

**UNITED MICROELECTRONICS CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT AUDITORS  
FOR THE YEARS ENDED  
DECEMBER 31, 2002 AND 2001**

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 consolidated balance sheets of United Microelectronics Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As described in Note 4(6) to the consolidated financial statements, certain long-term investments were accounted for under the equity method based on the 2002 and 2001 financial statements of the investees, which were audited by other auditors. Our opinion insofar as it relates to the investment loss amounting to NT\$58 million and NT\$1,357 million for the years ended December 31, 2002 and 2001, respectively, and the related long-term investment balances of NT\$7,350 million and NT\$9,483 million as of December 31, 2002 and 2001, respectively, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Microelectronics Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

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

January 16, 2003  
Taipei, Taiwan  
Republic of China

#### **Notice to Readers**

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

English Translation of Financial Statements Originally Issued in Chinese  
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 December 31, 2002 and 2001  
 (Expressed in thousands of New Taiwan dollars)

Assets	Notes	2002	2001	Liabilities and Stockholders' Equity	Notes	2002	2001
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash and cash equivalents	2, 4(1)	\$ 80,883,408	\$ 76,904,068	Short-term loans	4(8), 6	\$ 1,178,800	\$ 753,450
Marketable securities, net	2, 4(2)	2,526,365	1,286,434	Notes payable		89,313	21,128
Notes receivable	4(3)	83,001	113,681	Accounts payable		4,420,351	2,439,892
Notes receivable - related parties	5	2,370	102,011	Accounts payable - related parties	5	398,681	490,427
Accounts receivable, net	2, 4(4), 6	9,800,607	7,126,712	Income tax payable	2	284,678	219,877
Accounts receivable - related parties, net	2, 5	2,201,045	1,760,888	Accrued expenses		4,032,474	5,678,713
Other receivables	2	1,249,212	1,081,576	Other payables		8,788,838	12,482,283
Other receivables - related parties	2, 5	1,910,268	1,949,597	Current portion of long-term debts	4(9), 4(10), 5, 6	7,781,598	9,720,178
Inventories, net	2, 4(5)	8,440,005	5,717,203	Other current liabilities		2,172,680	2,718,257
Prepaid expenses		800,491	788,936	Subtotal		29,147,413	34,524,205
Deferred income tax assets	2, 4(16)	2,994,572	3,954,867				
Other current assets		30,833	567	<b>Long-term Liabilities</b>			
Subtotal		110,922,177	100,786,540	Bonds payable	2, 4(9)	49,441,484	38,450,511
<b>Funds and Long-term Investments</b>	2, 3, 4(6)			Long-term loans	4(10), 5, 6	12,879,512	16,244,823
Long-term investments		39,727,700	41,225,981	Subtotal		62,320,996	54,695,334
Prepaid long-term investments		54,486	-	<b>Other Liabilities</b>			
Allowance for loss on decline in market value		(1,108,690)	(469,303)	Accrued pension liabilities	2, 4(11)	2,030,786	1,591,022
Subtotal		38,673,496	40,756,678	Capacity deposits and other deposits	7	2,698	865,546
<b>Property, Plant and Equipment</b>	2, 4(7), 5, 6, 7			Minority interests		16,023,886	15,594,468
Land		1,796,419	1,854,306	Others		78,623	101,429
Buildings		16,985,813	15,458,094	Subtotal		18,135,993	18,152,465
Machinery and equipment		253,898,858	214,105,828	<b>Total Liabilities</b>		109,604,402	107,372,004
Transportation equipment		63,416	52,718	<b>Capital</b>	4(12)		
Furniture and fixtures		2,424,267	1,785,562	Common stock		154,748,456	133,356,954
Leased assets		47,783	-	Capital reserve			
Leasehold improvements		86,319	93,535	Premiums		41,729,589	41,729,589
Total Cost		275,302,875	233,350,043	Gain on disposal of property, plant and equipment		-	170,473
Less : Accumulated depreciation		(131,461,473)	(95,327,241)	Change in equities of long-term investments		22,993,448	23,063,166
Plus : Construction in progress and prepayments		23,235,508	31,098,366	Excess from merger		17,152,454	17,152,454
Net		167,076,910	169,121,168	<b>Retained earnings</b>	4(14)		
<b>Intangible Assets</b>				Legal reserve		10,686,225	10,686,225
Trademarks	2	728	806	Special reserve		631,982	2,242,284
Patents	2	18,880	30,805	Unappropriated earnings		8,685,847	21,223,870
Technological know-how		631,462	646,312	<b>Adjusting items in stockholders' equity</b>			
Others		34,625	72,063	Unrealized loss on long-term investments	2	(1,349,248)	(470,931)
Subtotal		685,695	749,986	Cumulative translation adjustment	2	728,851	(160,470)
<b>Other Assets</b>				Treasury stock	2, 3, 4(13)	(38,583,119)	(35,671,361)
Assets leased to others		170,032	149,734	<b>Total Stockholders' Equity</b>		217,424,485	213,322,253
Idle assets	2	22,361	29,976				
Deposits out		937,995	617,787				
Deferred charges	2	2,879,026	2,935,595				
Deferred income tax assets	2, 4(16)	5,232,928	4,371,231				
Restricted deposits	6	-	264,700				
Others		428,267	910,862				
Subtotal		9,670,609	9,279,885				
<b>Total Assets</b>		\$ 327,028,887	\$ 320,694,257	<b>Total Liabilities and Stockholders' Equity</b>		\$ 327,028,887	\$ 320,694,257

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

English Translation of Financial Statements Originally Issued in Chinese  
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME  
 For the years ended December 31, 2002 and 2001  
 (Expressed in thousands of New Taiwan dollars, except for earnings per share )

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

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

English Translation of Financial Statements Originally Issued in Chinese  
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2002 and 2001

(Expressed in thousands of New Taiwan dollars)

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

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

English Translation of Financial Statements Originally Issued in Chinese  
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2002 and 2001  
 (Expressed in thousands of New Taiwan dollars)

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

English Translation of Financial Statements Originally Issued in Chinese  
 UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2002 and 2001  
 (Expressed in thousands of New Taiwan dollars)

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

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

**UNITED MICROELECTRONICS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2002 and 2001**  
**(Expressed in thousands of New Taiwan dollars unless otherwise stated)**

1. GENERAL DESCRIPTIONS OF REPORTING ENTITIES

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

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

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

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

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

UMCi Pte. Ltd. (“UMCi”) was incorporated in January 2001. The Company held a 49.82% equity interest in UMCi as of both December 31, 2002 and 2001. In accordance with the Foundry Venture Agreement with other shareholders of UMCi, the Company obtained the controlling influence over UMCi’s decisions on its operations, personnel, and financial policies since incorporation. Therefore, UMCi has been included in the consolidation despite an equity interest of less than 50% since the year ended December 31, 2001.

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

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

Pursuant to ROC SFAS No. 7 and the regulations of the SFC, if the total assets and operating revenues of a subsidiary are less than 10% of the non-consolidated total assets and operating revenues of the Company, respectively, the subsidiary’s financial statements may, at the option of the Company, not be consolidated. Irrespective of the above test, when the total combined assets or operating revenues of all such non-consolidated subsidiaries constitute up to 30% of the Company’s non-consolidated total assets or operating revenues, then each individual subsidiary with total assets or operating revenues up to 3% of the Company’s non-consolidated total assets or operating revenues has to be included in the consolidation. Such subsidiaries are included in the consolidated financial statements thereafter, unless the percentage of the combined total assets or operating revenues for all such subsidiaries becomes less than 20% of the Company’s respective unconsolidated amount.

### Translation of Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the transaction dates. Receivables, other monetary assets, and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in the current year’s results. The financial statements of foreign subsidiaries and investees are translated into New Taiwan dollars using the spot rates as of each financial statement date for asset and liability accounts, average exchange rates for profit and loss accounts and historical exchange rates for equity accounts. The cumulative translation effects for subsidiaries and investees using functional currencies other than the New Taiwan dollars are included in the cumulative translation adjustment in stockholders’ equity.

### Cash Equivalents

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

### Marketable Securities

Marketable securities are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed equity securities, convertible bonds or closed-end funds is determined by the average closing price during the last month of the fiscal year. The market value for open-ended funds is determined by their equity per unit at the balance sheet date. The amount by which aggregate cost exceeds market value is reported as a loss in the current year. In subsequent periods, recoveries of market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment.

### Allowance for Doubtful Accounts

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

### Inventories

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost while the work in process and finished goods are determined by net realizable values. An allowance for loss on decline in market value and obsolescence is provided, when necessary.

### Long-term Investments

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

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

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

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized and recognized based on the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized. The increase in the Group's proportionate share in the net assets of its investee resulting from its subscription to additional shares of stock, issued by such investee, at the rate not proportionate to its existing equity ownership in such investee, is credited to a capital reserve account. Any decrease in the Group's proportionate share in the net assets of investee is debited against the existing balance of the similar capital reserve account, where the credit balance can only be offset to zero. If any excess amount exists, it will be debited against unappropriated retained earnings.

#### Property, Plant and Equipment

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

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

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

#### Intangible Assets

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

### Deferred Charges

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

### Convertible and Exchangeable Bonds

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

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

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

### Revenue Recognition

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

### Income Tax

Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The Group recognized the tax benefit from the tax credit incurred at the year equipment acquired, or the year the expenditure arises from research and development.

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

### Pension Plan

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

### Derivative Financial Instruments

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

### Earnings Per Share

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

### Treasury Stock

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

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

## 3. ACCOUNTING CHANGES

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

#### 4. CONTENTS OF SIGNIFICANT ACCOUNTS

##### (1) CASH AND CASH EQUIVALENTS

	As of December 31,	
	2002	2001
Cash:		
Cash on hand	\$4,849	\$4,050
Checking and savings accounts	2,415,088	19,837,524
Certificates of deposit	69,116,470	47,070,856
Subtotal	71,536,407	66,912,430
Cash equivalents:		
Commercial paper	3,068,117	722,273
Repurchase obligations	6,278,884	9,269,365
Subtotal	9,347,001	9,991,638
Total	\$80,883,408	\$76,904,068

##### (2) MARKETABLE SECURITIES, NET

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

##### (3) NOTES RECEIVABLE

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

##### (4) ACCOUNTS RECEIVABLE, NET

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

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

(5) INVENTORIES, NET

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

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

(6) LONG-TERM INVESTMENTS

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

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

Invested Company	As of December 31,			
	2002		2001	
	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
Investments accounted for under the cost method or the lower of cost or market value method:				
Aptos Corp.	26.07	104,861	26.07	\$104,861
Pacific United Technology, L.P.	25.00	34,600	25.00	34,600
Elite Flash Storage Technology Inc.	19.50	19,500	19.50	19,500
Giga Solution Technology Co., Ltd.	19.44	105,000	19.44	105,000
Vialta, Inc.	17.80	1,248,457	-	1,248,457
PixTech, Inc.	17.63	-	17.63	561,080
Kits On Line Technology Corp.	16.41	38,656	16.41	38,656
InComm Technologies Co., Ltd.	16.00	44,480	16.00	44,480
Everglory Resource Technology Co., Ltd.	15.14	74,000	19.03	74,000
Enovation Group Inc.	14.34	11,809	14.34	73,807
MediaTek Incorporation	13.21	1,213,655	15.17	1,339,839
Smart Idea Holding Limited	11.88	205,069	-	-
Integrated Photonics, Inc.	11.46	-	11.46	6,244
AU Optronics Corp. (Note A)	11.37	6,758,766	18.86	8,317,535
Sino-Aerospace Investment Corp.	11.11	-	11.11	25,748
Subtron Technology Co., Ltd.	11.02	339,000	11.02	339,000
Ayuttha Technology Corp.	11.00	16,500	-	-
Golden Technology Venture Capital Investment Corp.	10.67	80,000	10.67	80,000
NCTU Spring I Technology Venture Capital Investment Corp.	10.06	43,482	10.06	43,482
Pacific Technology Partners, L. P.	9.85	208,256	9.85	104,755
RF Integration Corporation	9.76	98,610	4.51	98,610
TECO Nanotech Co., Ltd.	9.26	-	9.26	167,602
Ascend Semiconductor Corp.	9.00	14,400	9.00	36,000
Union Technology Corp.	9.00	18,000	15.00	18,000
Fortune Semiconductor Corporation	8.72	71,500	5.13	40,000
United Industrial Gases Co., Ltd.	8.44	146,250	8.52	146,250
ProSys Technology Integration, Inc.	6.70	4,258	6.70	18,000
NCTU Spring Venture Capital Co., Ltd.	6.28	20,000	6.28	20,000
Advanced Microelectronic Products, Inc.	5.50	126,000	5.50	126,000
Cosmos Technology Venture Capital Investment Corp.	5.03	40,000	5.03	40,000
Industrial Bank of Taiwan Corp.	5.00	1,150,000	5.00	1,150,000
Parawin Venture Capital Corp.	5.00	50,000	-	-
Coretronic Corp.	4.59	276,192	5.49	276,192
Silicon Integrated Systems Corp.	4.46	1,267,580	-	-

Invested Company	As of December 31,			
	2002		2001	
	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
Taiwan Asia Pacific Venture Fund	4.15	29,295	4.15	29,295
TECO Electric & Machinery Co., Ltd.	4.02	1,535,298	3.94	1,535,895
IBT Venture Co.	3.81	90,000	3.81	90,000
Prokia Technology Co., Ltd.	3.13	48,000	3.13	48,000
Hantek Technology Co., Ltd.	2.70	42,330	3.14	42,330
Sheng-Hua Venture Capital Corp.	2.50	50,000	2.50	50,000
Pixart Imaging Inc.	1.95	10,140	2.00	10,000
SAMPO Corporation	1.73	224,044	2.95	443,598
Largan Optoelectronics, Co., Ltd.	1.45	79,989	1.96	102,380
Mega Financial Holding Company	1.35	4,991,630	4.98	4,991,630
Premier Image Technology Corporation	0.64	27,964	0.70	27,964
Ingenus Corp.	0.62	29,812	0.65	29,812
Lattice Semiconductor Corporation	0.44	65,740	-	-
King Yuan Electronics Co., Ltd.	0.35	70,000	0.37	70,000
Averlogic Corporation	0.22	1,600	-	-
Amkor Technology, Inc.	0.13	101,696	0.09	99,541
LightCross, Inc.	-	206,880	-	206,880
Linden Technologies, Inc.	-	92,385	-	92,385
Aurora Systems, Inc.	-	72,226	-	72,226
Chip Express Corporation	-	68,198	-	-
ForteMedia, Inc.	-	65,000	-	65,000
ChinaYES InfoMedia (Cayman), Inc.	-	63,146	-	63,146
Alpha and Omega Semiconductor, Inc.	-	46,883	-	46,883
SandCraft, Inc.	-	43,063	-	43,063
VenGlobal Capital Fund III, L.P.	-	33,195	-	33,195
Primarion, Inc.	-	38,816	-	31,800
Formerica International Holding, Inc.	-	30,898	-	30,898
Triscend Corp.	-	17,409	-	17,409
Broadcom Communications	-	7,092	-	7,092
Netlogic Microsystems, Inc.	-	3,195	-	3,195
Tonbu, Inc.	-	-	-	428,767
NetEmpower Software Technologies, Inc.	-	-	-	92,388
Octillion Communications, Inc.	-	-	-	65,740
Epogy Communication, Inc.	-	-	-	49,704
AEM Technology, Inc.	-	-	-	28,715
The Supply, Inc.	-	-	-	-
Stark Technology Inc.	-	-	0.19	1,824
National Venture Capital Corp.	-	-	11.09	60,000
Subtotal		<u>22,014,805</u>		<u>23,708,453</u>

Invested Company	As of December 31,			
	2002		2001	
	Percentage of Ownership or Voting Rights	Amount	Percentage of Ownership or Voting Rights	Amount
Others:				
Golf Club Membership Card		60,000		60,000
Morgan Stanley Repackage Bond		873,000		-
Subtotal		933,000		60,000
Prepaid long-term investments:				
Ascend Semiconductor Corp.		30,036		-
Ayuttha Technology Corp.		24,450		-
Subtotal		54,486		-
Cumulative translation adjustment		209,339		183,710
Allowance for loss on decline in market value		(1,108,690)		(469,303)
Treasury stock held by unconsolidated subsidiaries		(171,840)		-
Total		<u>\$38,673,496</u>		<u>\$40,756,678</u>

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

b. Investment income (loss) accounted for under the equity method, which was based on the audited financial statements of the investees, were NT\$231 million and NT\$(1,510) million for the years ended December 31, 2002 and 2001, respectively. Among which, investment loss amounting to NT\$58 million and NT\$1,357 million for the years ended December 31, 2002 and 2001, respectively, and the related long-term investment balances of NT\$7,350 million and NT\$9,483 million as of December 31, 2002 and 2001, respectively, were determined based on the investees' financial statements audited by other auditors.

c. Long-term investments of Hsun Chieh, a subsidiary of the Company, in United Radiotek Incorporation, SerComm Corporation, UC Fund II, Patentop, Ltd., Harvatek Corp., Advance Materials Corporation, High Bandwidth Access, Inc., RiRa Electronics, Inc., VistaPoint, Inc., Accelerated Communications, Inc., Afa Technologies, Inc. and Star Semiconductor Corp. were accounted for under the equity method, and the related investment income or loss is to be recognized in the next year.

d. The long-term investments were not pledged.

(7) PROPERTY, PLANT AND EQUIPMENT

a. Total interest expense before capitalization amounted to NT\$2,006 million and NT\$2,730 million for the years ended December 31, 2002 and 2001, respectively.

b. Details of capitalized interest are as follows :

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

c. The insurance coverage for property, plant and equipment was sufficient as of December 31, 2002 and 2001, respectively.

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

(8) SHORT-TERM LOANS

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

a. The Group's unused short-term lines of credits amounted to NT\$17,538 million and NT\$20,272 million as of December 31, 2002 and 2001, respectively.

b. Please refer to Note 6 for assets pledged for short-term loans.

(9) BONDS PAYABLE

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

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

(a) Final Redemption

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

(b) Redemption at the Option of the Company

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

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

(c) Conversion Period

- i. In respect of the shares, on or after January 22, 2002 up to and including February 20, 2004 or
- ii. In respect of the ADSs, on or after the later of January 22, 2002 and the date on which the shelf registration statement covering resales of certain ADSs issuable upon conversion of the bonds has been declared effective by the US SEC, up to and including February 20, 2004.

(d) Conversion Price

The conversion price

- i. In respect of the Shares, will be NT\$69.60 per Share, and
- ii. In respect of the ADSs, will be US\$10.098 per ADS.

The applicable conversion price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, including Shares represented by ADSs, bonus issues, right issues, distributions of cash and stock dividends and other dilutive events.

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

(a) Final Redemption

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

(b) Redemption at the Option of the Company

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

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

(c) Redemption at the Option of Bondholders

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

(d) Tax Redemption

The Company may redeem all, but not part, of the bonds, at any time at their principal amount in US dollars, in the event of certain changes in the ROC's tax rules which would require the Company to gross up for payments of principal, or to gross up for payments of interest or premium, if any, at a rate exceeding 20%.

(e) Exchange

Subject to prior permitted redemption and as otherwise provided in the offering, the bonds are exchangeable at any time on or after June 19, 2002 and prior to April 10, 2007, into AU shares or AU ADSs at an exchange price of NT\$58.25 per share, determined on the basis of a fixed exchange rate of NT\$34.645=US\$1.00; provided however, that if the exercise date falls within five business days from the beginning of, and during, any closed period, the right of the exchanging holder of the bonds to vote with respect to the shares it receives will be subject to certain restriction.

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

f. On March 25, 2002, the Company's subsidiary UMCJ issued a LSE listed zero coupon convertible bonds with an aggregate principal amount of ¥17,000 million and the issue price was set at 101.75% of the principal amount. The terms and conditions of the bonds are as follows.

(a) Final Redemption

Unless previously converted, purchased and cancelled or redeemed, the bonds will be redeemed on March 26, 2007 at 100% of their principal amount.

(b) Early Redemptions

- i. On or at any time after March 25, 2005, UMCJ may redeem all but not some of the bonds if the last selling price of the shares reported on the OTC Market in Japan is at least 120% of the conversion price then in effect for at least 20 out of 30 consecutive trading days ending on the trading day immediately prior to the date of the notice of redemption; or the principal amount that have not been redeemed, repurchased and cancelled or converted is equal to or less than 10% of original aggregate principal amount.

- ii. In case of a Corporate Split or Share Exchange/ Share Transfer, UMCJ may redeem all but not some of the bonds on or prior to the effective date of the transaction, subject to giving no less than 30 nor more than 60 days' notice at the redemption amount, provided that UMCJ is not able to ensure holders of the bonds to be able to convert them into shares of stock and other securities and property which they would have received had the bonds been converted into shares immediately prior to the transaction or if such supplemental indenture is objected by holders of bonds of at least a majority in principal amount
- iii. If a change in who controls UMCJ occurs, holders of the bonds will be able to require UMCJ to redeem their bonds on the date that is 85 days after the change of control occurs.

(c) Conversion Period

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

(d) Conversion Price

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

(10) LONG-TERM LOANS

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

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

(11) PENSION FUND

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

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

The actuarial assumptions underlying are as follows :

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

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

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

(12) CAPITAL STOCK

- a. As recommended by the board of directors and approved by the shareholders' meeting on May 30, 2001, the Company issued 1,864,243,516 new shares from the capitalization of retained earnings of NT\$17,151 million and employees' bonus of NT\$1,491 million with the effective date on July 21, 2001.
- b. As recommended by the board of directors and approved by the shareholders' meeting on June 3, 2002, the Company issued 2,139,150,230 new shares from the capitalization of retained earnings of NT\$19,680 million and employees' bonus of NT\$1,711 million. The effective date of the issuance was on August 11, 2002.
- c. As of December 31, 2002, 22,000,000,000 common shares were authorized to be issued and 15,474,845,646 common shares were issued, each at par of NT\$10.
- d. The Company has issued 173,693 thousand ADSs as of December 31, 2002. The number of common shares represented by the ADSs is 868,467 thousand shares.
- e. On September 11, 2002, the Company was authorized by the relevant government authorities to issue Employee Stock Options. The total number of options to be granted under the plan is one billion units, with each unit entitling the optionee to subscribe for one share of the Company's common stock. Settlement upon the exercise of the stock options will be made through the issuance of new shares by the Company. The grant period for options is six years and an optionee may exercise his/her options in accordance with certain schedules as prescribed by the plan starting from two years after the grant. The total number of option units outstanding as of December 31, 2002 was 928,059 thousand units and the exercise price for the options is NT\$20 per share.

(13) TREASURY STOCK

The Company bought back its own shares from open market during the years ended December 31, 2002 and 2001. Details of the treasury stock transactions are as follows :

*(In thousand shares)*

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

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

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

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

#### (14) RETAINED EARNINGS

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

- a. Payment of all taxes and dues;
- b. Offset prior years' operating losses;
- c. Set aside 10% of the remaining amount after deducting items a and b as legal reserve;
- d. Set aside 0.1% of the remaining amount after deducting items a, b, and c as directors' and supervisors' remuneration; and
- e. After deducting items a, b and c above from the current year's earnings, any portion of the remaining amount together with the prior years' unappropriate earnings is to be allocated as follows: no less than 5% as employees' bonus which will be settled through issuance of new shares of the Company.
- f. The distribution of the remaining portion, if any, will be recommended by the board of directors and approved by the shareholders' meeting.

The Company's Articles of Incorporation further provides that at least 50% of the dividends to the Company's shareholders, if any, must be paid in the form of stock dividends. Accordingly, no more than 50% of the dividends can be paid in the form of cash.

The appropriation of 2002 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on board of directors' recommendations and shareholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

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

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

(15) EARNINGS (LOSS) PER SHARE

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

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

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

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

(shares expressed in thousands)

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

(16) INCOME TAX

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

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

Deferred income tax assets and liabilities were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

## 5. RELATED PARTY TRANSACTIONS

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

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

## (2) Significant Related Party Transactions

### a. Operating revenues

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

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

### b. Purchases

	For the year ended December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
Shin-Etsu	\$2,273,128	14	\$1,805,200	11
Others	219,235	1	255,872	2
Total	<u>\$2,492,363</u>	<u>15</u>	<u>\$2,061,072</u>	<u>13</u>

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

### c. Notes receivable

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

### d. Accounts receivable, net

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

e. Other receivables, net

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

f. Accounts payable

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

g. Loans

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

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

h. Disposal of property, plant and equipment

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

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

i. Other transactions

The Group has made several other transactions, including intellectual property development contract, processing expenditures, commissions and service charges etc., with related parties totaled to approximately NT\$363 million and NT\$249 million for the years ended December 31, 2002 and 2001, respectively.

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

6. ASSETS PLEDGED AS COLLATERAL

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

7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) The Group's unused letters of credit for imports of machinery were approximately NT\$76 million as of December 31, 2002.
- (2) The Group has entered into contracts, amounted to approximately NT\$15.6 billion, with third parties for rights to use patents registered by the third parties. The contract period was from 1995 to 2011. Royalty payables for the consecutive 5 years starting from 2003 through 2007 are approximately NT\$2.5 billion, NT\$1.3 billion, NT\$1.3 billion, NT\$1.2 billion, and NT\$1.3 billion, respectively.
- (3) The Group has signed several construction contracts for the expansion of factory space. As of December 31, 2002, these construction contracts amounted to approximately NT\$10.3 billion and the unaccrued portion of the contracts was approximately NT\$4.8 billion.

(4) On October 27, 1997, Oak Technology Inc. (“Oak”) filed a complaint seeking a damage of US\$750 million in the Northern District of California alleging that the Company breached a Settlement Agreement entered on July 31, 1997 with respect to a settlement of a dispute between the Company and Oak concerning certain CD ROM controller products made by the Company and a patent owned by Oak. The Company denied Oak’s allegations and on December 24, 1997, filed its answer and affirmative defenses refuting Oak’s claims. Based on the allegations that it is Oak which has breached the Settlement, the Company simultaneously filed a counterclaim against Oak, seeking damages and a return of the millions paid to Oak under the Settlement. In addition, the Company further seeks a declaration that the Oak patent is invalid and/or unenforceable. Though Oak filed a complaint later with the International Trade Commission (“ITC”) repeating the allegations made in the District Court, both the ITC and the Court of Appeals for the Federal Circuit issued a ruling affirming that there was no infringement and no violation.

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

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

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

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

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

(8) As a condition precedent to the making of the loan contemplated by a US\$600 million Amortizing Term Loan Facility Agreement among UMCi, a subsidiary of the Company, and several financial institutions, the Company has provided a letter of undertaking to the financial institutions and Citicorp Investment Bank (Singapore) Ltd, the facility agent, to undertake that

a. The Company shall continue to own and control, directly or indirectly, a minimum of 40% of the total issued and outstanding shares of UMCi. The Company shall also provide technical support to UMCi and maintain management control with no less than half seats of the board of directors.

b. The Company shall take necessary actions to ensure UMCi to have at least US\$600 million of issued and paid-in capital in cash by December 31, 2003, to make investments necessary to complete the 12-inch Fab Plant on time, and to meet all the obligations under the Facility Agreement.

8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

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

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

10. OTHERS

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

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

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

## 11. ADDITIONAL DISCLOSURES

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

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

All intercompany accounts and transactions have been eliminated in the consolidated financial statements. For details, please refer to Note 10.

i. Related information on invested companies as of December 31, 2002: Please see Attachment-9.

j. Financial instruments

The relevant information on the derivative financial instruments entered into by the Group is as follows:

(a) There were no derivative financial instruments outstanding as of December 31, 2002.

UMCJ, a subsidiary of the Company, entered into foreign currency forward exchange contract with certain bank on December 17, 2001. The major information is as follows:

i. Purposes: to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

ii. Notional amount and contract period:

As of December 31, 2001:

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

iii. Terms and characteristics of the forward exchange:

(i)Term: UMCJ agrees to purchase US\$3 million using the contracted forward rate in USD/¥127.77 during the contract period.

(ii)Credit risk: There is no significant credit risk with respect to the above transaction because the bank has good global standing.

(iii)Market risk: The market risk is low due to the nature of the forward exchange.

(b)Non-derivative financial instruments:

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

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

- i. The carrying amounts of short-term financial assets and liabilities (excluding marketable securities) approximate fair values due to their short maturities.
- ii. The fair values of marketable securities and long-term investments are based on the market value of the securities or, if market value is unavailable, the net equities of the investees are used as fair value.
- iii. Fair value of bonds payable is determined by the market value.
- iv. The carrying value of long-term loans approximates the fair value as the loans bear floating rates.

(2) Investment in Mainland China:

None.

## 12. SEGMENT INFORMATION

(1) Operations in different industries:

The Group operates principally in one industry. The Group's major business activity is the dedicated full services semiconductor wafer foundry.

(2) Operations in different geographic areas:

For the year ended December 31, 2002					
	North				
	Taiwan	America	Others	Eliminations	Consolidated
Sales to unaffiliated customers	\$29,735,077	\$28,393,289	\$17,296,990	\$-	\$75,425,356
Sales between geographic areas	626	27,917,057	3,885,607	(31,803,290)	-
Net operating revenues	<u>\$29,735,703</u>	<u>\$56,310,346</u>	<u>\$21,182,597</u>	<u>\$(31,803,290)</u>	<u>\$75,425,356</u>
Gross profit	<u>\$11,195,150</u>	<u>\$547,123</u>	<u>\$858,352</u>	<u>\$(62,571)</u>	<u>\$12,538,054</u>
Operating expenses					(12,425,796)
Non-operating income					10,885,364
Non-operating expenses					<u>(3,981,374)</u>
Net income before income taxes and minority interests					<u>\$7,016,248</u>
Minority interests loss					<u>\$326,515</u>
Identifiable assets	<u>\$243,298,411</u>	<u>\$5,794,034</u>	<u>\$47,348,838</u>	<u>\$(8,085,892)</u>	<u>\$288,355,391</u>
Long-term investments					<u>38,673,496</u>
Total assets					<u>\$327,028,887</u>

For the year ended December 31, 2001

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

(3) Export sales:

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

(4) Major customers:

The customer that accounts for at least 10% of net sales for the years ended December 31, 2002 and 2001 :

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

ATTACHMENT-1 (Loans to others attributed to financial activities as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

<u>No.</u>	<u>Name of the lending company</u>	<u>Name of the borrowers</u>	<u>Accounts name</u>	<u>The highest balance during 2002</u>	<u>The ending balance</u>	<u>Interest rate</u>	<u>Nature of financing</u>	<u>The yearly amount of sales to (purchase from) the borrower</u>	<u>The reason for lending</u>	<u>Bad debt allowance provided</u>	<u>Collateral</u>	<u>Value of collateral</u>	<u>The credit limit set up by the Company for its respective borrower</u>	<u>The ceiling of fund financing</u>
1	UMC Group (USA)	Employees	Receivable from employees' loans	USD 2,708,451	USD 861,333	7.00%	Note 2	None	Employee loan	-	Securities	Higher	N/A	N/A
2	UMCi Pte. Ltd.	Infineon Technologies, Asia Pacific Pte Ltd.	Other receivable	USD 55,000,000	USD 55,000,000	Note 1	Note 2	None	Company's loan	-	None	N/A	N/A	N/A

Note 1 : 1.87%, based on 3-month LIBOR

Note 2 : Need for short-term financing.

ATTACHMENT-2 (The endorsements and guarantees provided by the Company to others as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

No.	Guarantor	Guarantee	Relationship with the Company	The limit of guarantee for such party	The highest outstanding guarantee amount during 2002	The outstanding guarantee amount at December 31, 2002	The amount of guarantee with collateral placed	The ratio of accumulated guarantee amount to net value of the Company	The ceiling of the outstanding guarantee for the respective party
1	UMC Japan	Directors and employees	Directors and employees	N/A	¥112,896,000	-	¥1,000,000,000	-	¥1,000,000,000

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<b>United Microelectronics Corporation</b>								
Convertible bonds	China Development Financial Holding Corporation	None	Short-term investment	60,000	2,052,000	N/A	2,067,576	None
Convertible bonds	SpringSoft, Inc.	None	Short-term investment	12,000	418,800	N/A	416,640	None
Convertible bonds	Billionton Systems Inc.	None	Short-term investment	300	30,948	N/A	33,408	None
Stock	UMC Group (USA)	Investee company	Long-term investment	16,438	473,297	100.00	N/A	None
Stock	United Foundry Service, Inc.	Investee company	Long-term investment	2,005	82,960	100.00	N/A	None
Stock	UMC Capital Corporation	Investee company	Long-term investment	30,000	1,007,444	100.00	N/A	None
Stock	United Microelectronics Corp. (Samoa)	Investee company	Long-term investment	500	7,114	100.00	N/A	None
Stock	United Microelectronics (Europe) B.V.	Investee company	Long-term investment	9	217,493	100.00	N/A	None
Stock	Fortune Venture Capital Corporation	Investee company	Long-term investment	299,994	3,115,317	99.99	N/A	None
Stock	Hsun Chieh Investment Co., Ltd.	Investee company	Long-term investment	1,417,294	30,598,156	99.97	N/A	None
Stock	United Microdisplay Optronics Corp.	Investee company	Long-term investment	76,499	702,501	85.00	N/A	None
Stock	Pacific Venture Capital Co., Ltd.	Investee company	Long-term investment	30,000	316,270	49.99	N/A	None
Stock	UMCi Pte. Ltd.	Investee company	Long-term investment	212,250	6,952,691	49.82	N/A	None
Stock	UMC Japan	Investee company	Long-term investment	479	7,610,901	47.06	12,305,812	None
Stock	DuPont Photomasks Taiwan Ltd.	Investee company	Long-term investment	99,748	1,145,403	45.51	N/A	None
Stock	Unitech Capital Inc.	Investee company	Long-term investment	21,000	731,255	42.00	N/A	None
Stock	Archtek Telecom Corporation	Investee company	Long-term investment	14,200	-	26.49	N/A	None
Stock	Novatek Microelectronics Corp.	Investee company	Long-term investment	74,611	1,193,740	25.83	5,173,574	None
Stock	Holtek Semiconductor Inc.	Investee company	Long-term investment	44,854	568,554	25.61	1,159,697	None
Fund	Pacific United Technology, L.P.	None	Long-term investment	-	34,600	25.00	N/A	None
Stock	Integrated Technology Express Inc.	Investee company	Long-term investment	24,111	309,672	24.58	615,173	None
Stock	Unimicron Technology Corp.	Investee company	Long-term investment	168,930	3,004,762	23.81	3,613,576	None
Stock	Applied Component Technology Corporation	Investee company	Long-term investment	12,068	91,581	23.66	144,234	None
Stock	Faraday Technology Corp.	Investee company	Long-term investment	33,710	570,675	19.71	2,748,909	None
Stock	PixTech, Inc.	None	Long-term investment	9,883	-	17.63	2,848	None
Stock	Integrated Telecom Express, Inc.	Investee company	Long-term investment	7,000	513,134	16.36	383,833	None
Stock	AMIC Technology (Taiwan), Inc.	Investee company	Long-term investment	16,200	53,225	13.62	N/A	None
Stock	MediaTek Incorporation	The Company is its supervisor	Long-term investment	60,806	1,213,655	13.21	17,788,807	None
Stock	AU Optronics Corp.	The Company is its director and supervisor	Long-term investment	455,276	6,758,766	11.37	9,883,592	None

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<u>United Microelectronics Corporation</u>								
Stock	Sino-Aerospace Investment Corp.	None	Long-term investment	28,500	-	11.11	N/A	None
Fund	Pacific Technology Partners, L.P.	None	Long-term investment	-	208,256	9.85	N/A	None
Stock	Aptos Corp.	None	Long-term investment	1,772	23,087	9.68	N/A	None
Stock	United Industrial Gases Co., Ltd.	None	Long-term investment	13,185	146,250	8.44	N/A	None
Stock	TECO Nanotech Co., Ltd.	None	Long-term investment	19,417	-	8.05	N/A	None
Stock	Subtron Technology Co., Ltd.	None	Long-term investment	16,000	240,000	7.41	N/A	None
Stock	Industrial Bank of Taiwan Corp.	The Company is its major shareholder	Long-term investment	119,425	1,150,000	5.00	N/A	None
Stock	Silicon Integrated Systems Corp.	None	Long-term investment	48,483	1,267,580	4.46	1,198,403	None
Stock	TECO Electric & Machinery Co., Ltd.	The Company is its director and supervisor	Long-term investment	77,079	1,535,298	4.02	848,718	None
Stock	SAMPO Corporation	None	Long-term investment	17,773	224,044	1.73	221,915	None
Stock	Mega Financial Holding Company	The Company is its director and supervisor	Long-term investment	91,901	3,108,656	0.83	1,505,519	None
Stock	Premier Image Technology Corporation	None	Long-term investment	2,940	27,964	0.64	165,548	None
Stock	Tonbu, Inc.	None	Long-term investment	938	-	-	N/A	None
Stock	Vialta, Inc.	None	Long-term investment	8,360	622,835	8.90	105,103	None
<u>Hsun Chieh Investment Co., Ltd.</u>								
Stock	Shanghai Fudan Microelectronics Co., Ltd	None	Short-term investment	7,280	24,617	1.17	24,617	None
Stock	Afa Technologies, Inc.	Investee company	Long-term investment	2,365	23,650	47.30	N/A	None
Stock	Star Semiconductor Corp.	Investee company	Long-term investment	2,203	22,030	46.82	N/A	None
Stock	VistaPoint, Inc.	Investee company	Long-term investment	2,852	34,224	35.65	N/A	None
Stock	UC Fund II	Investee company	Long-term investment	5,000	174,264	35.45	N/A	None
Stock	Accelerated Communications, Inc.	Investee company	Long-term investment	10,000	100,000	33.33	N/A	None
Stock	RiRa Electronics, Inc.	Investee company	Long-term investment	6,499	59,232	32.50	N/A	None
Stock	United Radiotek Incorporation	Investee company	Long-term investment	2,937	29,185	29.37	N/A	None
Stock	High Bandwidth Access, Inc	Investee company	Long-term investment	7,246	82,934	20.13	N/A	None
Stock	Harvatek Corp.	Investee company	Long-term investment	16,329	277,203	21.99	1,111,513	None
Stock	Elite Flash Storage Technology, Inc.	The Company is its director and supervisor	Long-term investment	1,950	19,500	19.50	N/A	None
Stock	Giga Solution Technology Co., Ltd.	The Company is its director	Long-term investment	8,750	105,000	19.44	N/A	None
Stock	Everglory Resource Technology Co., Ltd.	None	Long-term investment	3,700	74,000	15.14	N/A	None
Stock	Ayuttha Technology Corp.	The Company is its director and supervisor	Long-term investment	1,100	16,500	11.00	N/A	None

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<u>Hsun Chieh Investment Co., Ltd.</u>								
Stock	Patentop, Ltd.	Investee company	Long-term investment	720	16,543	18.00	N/A	None
Stock	Kits On Line Technology Corp.	The Company is its director	Long-term investment	3,200	38,656	16.41	N/A	None
Stock	Aptos Corp.	None	Long-term investment	3,000	81,774	16.39	N/A	None
Stock	InComm Technologies Co., Ltd.	The Company is its director	Long-term investment	3,200	44,480	16.00	N/A	None
Stock	Advance Materials Corporation	Investee company	Long-term investment	14,994	169,836	15.78	N/A	None
Stock	Enovation Group Inc.	None	Long-term investment	1,148	11,809	14.34	N/A	None
Stock	Unimicron Technology Corp.	Investee company to UMC	Long-term investment	88,440	1,537,397	12.47	1,891,820	None
Stock	SerComm Corporation	Investee company	Long-term investment	8,367	159,465	11.48	270,750	None
Stock	Integrated Photonics, Inc.	None	Long-term investment	300	-	11.46	N/A	None
Stock	Golden Technology Venture Capital Investment Corp.	The Company is its director	Long-term investment	8,000	80,000	10.67	N/A	None
Stock	NCTU Spring I Technology Venture Capital Investment Corp.	None	Long-term investment	4,284	43,482	10.06	N/A	None
Stock	Ascend Semiconductor Corp.	The Company is its director and supervisor	Long-term investment	1,440	14,400	9.00	N/A	None
Stock	Union Technology Corp.	None	Long-term investment	1,800	18,000	9.00	N/A	None
Stock	Fortune Semiconductor Corporation	The Company is its director	Long-term investment	1,700	71,500	8.72	N/A	None
Stock	ProSys Technology Integration, Inc.	None	Long-term investment	1,200	4,258	6.70	N/A	None
Stock	NCTU Spring Venture Capital Co., Ltd.	The Company is its director	Long-term investment	2,000	20,000	6.28	N/A	None
Stock	Faraday Technology Corp.	Investee company to UMC	Long-term investment	10,085	1,205,714	5.90	822,394	None
Stock	Advanced Microelectronic Products, Inc.	None	Long-term investment	7,420	126,000	5.50	N/A	None
Stock	Cosmos Technology Venture Capital Investment Corp.	The Company is its director	Long-term investment	4,000	40,000	5.03	N/A	None
Stock	Parawin Venture Capital Corp.	The Company is its director	Long-term investment	5,000	50,000	5.00	N/A	None
Stock	Coretronic Corp.	The Company is its director and supervisor	Long-term investment	14,865	276,192	4.59	506,301	None
Stock	RF Integration Corporation	The Company is its director	Long-term investment	3,900	98,610	9.76	N/A	None
Stock	UMC Japan	Investee company to UMC	Long-term investment	45	780,932	4.41	1,145,742	None
Fund	Taiwan Asia Pacific Venture Fund	None	Long-term investment	115	29,295	4.15	N/A	None
Stock	Prokia Technology Co., Ltd.	None	Long-term investment	4,000	48,000	3.13	N/A	None
Stock	IBT Venture Co.	The Company is its director	Long-term investment	9,000	90,000	3.81	N/A	None
Stock	Subtron Technology Co., Ltd.	The Company is its director and supervisor	Long-term investment	7,800	99,000	3.61	N/A	None
Stock	United Microelectronics Corporation	Investor company	Long-term investment	484,045	29,592,654	3.13	11,553,197	None

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<b>Hsun Chieh Investment Co., Ltd.</b>								
Stock	Hantek Technology Co., Ltd.	None	Long-term investment	1,623	42,330	2.70	N/A	None
Stock	Integrated Telecom Express, Inc.	Investee company to UMC	Long-term investment	1,113	139,613	2.61	61,029	None
Stock	Sheng-Hua Venture Capital Corp.	None	Long-term investment	5,000	50,000	2.50	N/A	None
Stock	Pixart Imaging Inc.	None	Long-term investment	780	10,140	1.95	N/A	None
Stock	Largan Optoelectronics, Co., Ltd.	The Company is its director	Long-term investment	1,235	79,989	1.45	260,147	None
Stock	TECO Nanotech Co., Ltd.	None	Long-term investment	2,926	-	1.21	N/A	None
Stock	Ingenus Corp.	None	Long-term investment	240	29,812	0.62	21	None
Stock	Mega Financial Holding Company	None	Long-term investment	57,249	1,882,974	0.52	937,859	None
Stock	King Yuan Electronics Co., Ltd.	None	Long-term investment	1,600	70,000	0.35	26,800	None
Stock	Averlogic Corporation	None	Long-term investment	46	1,600	0.22	2,207	None
Stock	Amkor Technology, Inc.	None	Long-term investment	218	101,696	0.13	38,773	None
Stock	Vialta, Inc.	None	Long-term investment	8,360	625,622	8.90	105,103	None
Stock	Broadcom Communications	None	Long-term investment	3	7,092	-	1,676	None
Stock	Chip Express Corporation	None	Long-term investment	2,667	68,198	-	N/A	None
Stock	AEM Technology Inc.	None	Long-term investment	1,760	-	-	N/A	None
Stock	Alpha and Omega Semiconductor, Inc.	None	Long-term investment	1,500	46,883	-	N/A	None
Stock	Aurora System, Inc.	None	Long-term investment	550	72,226	-	N/A	None
Stock	ChinaYES InfoMedia (Cayman), Inc.	None	Long-term investment	10,000	63,146	-	N/A	None
Stock	Epogy Communications, Inc.	None	Long-term investment	3,200	-	-	N/A	None
Stock	Formerica International Holding, Inc.	None	Long-term investment	2,000	30,898	-	N/A	None
Stock	ForteMedia, Inc.	None	Long-term investment	4,000	65,000	-	N/A	None
Stock	LightCross, Inc.	None	Long-term investment	3,896	206,880	-	N/A	None
Stock	Linden Technologies, Inc.	None	Long-term investment	300	92,385	-	N/A	None
Stock	NetEmpower Software Technologies, Inc.	None	Long-term investment	1,500	-	-	N/A	None
Stock	Netlogic Microsystems, Inc.	None	Long-term investment	100	3,195	-	N/A	None
Stock	Lattice Semiconductor Corporation	None	Long-term investment	492	65,740	0.44	153,140	None
Stock	Primarion, Inc.	None	Long-term investment	500	38,816	-	N/A	None
Stock	SandCraft, Inc.	None	Long-term investment	450	43,063	-	N/A	None
Stock	The Supply, Inc.	None	Long-term investment	588	-	-	N/A	None
Stock	Tonbu, Inc.	None	Long-term investment	2,000	-	-	N/A	None
Stock	Triscend Corp.	None	Long-term investment	360	17,409	-	N/A	None
Stock	Smart Idea Holding Limited	None	Long-term investment	6,000	205,069	11.88	N/A	None
Stock	VenGlobal Capital Fund III, L.P.	None	Long-term investment	-	33,195	-	N/A	None
Membership Card	Golf Club Membership Card	None	Long-term investment	-	60,000	-	N/A	None

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<u>UMC Capital Corporation</u>								
Stock	UMC Capital (USA)	Investee company	Long-term investment	200	USD 226,491	100.00	N/A	None
Stock	Corrent Corp.	None	Long-term investment	1,732	USD 1,472,815	-	N/A	None
Stock	LightCross, Inc.	None	Long-term investment	649	USD 1,000,000	-	N/A	None
Stock	MaXXan Systems, Inc.	None	Long-term investment	1,655	USD 1,000,021	-	N/A	None
Stock	Lead Systems, Inc.	None	Long-term investment	1,600	USD 2,506,000	-	N/A	None
Stock	Virtual Silicon Technology, Inc.	None	Long-term investment	619	USD 1,000,000	-	N/A	None
Stock	Programmable Silicon Solutions	None	Long-term investment	216	USD 540,000	-	N/A	None
Stock	Integrated Optics Comm. Corp.	None	Long-term investment	2,000	USD 2,000,000	-	N/A	None
Stock	Aicent Technology, Inc.	None	Long-term investment	2,000	USD 1,000,000	-	N/A	None
<u>Fortune Venture Capital Corporation</u>								
Stock	Aptos (Taiwan) Corp.	Investee company	Long-term investment	43,705	436,346	26.49	N/A	None
Stock	Davicom Semiconductor, Inc.	Investee company	Long-term investment	12,200	114,108	22.96	N/A	None
Stock	Pixart Imaging Inc.	The Company is its director	Long-term investment	6,530	105,409	16.32	N/A	None
Stock	Thin Film Module, Inc.	The Company is its director and supervisor	Long-term investment	5,287	52,870	13.91	N/A	None
Stock	Advance Materials Corporation	Investee company	Long-term investment	12,800	145,196	13.47	N/A	None
Stock	AMIC Technology (Taiwan), Inc.	Investee company to UMC	Long-term investment	15,259	146,958	12.83	N/A	None
Stock	Urex Precision, Inc.	None	Long-term investment	2,537	-	12.68	N/A	None
Stock	High Bandwidth Access, Inc	Investee company	Long-term investment	4,308	56,869	11.97	N/A	None
Stock	Epitech Corp.	The Company is its director and supervisor	Long-term investment	6,137	73,916	11.16	N/A	None
Stock	Integrated Telecom Express, Inc.	Investee company to UMC	Long-term investment	4,000	337,955	9.38	219,333	None
Stock	Shin-Etsu Handotai Taiwan Co., Ltd.	The Company is its director	Long-term investment	10,500	105,000	7.00	N/A	None
Stock	Trident Technologies, Inc.	The Company is its director and supervisor	Long-term investment	1,350	-	6.75	N/A	None
Stock	ProSys Technology Integration, Inc	None	Long-term investment	1,200	4,258	6.70	N/A	None
Stock	Averlogic Corporation	The Company is its director and supervisor	Long-term investment	1,148	24,820	5.58	55,063	None
Fund	Iglobe Partners Fund, L.P.	None	Long-term investment	-	80,603	6.30	N/A	None
Stock	Programmable Microelectronics (Taiwan) Corp.	None	Long-term investment	3,392	33,920	6.17	N/A	None
Stock	CTS Computer Technology System Corp.	None	Long-term investment	1,717	-	2.04	N/A	None
Stock	Vialta, Inc.	None	Long-term investment	4,180	313,205	4.45	52,551	None

ATTACHMENT-3 (The ending balance of securities held by the Company as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Types of marketable securities	Name of marketable securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2002				Shares as collateral (thousand)
				Number of shares (thousand)	Book value	Percentage	Market value	
<b>Fortune Venture Capital Corporation</b>								
Fund	Crystal Internet Venture Fund II	None	Long-term investment	-	41,757	0.99	N/A	None
Stock	Monterey Design Systems Inc.	None	Long-term investment	394	34,201	1.23	N/A	None
Stock	SpringSoft, Inc.	None	Long-term investment	88	1,621	0.23	7,324	None
Stock	Orchid BioSciences, Inc.	None	Long-term investment	56	13,310	0.14	956	None
Stock	United Microelectronics Corporation	Investor company	Long-term investment	17,633	171,857	0.11	420,872	None
Stock	Cadence Design Systems, Inc.	None	Long-term investment	66	7,342	0.03	28,286	None
Stock	Triscend Corporation	None	Long-term investment	3,500	469,902	-	N/A	None
Stock	Aurora Systems, Inc.	None	Long-term investment	4,167	308,957	-	N/A	None
Stock	Systematic Designs International, Inc.	None	Long-term investment	1,300	-	-	N/A	None
Stock	SiRF Technology Holdings, Inc.	None	Long-term investment	875	119,436	-	N/A	None
Stock	Alpha and Omega Semiconductor, Inc.	None	Long-term investment	1,500	46,313	-	N/A	None
Stock	Velio Communications, Inc.	None	Long-term investment	110	30,817	-	N/A	None
Stock	Arcadia Design Systems, Inc.	None	Long-term investment	162	26,204	-	N/A	None
Stock	EPIC Technologies, Inc.	None	Long-term investment	23	-	-	N/A	None
Stock	Rise Technology, Inc.	None	Long-term investment	500	-	-	N/A	None
Stock	The 3CX U.S.A.	None	Long-term investment	513	-	-	N/A	None
<b>UMC Japan</b>								
Bond	Morgan Stanley Repackage Bond	None	Long-term investment	-	¥3,000,000,000	-	N/A	None

ATTACHMENT-4 (The cumulative buying or selling of one specific security exceeding the lower of NTD100 million or 20 percent of the capital stock for the year 2002) (Amount in thousand NTD unless otherwise stated)

Name of the securities	Beginning balance		Addition		Disposal			Gain (Loss) from disposal	Ending balance	
	Number of shares (thousand)	Amount	Number of shares (thousand)	Amount	Number of shares (thousand)	Amount	Cost		Number of shares (thousand)	Amount
<u>United Microelectronics Corporation</u>										
China Development Financial Holding Corporation- Convertible bond	-	-	60,000	2,052,000	-	-	-	-	60,000	2,052,000
SpringSoft Inc.- Convertible bond	-	-	12,000	418,800	-	-	-	-	12,000	418,800
MediaTek Incorporation	47,949	1,339,839	-	-	4,750	3,030,043	126,184	2,903,859	60,806	1,213,655
Trecenti Technologies, Inc.	240	1,789,838	-	-	240	2,806,610	1,409,614	1,396,996	-	-
AU Optronics Corp.	560,276	8,317,535	-	-	105,000	4,792,995	1,558,769	3,234,226	455,276	6,758,766
SAMPO Corporation	35,190	443,599	-	-	17,417	228,246	219,555	8,691	17,773	224,044
United Microdisplay Optronics Corporation	-	-	76,499	764,990	-	-	-	-	76,499	702,501
UMC Capital Corporation	10,000	338,228	20,000	681,000	-	-	-	-	30,000	1,007,444
Unitech Capital Inc.	-	-	21,000	730,380	-	-	-	-	21,000	731,255
Silicon Integrated Systems Corp.	-	-	48,483	1,267,580	-	-	-	-	48,483	1,267,580
<u>Hsun Chieh Investment Co., Ltd.</u>										
High Bandwidth Access, Inc	2,861	19,191	5,741	114,825	1,356	26,944	18,296	8,648	7,246	82,934
Accelerated Communications, Inc.	-	-	10,000	100,000	-	-	-	-	10,000	100,000
Harvatek Corp.	14,033	179,295	2,618	99,484	2,563	107,901	37,203	70,698	16,239	277,203
Plato Electronics (Cayman) Limited	14,193	657,858	-	-	14,193	753,946	656,108	97,838	-	-
Smart Idea Holding Limited	-	-	6,000	205,069	-	-	-	-	6,000	205,069
AU Optronics Corp.- Convertible bond	2,000	200,000	-	-	2,000	577,350	200,000	377,350	-	-
<u>Fortune Venture Capital Corporation</u>										
Triscend Corporation	1,750	188,957	1,750	280,945	-	-	-	-	3,500	469,902
<u>UMC Japan</u>										
Morgan Stanley Repackage Bond	-	-	-	¥3,000,000,000	-	-	-	-	-	¥3,000,000,000

Note1: The ending balance also includes other additions or deductions not shown on the above schedule, including long-term equity investment income or loss, cumulative translation adjustment, changes in long-term investment due to unproportionate changes in ownership, and unrealized loss in long-term investment, etc.

ATTACHMENT-5 (Acquisition of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002) (Amount in thousand NTD unless otherwise stated)

<u>Name of the properties</u>	<u>Date of transaction</u>	<u>Transaction amount</u>	<u>Status of payment</u>	<u>Counter party</u>	<u>The relationship with the Company</u>	<u>Original owner who sold the property to the counter party</u>	<u>The relationship of the original owner with the Company</u>	<u>Date of the original transaction</u>	<u>Amount</u>	<u>The bases or reference used in deciding the price</u>	<u>Other commitments</u>
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United Microelectronics Corporation

None

ATTACHMENT-6 (Disposal of real estate with an amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002) (Amount in thousand NTD unless otherwise stated)

<u>Names of the properties</u>	<u>Date of transaction</u>	<u>Acquisition date of the properties</u>	<u>Book value</u>	<u>Transaction amount</u>	<u>Status of payment receiving</u>	<u>Gain/ Loss on disposal</u>	<u>Counter party</u>	<u>The relationship with the Company</u>	<u>Reason for disposal</u>	<u>The bases or reference used in deciding the price</u>	<u>Other commitments</u>
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United Microelectronics Corporation

None

ATTACHMENT-7( Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year 2002) (Amount in thousand NTD unless otherwise stated)

Name of related parties transactions	Relationship with the Company	Transactions				Notes & accounts receivable (payable)	
		Purchase (Sales)	Amount	Percentage of purchase (sales)	Term	Balance	Percentage of account
<u>United Microelectronics Corporation</u>							
UMC Group (USA)	Investee company	Sales	27,917,057	41.40	60days	3,284,149	32.78
United Microelectronics (Europe) B.V.	Investee company	Sales	3,822,123	5.67	60days	542,296	5.41
Integrated Technology Express Inc.	Investee company	Sales	617,191	0.92	45days	120,180	1.20
Holtek Semiconductor Inc.	Investee company	Sales	834,088	1.24	60days	191,755	1.91
Novatek Microelectronics Corp.	Investee company	Sales	2,810,606	4.17	45days	446,927	4.46
Faraday Technology Corp.	Investee company	Sales	1,176,094	1.74	45days	202,151	2.02
AMIC Technology (Taiwan) Inc.	Investee company	Sales	623,759	0.93	45days	131,625	1.31
MediaTek Incorporation	The Company is its supervisor	Sales	7,313,672	10.85	45days	1,431,362	14.29
Davicom Semiconductor, Inc.	The investee of Fortune Venture Capital Corporation	Sales	126,934	0.19	45days	7,142	0.07
Averlogic Corporation	The Company's investee is its director and supervisor	Sales	113,191	0.17	45days	5,859	0.06
Fortune Semiconductor Corp.	The Company is its director	Sales	120,589	0.18	45days	37,565	0.37
Pixart Imaging Inc.	The Company is its director	Sales	146,159	0.22	45days	46,377	0.46
Applied Component Technology Corp.	Investee company	Purchase	219,235	1.42	30days	14,790	0.55
Shin - Etsu Handotai Taiwan Co., Ltd.	The Company is its director	Purchase	2,273,128	14.76	60days	375,116	14.10
<u>UMC Group (USA)</u>							
United Microelectronics Corporation	Investor company	Purchase	USD 811,693,816	100.00	Net55 Days	USD 94,569,549	100.00

ATTACHMENT-8 (Receivable from related parties exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Name of the counter party	Relationship with the counter party	Balance of receivable from related party				Turnover rate (times)	Overdue receivable		Subsequent received amount	Bad debt allowance provided
		Notes receivable	Accounts receivable	Other receivables	Amount		Amount	Collection		
<u>United Microelectronics Corporation</u>										
UMC Group (USA)	Investee company	-	3,284,149	-	3,284,149	9.68	-	Credit Collecting	307,641	32,841
United Microelectronics (Europe) B.V.	Investee company	-	542,296	-	542,296	11.60	31,457	Credit Collecting	20	5,738
Novatek Microelectronics Corp.	Investee company	-	446,927	-	446,927	7.93	688	Credit Collecting	-	4,476
Holtek Semiconductor Inc.	Investee company	-	191,755	-	191,755	5.32	89,558	Credit Collecting	-	2,813
Integrated Technology Express Inc.	Investee company	-	120,180	-	120,180	6.47	-	Credit Collecting	-	1,202
Faraday Technology Corp.	Investee company	-	202,151	-	202,151	6.49	4,186	Credit Collecting	-	2,063
AMIC Technology (Taiwan) Inc.	Investee company	-	131,625	-	131,625	3.07	252	Credit Collecting	252	1,319
MediaTek Incorporation	The Company is its supervisor	-	1,431,362	-	1,431,362	5.90	-	Credit Collecting	-	14,314

ATTACHMENT-9 (Related information on invested companies as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Invested company	Address	Main business scopes	Initial Investment		Shares held by the Company			The net income (loss) of the invested company	The gain (loss) recognized	Note
			Ending balance	Beginning balance	Number of shares (thousand)	Percentage	Book value			
<u>United Microelectronics Corporation</u>										
UMC Group (USA)	Sunnyvale, California, USA	IC Sales	USD16,438,000	USD16,438,000	16,438	100.00	473,297	USD(3,099,000)	(119,874)	
United Foundry Service, Inc.	Sunnyvale, California, USA	Supervising and monitoring group project	USD2,005,000	USD2,005,000	2,005	100.00	82,960	USD137,000	4,734	
UMC Capital Corporation	Cayman, Cayman Islands	Investment	USD30,000,000	USD10,000,000	30,000	100.00	1,007,444	USD(341,000)	(11,784)	
United Microelectronics Corp. (Samoa)	Apia, Samoa	Investment	USD500,000	-	500	100.00	7,114	USD(308,000)	(10,636)	
United Microelectronics (Europe) B.V.	Holland	IC Sales	USD5,421,000	-	9	100.00	217,493	USD151,000	29,941	
Fortune Venture Capital Corporation	Taipei, Taiwan	Consulting and planning for investment in new business	2,999,940	2,999,940	299,994	99.99	3,115,317	(136,125)	(136,112)	
Hsun Chieh Investment Co., Ltd.	Taipei, Taiwan	Investment	14,172,940	14,172,940	1,417,294	99.97	30,598,156	165,720	165,721	
United Microdisplay Optonics Corporation	Science-Based Industrial Park, Hsin-Chu	Sales and manufacturing of LCOS	764,990	-	76,499	85.00	702,501	(73,517)	(62,489)	
Pacific Venture Capital Co., Ltd.	Taipei, Taiwan	Venture capital consultation	300,000	300,000	30,000	49.99	316,270	8,901	4,450	
UMCi Pte. Ltd.	Singapore	Sales and manufacturing of integrated circuit fabrication	USD212,250,000	USD212,250,000	212,250	49.82	6,952,691	USD(11,615,000)	(215,225)	
UMC Japan	Chiba, Japan	Sales and manufacturing of integrated circuit fabrication	¥ 20,126,316,000	¥ 20,126,316,000	479	47.06	7,610,901	¥ (393,133,000)	506,878	
DuPont Photomasks Taiwan Ltd.	Science-Based Industrial Park, Hsin-Chu	Manufacturing of photomasks	773,795	777,016	99,748	45.51	1,145,403	156,480	71,722	
Unitech Capital Inc.	British Virgin Islands	Investment	USD21,000,000	-	21,000	42.00	731,255	USD(60,000)	875	
Archtek Telecom Corp.	Taipei, Taiwan	Sales and manufacturing of broadband access product	-	-	14,200	26.49	-	-	-	
Novatek Microelectronics Corp.	Science-Based Industrial Park, Hsin-Chu	Sales and manufacturing of integrated circuit fabrication	138,030	140,010	74,611	25.83	1,193,740	1,083,274	277,441	
Holtek Semiconductor Inc.	Science-Based Industrial Park, Hsin-Chu	IC design production and sales	357,628	392,176	44,854	25.61	568,554	350,737	94,071	
Integrated Technology Express, Inc.	Science-Based Industrial Park, Hsin-Chu	Sales and manufacturing of integrated circuit fabrication	205,025	239,770	24,111	24.58	309,672	147,004	43,526	
Unimicron Technology Corp.	Taoyuan, Taiwan	PCB production	2,592,013	2,592,013	168,930	23.81	3,004,762	1,020,032	190,292	
Applied Component Technology Corp.	Taipei, Taiwan	IC production sales	49,284	64,557	12,068	23.66	91,581	(9,682)	(1,925)	
Faraday Technology Corp.	Science-Based industrial Park, Hsin-Chu	ASIC design and production	81,032	62,455	33,710	19.71	570,675	691,252	136,970	
Integrated Telecom Express, Inc.	Santa Clara, California, USA	Sales and manufacturing of integrated circuit fabrication	USD2,000,000	USD2,000,000	7,000	16.36	513,134	USD(23,258,000)	(113,954)	
AMIC Technology (Taiwan) Inc.	Science-Based Industrial Park, Hsin-Chu	IC design, production and sales	135,000	135,000	16,200	13.62	53,225	62,038	16,105	

ATTACHMENT-9 (Related information on invested companies as of December 31, 2002) (Amount in thousand NTD unless otherwise stated)

Invested company	Address	Main business scopes	Initial Investment		Shares held by the Company			The net income (loss) of the invested company	The gain (loss) recognized	Note
			Ending balance	Beginning balance	Number of shares (thousand)	Percentage	Book value			
<u>Hsun Chieh Investment Co., Ltd.</u> Afa Technologies, Inc.	Taipei, Taiwan	Manufacturing and distribution of electronic components and materials	23,650	-	2,365	47.30	23,650	NA	NA	Note1
Star Semiconductor Corp.	Hsin-Chu, Taipei	Sales and manufacturing of integrated circuit fabrication	22,030	-	2,203	46.82	22,030	NA	NA	Note1
VistaPoint, Inc.	Taipei, Taiwan	Intellectual property, manufacturing and distribution of electronic materials	34,224	-	2,852	35.65	34,224	NA	NA	Note1
UC Fund II	Grand Cayman Islands West British	Venture capital consultation	161,225	161,225	5,000	35.45	174,264	(1,196)	(424)	Note1
Accelerated Communications, Inc.	Taipei, Taiwan	Electronic component production	100,000	-	10,000	33.33	100,000	NA	NA	Note1
RiRa Electronics, Inc.	Taipei, Taiwan	Electronic component production	69,009	31,500	6,499	32.50	59,232	(27,296)	(8,598)	Note1
United Radiotek Incorporation	Science-Based industrial Park, Hsin-Chu	RF and IC design	29,370	13,450	2,937	29.37	29,185	(687)	(185)	Note1
Harvatek Corp.	Hsin-Chu, Taipei	IC testing, production, packaging and sales	262,429	162,945	16,329	21.99	277,203	107,861	25,847	Note1
High Bandwidth Access, Inc	Hsin-Chu, Taipei	Product design and software sales	143,919	29,094	7,246	20.13	82,934	(126,625)	(21,095)	Note1
Patentop, Ltd.	British Virgin Islands	Patent sales	22,356	22,356	720	18.00	16,543	(25,639)	(4,615)	Note1
Advance Materials Corporation	Taoyuan, Taiwan	Synthetic resin and electronic component production	208,162	208,162	14,994	15.78	169,836	(84,732)	(13,373)	Note1
Unimicron Technology Corp.	Taoyuan, Taiwan	PCB production	1,070,213	1,070,213	88,440	12.47	1,537,397	947,150	118,079	
SerComm Corporation	Science-Based industrial Park, Hsin-Chu	Server product and sales	61,744	58,619	8,367	11.48	159,465	12,306	828	Note1
Faraday Technology Corp.	Science-Based industrial Park, Hsin-Chu	ASIC design and production	1,308,880	1,308,880	10,085	5.90	1,205,715	691,257	19,411	
UMC Japan	Chiba, Japan	Sales and manufacturing of integrated circuit fabrication	240,665	240,665	45	4.41	780,932	¥ (393,133,000)	12,667	
Integrated Telecom Express, Inc.	Santa Clara, California, USA	Sales and manufacturing of integrated circuit fabrication	92,108	92,108	1,113	2.61	139,613	USD(23,258,000)	(42,570)	

Note1: Investment income/loss is to be recognized in the next year.