,736)	
Purchase of treasury stock	(16,378,692)	(5,198,020)
Exercise of employee stock options	1,642,008	788,393
Net cash used in financing activities	(24,923,195)	(25,157,202)
Currency exchange	(54,971)	
Net increase (decrease) in cash and cash equivalents	13,249,294	(9,518,228)
Cash and cash equivalents at beginning of year	83,347,329	92,865,557
Cash and cash equivalents at end of year	\$ 96,596,623	\$ 83,347,329
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,334,219	\$ 1,877,234
Cash paid for (received from) income tax return	\$ (163,469)	\$ 67,683
Investing activities partially paid by cash:		
Acquisition of property, plant and equipment	\$ 17,586,514	\$ 49,065,072
Add: Payable at beginning of year	4,704,299	4,057,940
Payable transferred in from the Branch	1,573,637	84,675
Less: Payable at end of year	(5,277,863)	(4,704,299)
Cash paid for acquiring property, plant and equipment	\$ 18,586,587	\$ 48,503,388
Investing and financing activities not affecting cash flows:		
Principal amount of exchangeable bonds exchanged by bondholders	\$	\$ 11,614,141
Book value of reference shares delivered for exchange		(3,898,638)
Elimination of related balance sheet accounts		90,983
Recognition of gain on sales of investments	\$	\$ 7,806,486

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

UNITED MICROELECTRONICS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 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 its 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 a cumulative translation adjustment 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, and average exchange rates for profit and loss accounts. The cumulative translation effects from the Branch using functional currencies other than 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 at the balance sheet date. Cash dividends are recognized as dividend income at the point of receipt. Costs of money market funds and short-term notes are identified specifically while other marketable securities are determined on the weighted-average method. The market values of listed debts, equity securities and closed-end funds are determined by the average closing price during the last month of the fiscal year. The market value for open-end funds is determined by the net asset value at the balance sheet date. The amount by which the aggregate cost exceeds the market value is reported as a loss in the current year. In subsequent periods, recoveries of the market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment.

Allowance for Doubtful Accounts

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

Inventories

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

Long-term Investments

Long-term investments are recorded at acquisition cost. 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, are accounted for by the lower of aggregate cost or market value method. The unrealized loss resulting from the decline in market value of investments that are held for the purpose of long-term investment 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 an other than temporary impairment is evident and the book value after recognizing the losses shall be treated as 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 or has significant influence on operating decisions of the investees. The difference of the acquisition cost and the underlying equity in the investee's net assets is amortized over 5 years.

The change in the Company's proportionate share in the net assets of its investee resulting from its subscription to additional shares of stock, issued by such investee, at a 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 incurred with a gain or loss.

If the recoverable amount of investees accounted for under the equity method is less than its carrying amount, the difference is to be recognized as impairment loss in the current period.

Investees in which the Company, directly or indirectly, holds more than 50% of voting rights or controls more than half of the members of board of directors, by whom the investee is controlled, are consolidated into the Company's financial statement in accordance with the R.O.C. SFAS No.7.

Property, Plant and Equipment

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

Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are treated as capital expenditure and are depreciated accordingly. When property, plant and equipment are disposed, their original cost and accumulated depreciation are to 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 charged to non-operating expenses. The corresponding depreciation expenses provided are also classified as non-operating expenses.

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

Intangible Assets

Goodwill arising from the merger is amortized using the straight-line method over 15 years. As a result of the reorganization of UMCi Ltd., goodwill arising from the reorganization is amortized over 5 years. Technological know-how is stated at cost and amortized over its estimated economic life using the straight-line method.

The Company assesses whether there is any indication of impairment other than temporary. If any such indication exists, the recoverable amount is estimated and impairment loss is recognized accordingly. The book value after recognizing the impairment loss is recorded as the new cost.

Deferred Charges

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

The Company assesses whether there is any indication of impairment other than temporary. If any such indication exists, the recoverable amount is estimated and impairment loss is recognized accordingly. The book value after recognizing the impairment loss is recorded as the new cost.

Convertible and Exchangeable Bonds

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

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

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

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

Pension Plan

All regular employees are entitled to 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 hence, not associated with the Company. Therefore the fund shall not be 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, became effective on July 1, 2005. In accordance with the Act, employees may choose to elect either the Act, by retaining their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees who elect the Act, the Company will make monthly contributions of no less than 6% of the employees monthly wages to the employees' individual pension accounts.

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 all taken into consideration. For the defined contribution pension, the Company recognizes the pension amount as expense in the period in which the contribution becomes due.

Employee Stock Option Plan

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

Treasury Stock

The Company adopted the R.O.C. SFAS No. 30, which requires that 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 when ownership and liability for risk of loss or damage to the products have been transferred to customers, usually upon shipment. Sales returns and discounts taking into consideration customer complaints and past experiences are accrued in the same year of sales.

Capital Expenditure versus Operating Expenditure

Expenditure shall be capitalized when it is probable that future economic benefits associated with the expenditure will flow to the Company and the expenditure amount exceeds a predetermined level. Otherwise it is charged 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 when the difference is expected to reverse. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.

According to the R.O.C. SFAS No. 12, the Company recognized the tax benefit from the purchase of equipment and technology, research and development expenditure, employee training, and certain equity investment, 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 according to 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 the interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted-average outstanding shares are adjusted retroactively for stock dividends and bonus share issues.

Derivative Financial Instruments

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

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

Merger

The Company merged with SiSMC and recognized the sum of the difference between the acquisition costs, which are the market price of equity stocks issued and other related costs, and the fair value of the identifiable net assets acquired as goodwill in compliance with the 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 are 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 (except for goodwill) within the scope of the standard at each balance sheet date. If impairment is indicated, the Company compares the carrying amount with the recoverable amount of the assets or the cash-generating unit (CGU) and writes down the carrying amount to the recoverable amount where applicable. The recoverable amount is defined as the higher of fair value less the costs to sell, and the values in use.

For previously recognized losses, the Company assesses, at the balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have diminished. 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 reverses the impairment loss such that the resulting carrying amount of the asset shall not exceed the amount (net of amortization or depreciation), that would otherwise result 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 an impairment test reveals that the carrying amount (including goodwill) of CGU or group of CGUs is greater than its recoverable amount, there is an impairment loss. In allocating impairment losses, the portion of goodwill allocated is to be written down first. After goodwill has been written off, the remaining impairment loss, if any, is to be shared among other assets pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstance in the 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 resulted in a NT\$483 million decrease on the Company's net income, and a decrease of NT\$0.03 on earnings per share and total assets had decreased by NT\$483 million as of December 31, 2005.

4. CONTENTS OF SIGNIFICANT ACCOUNTS(1) CASH AND CASH EQUIVALENTS

	As of December 31,	
	2005	2004
Cash:		
Cash on hand	\$ 1,697	\$ 1,401
Checking and savings accounts	5,196,055	420,333
Time deposits	83,180,150	75,011,070
Subtotal	88,377,902	75,432,804
Cash equivalents:		
Government bonds acquired under repurchase agreements	8,218,721	7,914,525
Total	\$ 96,596,623	\$ 83,347,329

(2) MARKETABLE SECURITIES, NET

	As of December 31,	
	2005	2004
Convertible bonds	\$ 1,218,688	\$ 1,756,248
Listed equity securities	3,664,433	1,302,331
Total	\$ 4,883,121	\$ 3,058,579

(3) NOTES RECEIVABLE

	As of December 31,	
	2005	2004
Notes receivable	\$ 193	\$ 1,771

(4) ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2005	2004
Accounts receivable	\$ 4,950,122	\$ 3,605,964
Less: Allowance for sales returns and discounts	(121,930)	(314,087)
Less: Allowance for doubtful accounts	(53,574)	(83,420)
Net	\$ 4,774,618	\$ 3,208,457

(5) OTHER FINANCIAL ASSETS, CURRENT

As of December 31,

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

	2005	2004
Credit-linked deposits and repackage bonds	\$ 977,856	\$ 1,683,324
Interest rate swaps		35,532
Forward contracts		38,633
Total	977,856	1,757,489
Less: Non-current portion	(977,856)	(1,303,644)
Net	\$	\$ 453,845

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

(6) INVENTORIES, NET

	As of December 31,	
	2005	2004
Raw materials	\$ 266,949	\$ 202,272
Supplies and spare parts	1,708,187	1,922,374
Work in process	7,561,310	6,216,769
Finished goods	995,654	1,395,450
Total	10,532,100	9,736,865
Less: Allowance for loss on decline in market value and obsolescence	(568,847)	(1,193,403)
Net	\$ 9,963,253	\$ 8,543,462

a. The insurance coverage for inventories was sufficient as of December 31, 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 of December 31,			
	2005	Percentage of	2004	Percentage of
	Amount	Ownership or	Amount	Ownership or
		Voting Rights		Voting Rights
<u>Investments accounted for under the equity method:</u>				
UMC Group (USA)	\$ 753,519	100.00	\$ 720,500	100.00
United Microelectronics (Europe) B.V.	279,834	100.00	284,568	100.00
UMC Capital Corp.	2,051,350	100.00	1,310,493	100.00
United Microelectronics Corp. (Samoa)	14,179	100.00	5,854	100.00
UMCi Ltd. (Note A)	9,484	100.00	26,582,778	100.00
TLC Capital Co., Ltd.	2,991,258	100.00		
Fortune Venture Capital Corp. (Note B)	4,200,105	99.99	2,354,878	99.99
Hsun Chieh Investment Co., Ltd. (Hsun Chieh) (Note C)	(3,169,837)	99.97	10,296,356	99.97
United Microdisplay Optronics Corp.	318,151	86.72	441,618	83.48
Pacific Venture Capital Co., Ltd.	296,218	49.99	304,810	49.99
UMC Japan	6,341,144	48.95	8,842,456	47.42
Toppan Photomasks Taiwan Ltd. (formerly DuPont Photomasks Taiwan Ltd.)	1,063,671	45.35	1,058,515	45.35

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Investee Company	As of December 31,			
	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>				
Unitech Capital Inc.	\$ 638,946	42.00	\$ 730,930	42.00
Holtek Semiconductor Inc.	818,681	24.81	731,442	25.23
ITE Tech. Inc.	329,704	22.66	281,313	22.23
Unimicron Technology Corp.	4,015,626	20.43	3,465,809	21.43
Faraday Technology Corp. (Note D)	864,928	18.50	794,298	18.38
Silicon Integrated Systems Corp. (Note D)	3,921,878	16.59	4,226,303	16.16
XGI Technology Inc. (Note E)	82,807	16.53		
Thintek Optronics Corp. (Note E)	20,136	14.26		
AMIC Technology Corp. (Note E)	60,520	11.86	79,395	11.83
Novatek Microelectronics Corp. (Note D)	1,409,421	11.74	1,615,328	18.30
United Foundry Service, Inc. (Note F)			103,881	100.00
United Fu Shen Chen Technology Corp. (formerly Applied Component Technology Corp.) (Note G)			19,874	16.44
Subtotal	27,311,723		64,251,399	
<u>Investments accounted for under the cost method or the lower of cost or market value method:</u>				
United Fu Shen Chen Technology Corp. (formerly Applied Component Technology Corp.) (Note G)	40,000	16.60		
United Industrial Gases Co., Ltd.	146,250	7.95	146,250	8.11
Epitech Technology Corp. (Note H)	497,294	7.53		
MediaTek Inc.	613,447	6.24	969,048	10.06
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	4.93
Chipbond Technology Corp. (Note I)	235,893	4.48		
Billionton Systems Inc.	30,948	2.67	30,948	2.77
AU Optronics Corp. (Note J)	959,082	1.33	959,082	1.44
Mega Financial Holding Company	3,108,656	0.84	3,108,656	0.84
Premier Image Technology Corp.	27,964	0.60	27,964	0.59
Pacific Technology Partners, L.P. (Note K)	343,321		336,099	
Pacific United Technology, L.P. (Note K)	163,900		126,560	
Taiwan High Speed Rail Corp. (Note L)	300,000		300,000	
Subtotal	7,778,751		7,316,603	
Total	\$ 35,090,474		\$ 71,568,002	

- Note A: During 2004, the Company acquired an additional 24.95% of interest 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 cost is recorded as NT\$4,372 million and NT\$2,527 million as of December 31, 2005 and 2004, respectively. After deducting the subsidiary's holding of the Company's stock (treated as treasury stock) of NT\$172 million in both years, the residual book values totalled NT\$4,200 million and NT\$2,355 million as of December 31, 2005 and 2004, respectively.
- Note C: The cost is recorded as NT\$16,968 million and NT\$30,434 million as of December 31, 2005 and 2004, respectively. After deducting the subsidiary's holding of the Company's stock (treated as treasury stock) of NT\$20,137 million in both years, the residual of book values totalled NT\$(3,170) million and NT\$10,296 million as of December 31, 2005 and 2004, respectively.
- Note D: 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 E: The equity method was applied for investees, in which the total ownership held by the Company and its subsidiaries is over 20%.
- Note F: United Foundry Service, Inc. was liquidated in April 2005. All businesses, operations, and assets of the company were transferred to UMC Group (USA).
- Note G: In the third quarter of 2004 the Company recognized a permanent loss of NT\$85 million 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 Corp. Thus the cost method was appropriately applied instead of the equity method.
- Note H: As of August 1, 2005, the Company's former investee, Epitech Technology Corp. (accounted for under the cost method) merged into South Epitaxy Co., Ltd. and was retained as Epitech Technology Corp. One share of the former investee, Epitech Technology Corp. was exchanged for 1.36 shares of Epitech Technology Corp. As the Company held less than 20% voting rights and had no significant influences, the cost method was applied.
- Note I: As of September 1, 2005 the Company's former investee, Aptos (Taiwan) Corp. (accounted for under the equity method), merged into Chipbond Technology Corp. Three shares of Aptos (Taiwan) Corp. were exchanged for 1 share of Chipbond Technology Corp. As the Company held less than 20% voting rights and had no significant influences, the cost method was applied.
- Note J: As of December 2005 and 2004, the Company held 77,625 thousand and 71,215 thousand AU Optronics Corp. shares; among the shares held by the Company, 73,566 thousand and 66,109 thousand shares were utilized as reference shares for the Company's zero coupon exchangeable bonds, for year 2005 and 2004, respectively.

Note K: 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 L: The amount represented investment of 30 million in 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 audited financial statements of the investees, were NT\$2,677 million and NT\$2,509 million for the years ended December 31, 2005 and 2004, respectively. Among which, investment income amounting to NT\$821 million and NT\$631 million from the respective long-term investment balances of NT\$5,898 million and NT\$5,380 million as of December 31, 2005 and 2004, respectively, were determined based on the investees financial statements audited by other auditors.
- c. The long-term investments were not pledged.
- d. Effective from January 1, 2005, the Company has adopted the revised R.O.C. Statement of Financial Accounting Standards No.7 Consolidation of Financial Statements , to account for equity investments above 50%, directly or indirectly, or for investment holdings of less than 50% but has significant influence on the operation of the investees, in the consolidation report for the year ended December 31, 2005. The consolidated subsidiaries are as follows: UMC Group (USA), United Microelectronics (Europe) B.V., UMC Capital Corp., United Microelectronics Corp. (Samoa), United Foundry Service, Inc. (the liquidation process was completed in April 2005), TLC Capital Co., Ltd., UMCi Ltd., Fortune Venture Capital Corp., Hsun Chieh Investment Co., Ltd., United Microdisplay Optronics Corp., Thintek Optronics Corp., UMC Japan, Silicon Integrated Systems Corp. (ceased to possess control on June 27, 2005), XGI Technology Inc. (ceased to possess control on June 27, 2005), Unitruth Investment Corp. (investee 100% owned by Fortune Venture Capital Corp.), UMC Capital (USA) (investee 100% owned by UMC Capital Corp.), ECP VITA Ltd. (investee 100% owned by UMC Capital Corp.), Silicon Integrated Systems Corp. Hong Kong (ceased to possess control on June 27, 2005), Silicon Integrated Systems Corp. USA (ceased to possess control on June 27, 2005), Investar CPU Venture Capital Fund, Inc. LDC (liquidation process was completed during the first quarter of 2005), XGi Technology Inc. (Cayman) (ceased to possess control on June 27, 2005), and XGI Technology Inc. (USA) (ceased to possess control on June 27, 2005).

- e. In year 2004, the total assets and operating revenues of each following subsidiary including Fortune Venture Capital Corp., Unitruth Investment Corp. (100% owned subsidiary of Hsun Chieh), UMC Capital Corp., United Microelectronics Corp. (Samoa), and United Foundry Service, Inc. are each less than 10% of the total non-consolidated assets and operating revenues of the Company. The total combined assets or operating revenues for the above mentioned subsidiaries account for less than 30% of the Company's total non-consolidated assets or revenues. Therefore, the above mentioned subsidiaries are not included in the consolidated financial statements.

(8) PROPERTY, PLANT AND EQUIPMENT

	As of December 31, 2005		
	Cost	Depreciation	Book Value
Land	\$ 1,132,576	\$	\$ 1,132,576
Buildings	16,287,803	(4,668,161)	11,619,642
Machinery and equipment	366,982,250	(246,233,155)	120,749,095
Transportation equipment	88,413	(62,501)	25,912
Furniture and fixtures	2,199,773	(1,510,187)	689,586
Construction in progress and prepayments	15,592,805		15,592,805
Total	\$ 402,283,620	\$ (252,474,004)	\$ 149,809,616

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

- a. Total interest expense before capitalization amounted to NT\$1,133 million and NT\$1,402 million for the years ended December 31, 2005 and 2004, respectively.

Details of capitalized interest are as follows:

	For the year ended	
	December 31,	
	2005	2004
Machinery and equipment	\$ 210,689	\$ 218,554
Other property, plant and equipment	4,397	3,926
Total interest capitalized	\$ 215,086	\$ 222,480
Interest rates applied	2.86%~4.20%	2.30%~3.38%

b. The insurance coverage for property, plant and equipment was sufficient as of December 31, 2005 and 2004, respectively.

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

(9) OTHER ASSETS-OTHERS

	As of December 31,	
	2005	2004
Leased assets	\$ 1,366,695	\$ 1,382,090
Deposits-out	579,710	571,701
Others	59,118	122,160
Total	\$ 2,005,523	\$ 2,075,951

(a) The insurance coverage for leased assets was sufficient as of December 31, 2005 and 2004, respectively.

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

(10) ASSET IMPAIRMENT

Pursuant to the R.O.C. SFAS No. 35, Accounting for Asset Impairment, which became effective on January 1, 2005, the Company had recognized impairment loss of NT\$482.6 million for the year ended December 31, 2005. Details of impairment losses are as follows:

	For the year ended	
	December 31, 2005	
Investment loss accounted for under the equity method:		
Impairment recognized in proportion to percentage of ownership in equity investees	\$	322,408
Impairment loss:		
Long-term investments accounted for under the equity method		100,191
Other assets		60,000

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

Subtotal	160,191
Total	\$ 482,599

(11) SHORT-TERM LOANS

	As of December 31,	
	2005	2004
Unsecured bank loans	\$	\$ 1,904,400
Interest rates		2.52%~2.77%

Please refer to Note 6, in connection with the short-term loans.

The Company's unused short-term lines of credits amounted to NT\$8,026 million and NT\$6,487 million as of December 31, 2005 and 2004, respectively.

(12) BONDS PAYABLE

	As of December 31,	
	2005	2004
Secured domestic bonds payable	\$	\$ 570,003
Unsecured domestic bonds payable	30,500,000	32,750,000
Convertible bonds payable	12,540,432	
Exchangeable bonds payable	3,218,623	3,107,029
Total	46,259,055	36,427,032
Less: Current portion	(10,250,000)	(2,820,003)
Net	\$ 36,009,055	\$ 33,607,029

- 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 yearly installments at the rates of 30%, 30% and 40%.
- c. During the period from October 2 to October 15, 2001, the Company issued three-year and five-year unsecured bonds totaling NT\$10,000 million, each with a face value of NT\$5,000 million. The interest is paid annually with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds were repaid at 100% of its principal amount during the period from October 2 to October 15, 2004. The five-year bonds will be repayable in October 2006, upon the maturity of the bonds.

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

(a) Final Redemption

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

(b) Redemption at the Option of the Company

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

- i. On or at any time after June 13, 2003, the closing price of the ADSs 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 the maturity date, 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 year ended December 31, 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. The terms and conditions of the bonds are as follows:
- (a) Issue Amount: US\$235 million
 - (b) Period: May 10, 2002 ~ May, 10 2007
 - (c) Redemption
 - i. The Company may redeem the bonds, in whole or in part, after three months of the issuance and prior to the maturity date, 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 NTD34.645=USD 1.00.
 - ii. The Company may 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.
 - iii. 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.
 - iv. The Company will, at the option of the bondholders, redeem such bonds on February 10, 2005 at its principal amount.
 - (d) Terms of Exchange
 - i. Underlying securities: ADS or Common Share of AU Optronics Corp.
 - ii. Exchange Period: The bonds are exchangeable at any time on or after June 19, 2002 and prior to April 10, 2007, into AUO common shares or AUO ADSs; 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.
 - iii. Exchange Price and Adjustment: The exchange price is NTD46.10 per share, determined on the basis of a fixed exchange rate of NTD34.645=USD1.00. The exchange price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(e) Exchange of the Bonds

As of December 31, 2005 and 2004, certain bondholders have exercised their rights to exchange their bonds with the total principal amounts of US\$137 million and US\$137 million into AUO shares. The corresponding gain on the exchange amounting to NT\$0 and NT\$3,457 million for the year ended December 31, 2005 and 2004, respectively, was recognized as a gain on sales 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\$205.8 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\$34.39 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 December 31, 2004, all bondholders have exercised their rights to exchange their bonds into AUO shares. The corresponding gain on the exchange amounting to NT\$4,349 million for the year ended December 31, 2004 was recognized as a gain on sales of investments.

h. On October 5, 2005, the Company issued zero coupon convertible bonds on the EuroMTF Market of Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:

(a) Issue Amount: US\$381.4 million

(b) Period: October 5, 2005 ~ February 15, 2008 (Maturity date)

(c) Redemption:

- i On or at any time after April 5, 2007, if 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, the Company may redeem all, but not some only, of the bonds.
- ii If at least 90% in principal amount of the bonds have already been redeemed, repurchased, cancelled or converted, the Company may redeem all, but not some only, of the bonds.

- iii. In the event that the Company's ADSs or shares have officially cease to be listed or admitted for trading on the New York Stock Exchange or the Taiwan Stock Exchange, as the case may be, each bondholder shall have the right, at such bondholder's option, to require the Company to repurchase all, but not in part, of such bondholder's bonds at their principal amount.
- iv. In the event of certain changes in taxation in the R.O.C. resulting in the Company becoming required to pay additional amounts, the Company may redeem all, but not part, of the bonds at their principal amount bondholders may elect not to have their bonds redeemed by the Company in such event, in which case the bondholders shall not be entitled to receive payments of such additional amounts.
- v. If a change of control occurs with respect to the Company, each bondholder shall have the right at such bondholder's option, to require the Company to repurchase all, but not in part, of such bondholder's bonds at their principal amount.
- vi. The Company will pay the principal amount of the bonds at its maturity date, February 15, 2008.

(d) Conversion:

- i. Conversion Period: Except for the closed period, the bonds may be converted into the Company's ADSs on or after November 4, 2005 and on or prior to February 5, 2008.
- ii. Conversion Price and Adjustment: The conversion price is US\$3.814 per ADS. The applicable conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture.

(e) Reacquisition of the Bonds:

As of December 31, 2005, the Company did not reacquire any of the bonds from the open market.

- i. 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)

Bonds repayable in	Amount
2006	\$ 10,250,000
2007	5,468,623
2008	23,040,432
2009	
2010 and thereafter	7,500,000
Total	\$ 46,259,055

(13) PENSION FUND

- a. The Labor Pension Act of R.O.C. (the Act), which adopts a defined contribution plan, became effective on July 1, 2005. Employees may choose to elect either the Act, by retaining their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. According to the Act, the rate of contribution by any employer to an employee's pension account per month shall not be less than 6% of each employee's monthly salary or wage. The Company has made monthly contributions based on each individual employee's salary or wage to employees' pension accounts since July 1, 2005, and amounting to NT\$170 million as of December 31, 2005. Pension benefits for employees of the Branch are provided in accordance with the local regulations, and the company has contributed the amount of NT\$50 million as of December 31, 2005.

The defined benefit plan under the Labor Standards Law is disbursed based on the units of service years and the average salary in the last month of the service year. Two units per year are entitled for the first 15 years of services while one unit per year is entitled after the completion of the fifteenth year. The total units shall not exceed 45 units. In accordance to the plan, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Central Trust of China managed independently by an administered pension fund committee. The unrecognized net asset or obligation at transition based on actuarial valuation is amortized on a straight-line basis over 15 years.

- b. Change in benefit obligation during the year:

	For the year ended December 31,	
	2005	2004
Projected benefit obligation at beginning of year	\$ (3,790,299)	\$ (3,205,466)
Service cost	(302,509)	(410,619)
Interest cost	(132,660)	(112,191)
Benefits paid	10,883	15,053
Gain (loss) on projected benefit obligation	72,276	(77,076)
Projected benefit obligation at end of year	\$ (4,142,309)	\$ (3,790,299)

- c. Change in pension assets during the year:

	For the year ended December 31,	
	2005	2004
Fair value of plan assets at beginning of year	\$ 959,325	\$ 845,006
Actual return on plan assets	14,632	21,964
Contributions from employer	114,587	103,705
Benefits paid	(10,883)	(15,053)
Transferred in from merger with SiSMC		3,703
Fair value of plan assets at end of year	\$ 1,077,661	\$ 959,325

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

	As of December 31,	
	2005	2004
Benefit obligation		
Vested benefit obligation	\$ (39,069)	\$ (14,551)
Non-vested benefit obligation	(1,671,097)	(1,363,332)
Accumulated benefit obligation	(1,710,166)	(1,377,883)
Effect from projected salary increase	(2,432,143)	(2,412,416)
Projected benefit obligation	(4,142,309)	(3,790,299)
Fair value of plan assets	1,077,661	959,325
Funded status	(3,064,648)	(2,830,974)
Unrecognized net transitional benefit obligation	140,837	169,004
Unrecognized gain	(79,967)	(28,541)
Accrued pension liabilities recognized in the balance sheet	\$ (3,003,778)	\$ (2,690,511)

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

	For the year ended December 31,	
	2005	2004
Service cost	\$ 302,509	\$ 410,619
Interest cost	132,660	112,191
Expected return on plan assets	(35,482)	(23,238)
Amortization of unrecognized transitional net benefit obligation	28,167	28,167
Transferred from SiSMC in the merger		8,844
Net periodic pension cost	\$ 427,854	\$ 536,583

The actuarial assumptions underlying are as follows:

	For the year ended December 31,	
	2005	2004
Discount rate	3.00%	3.50%
Rate of salary increase	4.50%	5.00%
Expected return on plan assets	3.00%	3.50%

(14) CAPITAL STOCK

a. 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.

- b. 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\$13,336 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.
- c. On July 22, 2004, the Company cancelled 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.
- d. The employee stock option issued by the Company on October 7, 2002 became exercisable in 2004; 44,138 thousand shares were exercised during 2004. The effective date of issuance of new shares was December 28, 2004.
- e. As of December 31, 2004, 22,000,000 thousand common shares were authorized to be issued and 17,791,982 thousand common shares were issued, each at a par value of NT\$10.
- f. On April 26, 2005, the Company cancelled 49,114 thousand shares of treasury stocks, which were bought back during the period from February 20 to April 19, 2002 for transfer to employees.
- g. 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.
- h. Among the employee stock options issued by the Company on October 7, 2002 and January 3, 2003, 95,814 thousand shares were exercised during 2005. The effective dates of capitalization were March 15, September 28 and December 26, 2005.
- i. As of December 31, 2005, 26,000,000 thousand common shares were authorized to be issued and 19,794,703 thousand common shares were issued, each at a par value of NT\$10. The exercise of employee stock options of 28,845 thousand common shares were issued on December 26, 2005, and registration was completed on January 16, 2006.
- j. The Company has issued a total of 276,820 thousand ADSs which were traded on the NYSE as of December 31, 2005. The total number of common shares represented by all issued ADSs is 1,384,102 thousand shares (one ADS represents five common shares).

(15) EMPLOYEE STOCK OPTIONS

On September 11, 2002, October 8, 2003, September 30, 2004, and December 22, 2005, the Company was authorized by the Financial Supervisory Commission, Executive Yuan - Securities and Futures Bureau, to issue Employee Stock Options with a total number of 1 billion, 150 million, 150 million, and 350 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 the options was set at the closing price of the Company's common stock on the date of grant. The grant period for 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:

Date of grant	Total number of options granted (in thousands)	Total number of options outstanding (in thousands)	Exercise price (NTD)
October 7, 2002	939,000	665,338	\$ 15.9
January 3, 2003	61,000	49,222	\$ 17.9
November 26, 2003	57,330	47,960	\$ 25.0
March 23, 2004	33,330	25,570	\$ 23.2
July 1, 2004	56,590	47,530	\$ 20.9
October 13, 2004	20,200	16,350	\$ 18.0
April 29, 2005	23,460	20,110	\$ 16.6
August 16, 2005	54,350	51,850	\$ 21.9
September 29, 2005	51,990	51,390	\$ 20.0

- a. A summary of the Company's stock option plans, and related information for the years ended December 31, 2005 and 2004 are as follows:

	For the year ended December 31,			
	2005		2004	Weighted-average Exercise Price
	Option (in thousands)	Weighted-average Exercise Price (NTD)	Option (in thousands)	Price (NTD)
Outstanding at beginning of year	973,858	\$ 17.0	980,664	\$ 16.5
Granted	129,800	\$ 20.2	110,120	\$ 21.1
Exercised	(95,814)	\$ 15.9	(44,138)	\$ 15.9
Forfeited	(32,524)	\$ 18.8	(72,788)	\$ 17.3
Outstanding at end of year	975,320	\$ 17.5	973,858	\$ 17.0
Exercisable at end of year	528,373		368,896	
Weighted-average fair value of options granted during the year (NTD)	\$ 6.5		\$ 3.8	

b. The information of the Company's outstanding stock options as of December 31, 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	714,560	1.2	\$ 16.0	504,393	\$ 16.0
2003.10.08	\$ 20.9~\$25.0	121,060	2.6	\$ 23.0	23,980	\$ 25.0
2004.09.30	\$ 16.6~\$21.9	139,700	3.9	\$ 20.0		
		975,320	1.7	\$ 17.5	528,373	\$ 16.4

c. The Company has used the intrinsic value method to recognize compensation costs for its employee stock options issued since January 1, 2004. The compensation cost for the year ended December 31, 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 year ended December 31, 2005	
	Basic earnings per share	Diluted earnings per share
Net Income	\$ 7,026,692	\$ 7,026,692
Earnings per share (NTD)	\$ 0.38	\$ 0.38
Pro forma net income	\$ 6,782,033	\$ 6,782,033
Pro forma earnings per share (NTD)	\$ 0.37	\$ 0.36

	For the year ended December 31, 2004	
	(retroactively adjusted)	
	Basic earnings per share	Diluted earnings per share
Net Income	\$ 31,843,381	\$ 31,873,101
Earnings per share (NTD)	\$ 1.70	\$ 1.67
Pro forma net income	\$ 31,761,407	\$ 31,791,127
Pro forma earnings per share (NTD)	\$ 1.69	\$ 1.67

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 year ended December 31, 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 48.64%; risk-free interest rate of 1.92% and 2.78%; and a weighted-average expected life of the options of 4.4 years, respectively.

(16) TREASURY STOCK

- a. The Company bought back its own shares from the open market during the years ended December 31, 2005 and 2004. Details of the treasury stock transactions are as follows:

For the year ended December 31, 2005

(In thousands of shares)

Purpose	As of			As of
	January 1, 2005	Increase	Decrease	December 31, 2005
For transfer to employees	241,181	250,000	49,114	442,067
For conversion of the convertible bonds into shares		500,000		500,000
Total shares	241,181	750,000	49,114	942,067

For the year ended December 31, 2004

(In thousands of shares)

Purpose	As of			As of
	January 1, 2004	Increase	Decrease	December 31, 2004
For transfer to employees	49,114	192,067		241,181
For conversion of the convertible bonds into shares	149,728		149,728	
Total shares	198,842	192,067	149,728	241,181

- b. The eighth buyback plan of 500,000 thousand shares of treasury stock was originally intended for the purpose of transferring to employees. However, as a result of the board of directors meeting held on September 9, 2005, the shares were approved for the use of conversion of convertible bonds into shares instead. The relevant government authorities had approved the buyback plan.
- c. According to the Securities and Exchange Law of the R.O.C., the total shares of treasury stock shall not exceed 10% of the Company's issued stock; total purchase amount shall not exceed the sum of the retained earnings, capital reserve-premiums, and realized capital reserve. As such, the maximum number of treasury stock that the Company could hold as of December 31, 2005 and 2004 was 1,979,470 thousand shares and 1,779,198 thousand shares while the ceiling of the amount was NT\$90,851 million and NT\$89,425 million, respectively. As of December 31, 2005 and 2004, the Company held 942,067 thousand shares and 241,181 thousand shares of treasury stock, which amounted to NT\$21,577 million and NT\$7,376 million, respectively.
- d. Treasury stock shall not be pledged, nor does it entitle voting rights or receive dividends, in compliance with the Securities and Exchange Law of the R.O.C.

- e. As of December 31, 2005, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Corp., held 599,696 thousand shares and 21,847 thousand shares of the Company's stock, with a book value of NT\$18.98 and NT\$7.87 per share, respectively. The average closing price during December 2005 was NT\$18.98.

As of December 31, 2004, the Company's subsidiaries, Hsun Chieh Investment Co., Ltd. and Fortune Venture Capital Corp., held 543,732 thousand shares and 19,808 thousand shares of the Company's stock, with a book value of NT\$20.08 and NT\$8.68 per share, respectively. The average closing price during December 2004 was NT\$20.08.

(17) RETAINED EARNINGS AND DIVIDEND POLICIES

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

- 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 is to 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 shall make the distribution proposal annually and present it 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.

The appropriation of 2005 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on the board of directors' recommendations and shareholders' approval can be obtained from the Market Observation Post System on the website of the TSE.

The appropriation of 2004 retained earnings was approved by the board of directors on March 17, 2005. Through unanimous decision at the shareholders' meeting, held on June 13, 2005, NT\$0.10 of cash dividend per share is to be distributed.

Details of the 2004 employee bonus settlement and directors' and supervisors' remuneration are as follows:

	For the year ended December 31, 2004		Differences
	As approved by the shareholders meeting	As recommended by the board of directors	
1. Settlement of employees' bonus by issuance of new shares			
a. Number of shares (in thousands)	197,286	197,286	
b. Amount	\$ 1,972,855	\$ 1,972,855	
c. Percentage on total number of outstanding shares at year end (%)	1.12	1.12	
2. Remuneration paid to directors and supervisors	\$ 27,006	\$ 27,006	
3. Effect on earnings per share before retroactive adjustments			
a. Basic and diluted earnings per share (NTD)	\$1.89/1.86	\$1.89/1.86	
b. Pro forma basic and diluted earnings per share taking into consideration employees' bonus and directors' and supervisors' remuneration (NTD)	\$1.77/1.75	\$1.77/1.75	

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

- a. According to the explanatory letter No. 101801 of the Securities and Futures Commission (SFC), if the Company recognizes the investees' capital reserve-excess from the merger in proportion to the ownership percentage-then the special reserve is exempted for the amount originated from the acquisition of the long-term investments.
- b. However, if the Company and its investees transfer a portion of the capital reserve to increase capital, a special reserve equal to the amount of the transfer shall be provided according to the explanatory letter No.101801-1 of the SFC.

- c. In accordance with the explanatory letter No.170010 of the SFC applicable to listed companies, when the market value of the Company's stock held by its subsidiaries at year-end is lower than the book value, a special reserve shall be provided for in the Company's accounts in proportion to its ownership percentage.

For the 2004 appropriations approved by the shareholders' meeting on June 13, 2005, unrealized loss on long-term investments exempted from the provision of special reserve pursuant to the above regulations amounted to NT\$18,667 million.

(18) OPERATING COSTS AND EXPENSES

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

	For the year ended December 31,					
	Operating costs	2005 Operating expenses	Total	Operating costs	2004 Operating expenses	Total
Personnel expenses						
Salary	\$ 6,252,412	\$ 2,180,082	\$ 8,432,494	\$ 6,804,389	\$ 2,148,418	\$ 8,952,807
Labor and health insurance	410,228	113,429	523,657	382,323	100,524	482,847
Pension	488,932	159,427	648,359	387,675	148,908	536,583
Other personnel expenses	67,096	27,928	95,024	72,600	40,032	112,632
Depreciation	44,221,133	1,888,140	46,109,273	36,691,504	1,892,675	38,584,179
Amortization	176,459	2,119,210	2,295,669	74,603	1,051,031	1,125,634

The numbers of employees as of December 31, 2005 and 2004 were 12,068 and 10,642, respectively.

(19) INCOME TAX

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

	For the year ended December 31,	
	2005	2004
Income tax on pre-tax income at statutory tax rate	\$ 2,466,936	\$ 7,969,313
Permanent differences	(2,523,713)	(5,044,599)
Change in investment tax credit	6,942,626	(6,356,507)
Change in valuation allowance	(6,885,849)	3,461,178
Income tax on interest revenue separately taxed	838	4,524
Income tax expense	\$ 838	\$ 33,909

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

	As of December 31,			
	2005		2004	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets				
Investment tax credit		\$ 13,609,045		\$ 22,150,454
Loss carry-forward	\$ 14,671,930	3,667,982	\$ 16,861,498	4,215,375
Pension	3,001,282	750,321	2,564,784	641,196
Allowance on sales returns and discounts	779,688	194,922	1,074,859	268,715
Allowance for loss on obsolescence of inventories	252,855	63,214	1,193,403	298,351
Others	571,066	142,766	163,666	40,916
Total deferred income tax assets		18,428,250		27,615,007
Valuation allowance		(8,675,361)		(15,561,210)
Net deferred income tax assets		9,752,889		12,053,797
Deferred income tax liabilities				
Unrealized exchange gain			(998,937)	(249,734)
Depreciation	(9,667,939)	(2,416,985)	(17,872,634)	(4,468,159)
Total deferred income tax liabilities		(2,416,985)		(4,717,893)
Total net deferred income tax assets		\$ 7,335,904		\$ 7,335,904
Deferred income tax assets - current		\$ 6,354,040		\$ 9,660,216
Deferred income tax liabilities - current				(249,734)
Valuation allowance		(3,019,530)		(5,886,193)
Net		3,334,510		3,524,289
Deferred income tax assets - noncurrent		12,074,210		17,954,791
Deferred income tax liabilities - noncurrent		(2,416,985)		(4,468,159)
Valuation allowance		(5,655,831)		(9,675,017)
Net		4,001,394		3,811,615
Total net deferred income tax assets		\$ 7,335,904		\$ 7,335,904

c. The Company's income tax returns for all the fiscal years up to 2002 have been assessed and approved by the Tax Authority.

d. Pursuant to the Statute for the Establishment and Administration of Science Park of R.O.C., the Company was granted several four-year income tax exemption periods with respect to income derived from the expansion of operations. The starting date of the exemption period attributable to the expansion in 2001 had not yet been decided. The income tax exemption for other periods will expire on December 31, 2010.

- e. The Company earns investment tax credits for the amount invested in production equipment, research and development, and employee training.

As of December 31, 2005, the Company's unused investment tax credit was as follows:

Expiration Year	Investment tax credits earned	Balance of unused investment tax credits
2005	\$ 3,175,299	\$ 226,777
2006	3,656,565	3,041,093
2007	1,996,790	1,996,790
2008	3,166,290	3,166,290
2009	5,178,095	5,178,095
Total	\$ 17,173,039	\$ 13,609,045

- f. Under the rules of the Income Tax Law of the R.O.C., net loss can be carried forward for 5 years. As of December 31, 2005, the unutilized accumulated loss was as follows:

Expiration Year	Accumulated loss	Unutilized accumulated loss
2006	\$ 10,856,896	\$ 10,856,896
2007	3,773,826	3,773,826
2008 (Transferred in from merger with SiSMC)	2,283	2,283
2009 (Transferred in from merger with SiSMC)	38,925	38,925
Total	\$ 14,671,930	\$ 14,671,930

- g. The balance of the Company's imputation credit accounts as of December 31, 2005 and 2004 were NT\$29 million and NT\$0.4 million, respectively. The creditable ratio for 2004 and 2003 was 0.35% and 0.69%, respectively.
- h. As of December 31, 2005 and 2004, the Company's earnings generated from December 31, 1997 and prior years, have been appropriated.

(20) EARNINGS PER SHARE

- a. The Company held zero coupon convertible bonds and employee stock options during 2005, and thus has a complex capital structure. The calculation of basic and diluted earnings per share, for the years ended December 31, 2005 and 2004, was disclosed as follows:

<i>(shares expressed in thousands)</i>	For the year ended December	
	2005	2004 (retroactively adjusted)
	31,	
Income before income tax	\$ 7,027,530	\$ 31,877,290
Effect of dilution:		
Employee stock options	\$	\$
Convertible bonds	\$	\$ 39,626
Adjusted income before income tax assuming dilution	\$ 7,027,530	\$ 31,916,916
Net income after income tax	\$ 7,026,692	\$ 31,843,381
Effect of dilution:		
Employee stock options	\$	\$
Convertible bonds	\$	\$ 29,720
Adjusted net income assuming dilution	\$ 7,026,692	\$ 31,873,101
Weighted-average of shares outstanding	18,410,922	18,753,969
Effect of dilution:		
Employee stock options	159,601	274,141
Convertible bonds	120,548	25,026
Adjusted weighted average of shares outstanding assuming dilution	18,691,071	19,053,136
Earnings per share-basic (NTD)		
Income before income tax	\$ 0.38	\$ 1.70
Net income	\$ 0.38	\$ 1.70
Earnings per share-diluted (NTD)		
Income before income tax	\$ 0.38	\$ 1.68
Net income	\$ 0.38	\$ 1.67

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

(shares expressed in thousands)

For the year ended December 31, 2005

	Basic	Diluted
Net income	\$ 7,026,692	\$ 7,026,692
Weighted average of shares outstanding:		
Beginning balance	17,550,801	17,550,801
Stock dividends and employees bonus at 11.4% in 2005	2,009,072	2,009,072
Purchase of 750,000 thousand shares of treasury stock in 2005	(349,945)	(349,945)
Exercise of 95,814 thousand units of employees stock options	43,762	43,762
Dilutive shares of employee stock options accounted for under treasury stock method		159,601
Dilutive shares issued assuming conversion of bonds		120,548
Ending balance	19,253,690	19,533,839
Earnings per share		
Net income (NTD)	\$ 0.36	\$ 0.36

(shares expressed in thousands)

For the year ended December 31,

	2004 (retroactively adjusted) Basic	Diluted
Net income	\$ 31,843,381	\$ 31,873,101
Weighted average of shares outstanding:		
Beginning balance	15,941,901	15,941,901
Stock dividends and employees bonus at 8.7% in 2004	1,385,341	1,385,341
Stock dividends and employees bonus at 11.4% in 2005	1,983,481	1,983,481
Purchase of 192,067 thousand shares of treasury stock in 2004	(147,348)	(147,348)
Issuance of 357,143 thousand shares of stocks from merger with SiSMC	217,489	217,489
Exercise of 44,138 thousand units of employees stock options	5,166	5,166
Dilutive shares of employee stock options accounted for under treasury stock method		274,141
Dilutive shares issued assuming conversion of bonds		25,026
Ending balance	19,386,030	19,685,197
Earnings per share		
Net income (NTD)	\$ 1.64	\$ 1.62

(21) MERGER

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

a. Information of the dissolved company:

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

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

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

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

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

d. Acquisition costs and the types, quantities, and amounts of securities issued for the merger:

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

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

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

f. Contingent price, warrants, or commitments and accounting treatments in the merger contracts:
None.

g. Decisions of disposal of significant assets from the merger:
None.

h. Pro forma information on operating results:
The operating result for the period from July 1, 2004 to December 31, 2004 of the dissolved company was consolidated into the financial statements of the Company.

The pro forma operating results from January 1, 2004 to June 30, 2004 of SiSMC are included in the following pro forma information. The pro forma information on the operating results stated below is based on the assumption that the Company merged with SiSMC on January 1, 2004.

(Shares expressed in thousands)

	For the year ended December 31, 2004
Net operating revenues	\$ 119,567,347
Net income	\$ 30,669,982
Weighted-average of shares outstanding	18,969,094
Earnings per share-basic (NTD)	\$ 1.62

5. RELATED PARTY TRANSACTIONS

(1) Name and Relationship of Related Parties

Name of related parties	Relationship with the Company
UMC Group (USA) (UMC-USA)	Equity investee
United Foundry Service, Inc. (liquidated in April 2005)	Equity investee
United Microelectronics (Europe) B.V. (UME BV)	Equity investee
UMC Capital Corp.	Equity investee
United Microelectronics Corp. (Samoa)	Equity investee
Fortune Venture Capital Corp. (Fortune)	Equity investee
Hsun Chieh Investment Co., Ltd. (Hsun Chieh)	Equity investee
UMCi Ltd. (UMCi)	Equity investee
United Microdisplay Optronics Corp.	Equity investee
UMC Japan (UMCJ)	Equity investee

Name of related parties	Relationship with the Company
Toppan Photomasks Taiwan Ltd. (formerly DuPont Photomasks Taiwan Ltd.) (Toppan)	Equity investee
Holtek Semiconductor Inc. (Holtek)	Equity investee
Unitech Capital Inc.	Equity investee
ITE Tech. Inc.	Equity investee
Unimicron Technology Corp.	Equity investee
Novatek Microelectronics Corp.	Equity investee
Faraday Technology Corp. (Faraday)	Equity investee
Silicon Integrated Systems Corp.	Equity investee
AMIC Technology Corp.	Equity investee
Pacific Venture Capital Co., Ltd.	Equity investee
Aptos (Taiwan) Corp. (Aptos) (merged into Chipbond Technology Corp. on September 1, 2005)	Equity investee
Thintek Optronics Corp.	Equity investee
XGI Technology Inc.	Equity investee
TLC Capital Co., Ltd.	Equity investee
Chiao Tung Bank Co., Ltd. (Chiao Tung) (ceded the supervisory role on May 30, 2005)	The Company's supervisor
Davicom Semiconductor, Inc.	Subsidiary's equity investee
Unitruth Investment Corp. (Unitruth)	Subsidiary's equity investee
Uwave Technology Corp. (formerly United Radiotek Inc.)	Subsidiary's equity investee
UCA Technology, Inc.	Subsidiary's equity investee
Afa Technologies, Inc.	Subsidiary's equity investee
Star Semiconductor Corp.	Subsidiary's equity investee
Aevoe Inc.	Subsidiary's equity investee
USBest Technology Inc.	Subsidiary's equity investee
Smedia Technology Corp.	Subsidiary's equity investee
U-Media Communications, Inc.	Subsidiary's equity investee
Chip Advanced Technology Inc.	Subsidiary's equity investee
Crystal Media Inc.	Subsidiary's equity investee
ULi Electronics Inc.	Subsidiary's equity investee
HARVATEK Corp.	Subsidiary's equity investee
Mobile Devices Inc.	Subsidiary's equity investee

(2) Significant Related Party Transactions

a. Operating revenues

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$ 43,226,036	48	\$ 53,751,976	46
UME BV	6,839,285	7	19,685,139	17
Others	14,837,519	16	11,179,096	9
Total	\$ 64,902,840	71	\$ 84,616,211	72

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

b. Purchases

	For the year ended December 31,			
	2005		2004	
	Amount	Percentage	Amount	Percentage
UMCi	\$ 1,244,347	5	\$ 2,987,721	11

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

c. Notes receivable

	As of December 31,			
	2005		2004	
	Amount	Percentage	Amount	Percentage
Holtek	\$ 62,136	100	\$ 39,034	96

d. Accounts receivable, net

	As of December 31,			
	2005		2004	
	Amount	Percentage	Amount	Percentage
UMC-USA	\$ 4,559,933	35	\$ 4,389,514	36

Edgar Filing: UNITED MICROELECTRONICS CORP - Form 6-K

UME BV	545,166	4	1,875,964	16
Others	3,219,539	24	2,139,712	18
Total	8,324,638	63	8,405,190	70
Less: Allowance for sales returns and discounts	(690,292)		(760,772)	
Less: Allowance for doubtful accounts	(111,393)		(197,956)	
Net	\$ 7,522,953		\$ 7,446,462	

e. Accounts payable

	As of December 31,			
	2005		2004	
	Amount	Percentage	Amount	Percentage
UMCi	\$		\$ 800,805	18

f. Financial activities

Other receivables related parties

	For the year ended December 31, 2005				
	Maximum balance				Interest
	Amount	Month	Ending balance	Interest rate	revenue
UMCi	\$ 5,137,760	2005.03	\$	2.74%~3.05%	\$ 7,669

Loans

	For the year ended December 31, 2004				
	Maximum balance				Interest
	Amount	Month	Ending balance	Interest rate	expense
Chiao Tung	\$ 282,547	2004.01	\$	1.83%~2.53%	\$ 2,453

g. Acquisitions of assets

	For the year ended December 31, 2005	
	Item	Amount
Fortune	Purchase of Aptos (Taiwan) Corp. Stock	\$ 140,231
Fortune	Purchase of Epitech Technology Corp. stock	185,840
Hsun Chieh	Purchase of Epitech Technology Corp. stock	97,658
Unitruth	Purchase of Epitech Technology Corp. stock	16,495
Total		\$ 440,224

	For the year ended December 31, 2004	
	Item	Amount
UMCJ	Purchase UMCi stock	\$ 3,947,580
UMCi	Purchase UMCi equipment	165,703
Total		\$ 4,113,283

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

- h. As of December 31, 2005, the ending balance of endorsement provided to UMC Japan totaled NT\$2,932 million.
- i. Other transactions

The Company has made several other transactions, including service charges, joint development expenses of intellectual property, and commissions etc., with related parties totaling approximately NT\$721 million and NT\$940 million for the years ended December 31, 2005 and 2004, respectively.

The Company has purchased approximately NT\$476 million and NT\$442 million of masks from Toppan during the years ended December 31, 2005 and 2004, respectively.

As of December 31, 2005, the joint development contracts of intellectual property entered into with related parties have amounted to approximately NT\$2,550 million, and a total amount of NT\$1,550 million has been paid. As of December 31, 2004, the joint development contracts of intellectual property entered into with related parties have amounted to approximately NT\$2,203 million, and a total amount of NT\$1,157 million has been paid.

As of December 31, 2005 and 2004, other receivables arising from the usage of facilities and rental revenue from related parties are NT\$22 million and NT\$23 million, respectively.

6. ASSETS PLEDGED AS COLLATERAL

As of December 31, 2005

	Amount	Financial institution that assets were pledged to	Purpose of pledge
Deposits-out (Time deposit)	\$ 520,730	Customs	Customs duty guarantee

As of December 31, 2004

	Amount	Financial institution that assets were pledged to	Purpose of pledge
Machinery and equipment	\$ 2,907,092	The International Commercial Bank of China	Bonds payable
Deposits-out (Time deposit)	523,627	Customs	Customs duty guarantee
Total	\$ 3,430,719		

7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) The Company has entered into several patent license agreements and joint development contracts of intellectual property for a total contract amount of approximately NT20 billion. Royalties and joint development fees for the future years are set out as follows:

For the year ended December 31,	Amount
2006	\$ 4,945,944
2007	1,761,223
2008	468,302
2009	257,945
2010	95,151
Total	\$ 7,528,565

- (2) The Company signed several construction contracts for the expansion of its factory space. As of December 31, 2005, these construction contracts have amounted to approximately NT\$590 million and the unpaid portion of the contracts was approximately NT\$480 million.
- (3) The Company entered into several operating lease contracts for land. These operating leases expire in various years through 2032 and are renewable. Future minimum lease payments under those leases are as follows:

For the year ended December 31,	Amount
2006	\$ 198,360
2007	184,549
2008	182,051
2009	182,391
2010	182,740
2011 and thereafter	1,899,443
Total	\$ 2,829,534

- (4) Oak Technology, Inc. (Oak) and UMC entered into a settlement agreement on July 31, 1997 concerning a complaint filed with the United States International Trade Commission (ITC) by Oak against UMC and others, alleging unfair trade practices based on alleged patent infringement regarding certain CD-ROM controllers (the first Oak ITC case). On October 27, 1997, Oak filed a civil action in a California federal district court, alleging claims for breach of the settlement agreement and fraudulent misrepresentation. In connection with its breach of contract and other claims, Oak seeks damages in excess of US\$750 million. UMC denied the material allegations of the Complaint, and asserted counterclaims against Oak for breach of contract, intentional interference with economic advantage and rescission and restitution based on fraudulent concealment and/or mistake. UMC also asserted declaratory judgment claims for invalidity and unenforceability of the relevant Oak patent. On May 2, 2001, the United States Court of Appeals for the Federal Circuit upheld findings by the ITC that there had been no patent infringement and no unfair trade practice arising out of a second ITC case filed by Oak against UMC and others. Based on the Federal Circuit's opinion and on a covenant not to sue filed by Oak, UMC's declaratory judgment patent counterclaims were dismissed from the district court case. In November 2002, UMC filed motions for summary judgment on each of Oak Technology's claims against UMC. In that same period, Oak Technology filed motions seeking summary judgment on UMC's claims for fraudulent concealment and intentional interference with economic advantage, and on various defenses asserted by UMC. In May 2005, the Court issued the following orders: (i) granting UMC's motion for summary judgment on Oak Technology's claim for breach of the settlement agreement; (ii) granting in part and denying in part UMC's motion for summary judgment on Oak Technology's claim for breach of the implied covenant of good faith and fair dealing; (iii) denying a motion by UMC for summary judgment on Oak Technology's fraud claim based on alleged patent invalidity under 35 U.S.C. § 112; (iv) granting Oak Technology's motion for summary judgment on UMC's fraudulent concealment claims; and (v) granting a motion by Oak Technology for summary judgment on certain of UMC's defenses. On February 9, 2006, the parties entered a settlement agreement in which UMC, Oak and Zoran (the successor to Oak) fully and finally released one another from any and all claims and liabilities arising out of the facts alleged in the district court case. The terms of settlement are confidential, and, except for the obligation to keep the terms confidential, impose no obligation on UMC.
- (5) The Company entered into several wafer-processing contracts with its customers. According to the contracts, the Company shall guarantee processing capacity, while these customers make deposits to the Company.

- (6) The Company has entered into contracts for the purchase of materials and masks with certain vendors. These contracts oblige the Company to purchase specified amounts or quantities of materials and masks. Should the Company fail to fulfill the conditions set out in the contracts, the differences between the actual purchase and the required minimum will be reconciled between the Company and its vendors.

- (7) On February 15, 2005, the Hsinchu District Prosecutor's Office conducted a search of the Company's facilities. On February 18, 2005, the Company's former Chairman Mr. Robert H.C. Tsao, released a public statement, explaining that its assistance to Hejian Technology Corp. (Hejian) did not involve any investment or technology transfer. Furthermore, from the very beginning Hejian had a verbal indication that, at the proper time, the Company would be compensated appropriately for its assistance, and circumstances permitting, at some time in the future, it will push through the merger between two companies. Notwithstanding the foregoing, no written agreement was made and executed at that time. Upon the Company's request to materialize the verbal indication of Hejian by compensating in the form of either cash or equity, the Chairman of the holding company of Hejian offered 15% of the outstanding shares of the holding company of Hejian in return for the Company's past assistance and for continued assistance in the future.

The holding company has already issued a total of 700 million shares and the subscription price per share in the last offering is US\$1.1. Therefore, the total market value of the holding company is estimated at over US\$700 million, with 15% of this figure being worth more than US\$110 million. Immediately after the Company had received the offer, it filed an application with the Investment Commission of the Ministry of Economic Affairs on March 18, 2005 (Ref. No. 94-Lian-Tung-Tzu-0222), for their executive guidance for the successful transfer of said shares to the Company. Furthermore, the representative of Hejian is putting the shares in escrow to protect the Company's interests. In the event Hejian distributes any stock dividend or cash dividend, the Company's stake in Hejian will accumulate accordingly.

In April 2005, the Company's former Chairman Mr. Robert H.C. Tsao was personally fined with in the aggregate amount of NT\$3 million by the Financial Supervisory Commission, Executive Yuan, R.O.C. (R.O.C. SFC) for failure to disclose material information relating to Hejian in accordance with applicable rules. As a result of the imposition of the fines by the R.O.C. FSC, the Company was also fined in the amount of NT\$30,000 by Taiwan Stock Exchange (TSE) for the alleged non-compliance with the disclosure rules in relation to the material information. The Company and its former Chairman Mr. Robert H.C. Tsao have filed for administrative appeal and reconsideration with R.O.C. SFC and TSE, respectively. As of December 31, 2005, the result of such reconsideration and administrative appeal has not been finalized.

