

Consolidated Financial Review



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Letter of Representation

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

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

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

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

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



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

Report of Independent Auditors

English translation of a report originally issued in Chinese.

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

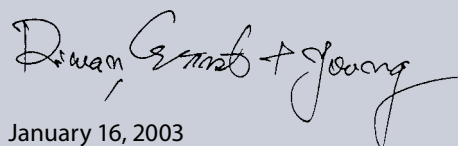
We have audited the accompanying consolidated balance sheets of United Microelectronics Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements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

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

and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

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

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



January 16, 2003
Taipei, Taiwan
Republic of China

Notice to Readers The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in

the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Consolidated Balance Sheets

December 31, 2002 and 2001

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

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

In thousand NTD

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

Consolidated Statements of Income

For the years ended December 31, 2002 and 2001

In thousand NTD

Contents	Notes	2002	2001
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)		\$7,072,032	\$(3,157,302)
Earnings (Loss) per Share-Basic			
Net Income (Loss) (in NTD)	2, 4(15)	\$0.48	\$(0.21)
Earnings (Loss) per Share-Diluted			
Net Income (Loss) (in NTD)	2, 4(15)	\$0.48	\$(0.21)
Pro forma Information on Earnings as if Unconsolidated Subsidiaries' Investment in the Company is not Treated as Treasury Stock	4(15)		
Net income		\$7,072,032	
Earnings per Share-Basic (in NTD)		\$0.48	
Earnings per Share-Diluted (in NTD)		\$0.48	

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2002 and 2001

In thousand NTD

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

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

In thousand NTD

Contents	2002	2001
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	30,526,954	40,187,493
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	(30,457,764)	(43,257,044)

Continued on next page

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

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

Notes to Financial Statements

December 31, 2002 and 2001

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

Note 1 – General Descriptions of Reporting Entities

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

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

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

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

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

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

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

Translation of Foreign Currency Transactions

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

Cash Equivalents

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

Marketable Securities

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

Allowance for Doubtful Accounts

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

Inventories

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis

of replacement cost while the work in process and finished goods are determined by net realizable values. An allowance for loss on decline in market value and obsolescence is provided, when necessary.

Long-term Investments

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

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

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

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

Property, Plant and Equipment

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

depreciated accordingly.

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

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

Intangible Assets

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

Deferred Charges

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

Convertible and Exchangeable Bonds

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

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

When exchangeable bondholders exercise their rights to exchange for the reference shares, the book

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

Revenue Recognition

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

Income Tax

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

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

Pension Plan

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

Derivative Financial Instruments

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

Earnings per Share

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

Treasury Stock

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

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

Note 3 – Accounting Changes

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

Note 4 – Contents of Significant Accounts

(1) Cash and Cash Equivalents

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

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

(2) Marketable Securities, Net

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

(3) Notes Receivable

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

(4) Accounts Receivable, Net

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

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

(5) Inventories, Net

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

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

(6) Long-term Investments

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

<i>As of December 31,</i>	2002		2001	
<i>Invested Company</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>
<i>Investments accounted for under the equity method:</i>				
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
<i>Subtotal</i>		16,742,396		17,273,818
<i>Investments accounted for under the cost method or the lower of cost or market value method:</i>				
Aptos Corp.	26.07	104,861	26.07	\$104,861
Pacific United Technology, L.P.	25.00	34,600	25.00	34,600
Elite Flash Storage Technology Inc.	19.50	19,500	19.50	19,500
Giga Solution Technology Co., Ltd.	19.44	105,000	19.44	105,000
Vialta, Inc.	17.80	1,248,457	–	1,248,457
PixTech, Inc.	17.63	–	17.63	561,080
Kits On Line Technology Corp.	16.41	38,656	16.41	38,656

Continued on next page

<i>As of December 31,</i>	2002		<i>2001</i>	
<i>Invested Company</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>	<i>Percentage of Ownership or Voting Rights</i>	<i>Amount</i>
Investments accounted for under the cost method or the lower of cost or market value method:				
<i>Continued from previous page</i>				
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)	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	–	–
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	–	–

Continued on next page

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

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

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

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

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

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

(7) Property, Plant and Equipment

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

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

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

(8) Short-term Loans

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

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

(9) Bonds Payable

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

- a. On April 27, 2000, the Company issued five-year secured bonds amounting to NT\$3,990 million with a stated interest rate of 5.6%. The bonds are repayable in installments every six months from April 27, 2002 to April 27, 2005.
- b. During the period from April 16 to April 27, 2001, the Company issued five-year and seven-year unsecured bonds totaling NT\$15,000 million, with face value of NT\$7,500 million, and stated interest rates of 5.1850% through 5.1195% and 5.2850% through 5.2170%, respectively. The five-year bonds and seven-year bonds are repayable starting April 2004 to April 2006 and April 2006 to April 2008, respectively, both in three yearly installments at the rates of 30%, 30% and 40%.
- c. During the period from October 2 to October 15, 2001, the Company issued three-year and five-year unsecured bonds totaling NT\$10,000 million, each with face value of NT\$5,000 million, and with stated interest rates of 3.3912% through 3.420% and 3.4896% through 3.520%, respectively. The three-year bonds and five-year bonds are repayable in October 2004 and October 2006, respectively, upon the maturity of the bonds.
- d. On December 12, 2001, the Company issued zero coupon convertible bonds amounting to US\$302.4 million on the Luxembourg Stock Exchange (LSE). The terms and conditions of the bonds are as follows:
- 1) Final Redemption: Unless previously redeemed, repurchased, cancelled or converted, the bonds will be redeemed at 101.675% of their principal amount on March 1, 2004.
 - 2) Redemption at the Option of the Company: The Company may redeem all, but not some only, of the bonds, subject to giving no less than 30 nor more than 60 days advance notice, at the early redemption amount, provided that:

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

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

3) Conversion Period:

i. In respect of the Shares, on or after January 22, 2002 up to and including February 20, 2004 or

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

4) Conversion Price: The conversion price

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

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

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

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

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

The Company may also redeem the bonds, in whole,

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

3) Redemption at the Option of Bondholders: The Company will, at the option of the holders, redeem such bonds on February 10, 2005 at its principal amount.

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

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

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

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

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

2) Early Redemptions:

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

ii. In case of a corporate split or share exchange/ share transfer. UM CJ 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 UM CJ 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 UM CJ occurs, holders of the bonds will be able to require UM CJ to redeem their bonds on the date that is 85 days after the change of control occurs.

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

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

(10) Long-term Loans

As of December 31,	2002	2001
Secured bank loans	\$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	\$12,879,512	\$16,244,823
Interest rates	0.95%-3.35%	1.55%-5.34%

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

(11) Pension Fund

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

For the year ended December 31,	2002	2001
Service cost	\$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	\$552,720	\$530,318

The actuarial assumptions underlying are as follows:

For the year ended December 31,	2002			2001	
	The Company	UMO	UM CJ	The Company	UM CJ
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%

- 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	\$(2,030,786)	\$(1,591,022)

(12) Capital Stock

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

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

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

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

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

(13) Treasury Stock

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

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

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

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

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

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

(14) Retained Earnings

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

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

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

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

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

Details of the settlement of 2001 employees' bonus

and remuneration of directors and supervisors are as follows:

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

(15) Earnings (Loss) per Share

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

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

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

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

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

(16) Income Tax

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

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

Deferred income tax assets and liabilities were as follows:

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

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

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

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

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

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

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

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

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

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

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

The new Taiwan imputation tax system requires

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

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

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

Note 5 – Related Party Transactions

(1) Name and Relationship of Related Parties

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

(2) Significant Related Party Transactions

a. Operating revenues

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

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

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

b. Purchases

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

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

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

c. Notes receivable

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

d. Accounts receivable, net

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

e. Other receivables, net

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

f. Accounts payable

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

g. Loans

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

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

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

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

i. Other transactions

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

Among the transactions, the Group has entered

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

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

Note 6 – Assets Pledged as Collateral

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

Note 7 – Commitments and Contingent Liabilities

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

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

rights to use patents registered by the third parties.

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

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

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

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

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

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

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

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

Note 8 – Significant Disaster Loss

None.

Note 9 – Significant Subsequent Events

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

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

Note 10 – Others

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

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

Descriptions	Elimination entries Debit (Credit)						
	The Company	UMC-USA	UMC BV	Hsun Chieh	UMO	UMCJ	UMCI
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
Elimination of reciprocal balances							
Accounts receivable vs. Accounts payable	(3,865,523)	3,284,149	542,296	-	657	851	37,570
Other receivables vs. Other payables	(38,832)	-	31	-	2,384	68	36,349
Proceeds from disposal vs. acquisition cost of fixed assets	(276,645)	-	-	-	276,645	-	-
Intangible assets vs. Deferred credits	(1,937,138)	-	-	-	225,000	-	1,712,138
Other current liabilities vs. other deposits	1,719,211	(1,719,211)	-	-	-	-	-
Elimination of intercompany profits and losses							
Intercompany sales and purchases	31,803,289	(27,917,057)	(3,822,123)	-	(626)	(14,101)	(49,382)
Elimination of intercompany investments							
Long-term investments vs. Treasury stock	(29,592,654)	-	-	29,592,654	-	-	-

Note 11 – Additional Disclosures

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

- Loans to others attributed to financial activities as of December 31, 2002: Please see Attachment-1.
- The endorsements and guarantees provided to others as of December 31, 2002: Please see Attachment-2.
- The ending balance of securities held as of December 31, 2002: Please see Attachment-3.
- 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.
- 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.
- 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.
- 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.
- 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.

- Related information on invested companies as of December 31, 2002: Please see Attachment-9.
- Financial instruments: The relevant information on the derivative financial instruments entered into by the Group is as follows:

1) There were no derivative financial instruments outstanding as of December 31, 2002. UMCJ, a subsidiary of the Company, entered into foreign currency forward exchange contract with a certain bank on December 17, 2001. The major information is as follows:

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

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

2) Non-derivative financial instruments:

As of December 31,	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
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
Financial Liabilities				
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.

Note 12 – Segment Information

(1) Operations in different industries

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

semiconductor wafer foundry services.

(2) Operations in different geographic areas

For the year ended December 31, 2002

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

For the year ended December 31, 2001

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

(3) Export sales

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

(4) Major customers

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

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

Attachments to Notes

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

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

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

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

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

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

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

(Amount in thousand NTD unless otherwise stated)

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

(Amount in thousand NTD unless otherwise stated)

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

(Amount in thousand NTD unless otherwise stated)

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

Continued on next page

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

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
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United Microelectronics Corporation

Continued from previous page

Stock	Faraday Technology Corp.	Investee company
Stock	PixTech, Inc.	None
Stock	Integrated Telecom Express, Inc.	Investee company
Stock	AMIC Technology (Taiwan), Inc.	Investee company
Stock	MediaTek Incorporation	The Company is its supervisor
Stock	AU Optronics Corp.	The Company is its director and supervisor
Stock	Sino- Aerospace Investment Corp.	None
Fund	Pacific Technology Partners, L.P.	None
Stock	Aptos Corp.	None
Stock	United Industrial Gases Co., Ltd.	None
Stock	TECO Nanotech Co., Ltd.	None
Stock	Subtron Technology Co., Ltd.	None
Stock	Industrial Bank of Taiwan Corp.	The Company is its major shareholder
Stock	Silicon Integrated Systems Corp.	None
Stock	TECO Electric & Machinery Co., Ltd.	The Company is its director and supervisor
Stock	SAMPO Corporation	None
Stock	Mega Financial Holding Company	The Company is its director and supervisor
Stock	Premier Image Technology Corporation	None
Stock	Tonbu, Inc.	None
Stock	Vialta, Inc.	None

Hsun Chieh Investment Co., Ltd.

Stock	Shanghai Fudan Microelectronics Co., Ltd.	None
Stock	Afa Technologies, Inc.	Investee company
Stock	Star Semiconductor Corp.	Investee company
Stock	VistaPoint, Inc.	Investee company
Stock	UC Fund II	Investee company
Stock	Accelerated Communications, Inc.	Investee company
Stock	RiRa Electronics, Inc.	Investee company
Stock	United Radiotek Incorporation	Investee company
Stock	High Bandwidth Access, Inc	Investee company
Stock	Harvatek Corp.	Investee company
Stock	Elite Flash Storage Technology, Inc.	The Company is its director and supervisor
Stock	Giga Solution Technology Co., Ltd.	The Company is its director
Stock	Everglory Resource Technology Co., Ltd.	None
Stock	Ayuttha Technology Corp.	The Company is its director and supervisor
Stock	Patentop, Ltd.	Investee company
Stock	Kits On Line Technology Corp.	The Company is its director
Stock	Aptos Corp.	None
Stock	InComm Technologies Co., Ltd.	The Company is its director
Stock	Advance Materials Corporation	Investee company
Stock	Enovation Group Inc.	None
Stock	Unimicron Technology Corp.	Investee company to UMC
Stock	SerComm Corporation	Investee company
Stock	Integrated Photonics, Inc.	None

(Amount in thousand NTD unless otherwise stated)

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

Continued on next page

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

<i>Types of marketable securities</i>	<i>Name of marketable securities</i>	<i>The relationship of the issuers with the Company</i>
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Hsun Chieh Investment Co., Ltd.

Continued from previous page

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

(Amount in thousand NTD unless otherwise stated)

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

Continued on next page

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

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

(Amount in thousand NTD unless otherwise stated)

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

Continued on next page

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

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

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

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

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

(Amount in thousand NTD unless otherwise stated)

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

(Amount in thousand NTD unless otherwise stated)

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

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

None

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

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

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

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

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

None

(Amount in thousand NTD unless otherwise stated)

Purchase (Sales)	Amount	% of purchase (sales)	Transactions		Notes & accounts receivable (payable)	
			Term		Balance	% of account
Sales	\$27,917,057	41.40	60 days		\$3,284,149	32.78
Sales	3,822,123	5.67	60 days		542,296	5.41
Sales	617,191	0.92	45 days		120,180	1.20
Sales	834,088	1.24	60 days		191,755	1.91
Sales	2,810,606	4.17	45 days		446,927	4.46
Sales	1,176,094	1.74	45 days		202,151	2.02
Sales	623,759	0.93	45 days		131,625	1.31
Sales	7,313,672	10.85	45 days		1,431,362	14.29
Sales	126,934	0.19	45 days		7,142	0.07
Sales	113,191	0.17	45 days		5,859	0.06
Sales	120,589	0.18	45 days		37,565	0.37
Sales	146,159	0.22	45 days		46,377	0.46
Purchase	219,235	1.42	30 days		14,790	0.55
Purchase	2,273,128	14.76	60 days		375,116	14.10
Purchase	US\$811,693,816	100.00	Net 55 days		US\$94,569,549	100.00

(Amount in thousand NTD unless otherwise stated)

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

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

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

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

(Amount in thousand NTD unless otherwise stated)

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

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

Financial Forecast and Result

In thousand NTD

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

Note Date of forecast update: October 6, 2001

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

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



- 139 Analysis of Financial Position
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Analysis of Financial Position

In thousand NTD

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

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

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

Analysis of Operating Results

In thousand NTD

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

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

Sales returns and allowances

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

Gross Profit

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

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

Operating Expenses

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

Non-operating Income

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

Income Tax Benefit

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

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

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

Liquidity Analysis

Analysis of Cash Flows for 2002

In thousand NTD

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

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

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

Analysis of Cash Flows for 2003

In thousand NTD

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

Major Capital Expenditures and Sources of Funding

Execution Status of Major Capital Expenditures and Sources of Funding

In thousand NTD

Project	Actual or Expected Sources of Funding	Actual or Expected Completion date	Total Capital Expenditure	Actual or Projected Capital Expenditures Plan				
				2001	2002	2003	2004	2005
200mm wafer plant and equipment	Cash flows generated from operations, issuance of convertible bonds and other sources.	2003.12	28,882,000	6,400,000	1,282,000	1,200,000	-	-
Expansion of facilities and equipment in 200mm wafer fab	Cash flows generated from operations and bank loans.	2003.12	4,673,000	1,447,000	799,000	253,000	-	-
Expansion of facilities and equipment in 200mm wafer fab	Cash flows generated from operations and bank loans.	2003.12	3,200,000	1,261,000	550,000	300,000	-	-
200mm wafer plant and equipment	Cash flows generated from operations, bank loans and issuance of depositary receipts.	2004.12	35,496,904	6,509,000	7,677,000	2,592,000	1,840,000	460,000
Expansion of facilities and equipment in 200mm wafer fab	Cash flows generated from operations, bank loans and issuance of depositary receipts.	2004.12	21,381,000	3,700,000	2,508,000	1,279,000	2,880,000	720,000
Tainan 300mm wafer plant and equipment	Cash flows generated from operations and bank loans.	2004.12	8,525,990	1,194,990	2,491,000	2,200,000	960,000	240,000
Tainan 300mm wafer facilities and equipment	Cash flows generated from operations and bank loans.	2004.12	47,030,627	15,187,010	4,235,000	6,380,000	10,835,000	8,865,000
Expansion of R&D Equipment	Cash flows generated from operations and bank loans.	2004.12	6,342,000	1,910,000	2,458,000	1,474,000	400,000	100,000
Expansion of facilities and equipment in 200mm wafer fab	Issuance of exchangeable bonds	2003.3	8,096,000	-	5,897,000	2,199,000	-	-

Note The figures represented for 2001 and 2002 are actual capital expenditures and the figures represented for 2003 to 2005 are projected capital expenditures.

Expected Benefit from Capital Expenditures

Expected benefits resulting from capital expenditures are as follows:

In thousand NTD

Year	Product	Projected Output (pcs)	Projected Shipments (pcs)	Projected Revenues	Projected Gross Profits
2003	200mm wafer equivalents	1,025,000	1,025,000	57,559,319	11,511,864
2004	200mm wafer equivalents	1,244,000	1,244,000	72,077,269	21,623,181
2005	200mm wafer equivalents	1,556,000	1,556,000	92,855,236	37,142,094

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

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

Risk Management and Evaluation

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

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

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

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

Upcoming R&D Plans and their status

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

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

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

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

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

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

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

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

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

Other Necessary Supplement

None.