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UMC Reports 2004 Second Quarter Results

Sequential Operating Income Increases 44%, Growth Expected to Continue

Second Quarter 2004 Highlights¹:

- Revenue increased 15.2% sequentially to NT\$29.18 billion (US\$864 million)
 - Operating income increased 43.6% sequentially to NT\$7.59 billion (US\$225 million)
 - Net income increased 84.2% sequentially to NT\$12.70 billion (US\$376 million)
 - EPS of NT\$0.83; EPADS of US\$0.123
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Taipei, Taiwan, ROC – July 28, 2004 - **United Microelectronics Corporation (NYSE: UMC; TSE: 2303)** (“UMC” or “the Company”), a leading global semiconductor foundry, today announced its unconsolidated operating results for the second quarter of 2004.

“We experienced strong demand from our customers in the second quarter, leading to a 9.7% increase in wafer shipments and an increase in our blended average selling price. Together, these drove a 15.2 % growth in quarter-over-quarter revenue and a 43.6% increase in operating income. Our second quarter results not only confirm that UMC is doing well in terms of business performance, but also demonstrate the successful execution of UMC's foundry strategy,” said Dr. Jackson Hu, CEO at UMC.

Dr. Hu continued, “We remain committed to providing the best foundry services to our customers. To maintain our leading position in semiconductor process technology, UMC will remain a primary driving force in the foundry industry’s migration to 90nm technology. Some of the world’s largest IC companies, including major suppliers of programmable logic and wireless handset baseband ICs, have already qualified and adopted UMC’s 90nm process to fabricate their most advanced products. We are expanding our 90nm production on 300mm wafers at Fab 12A and at UMCi so

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with ROC GAAP, which differ in some material respects from generally accepted accounting principles in the United States. They are unaudited, unconsolidated, and represent comparisons among the three-month period ending June 30, 2004, the three-month period ending March 31, 2004, and the equivalent three-month period that ended June 30, 2003. For all 2Q04 results, New Taiwan Dollar (NT\$) amounts have been converted into U.S. dollars at the exchange rate of NT\$33.76 to one U.S. dollar.

that our customers will enjoy increased performance and cost benefits. Furthermore, UMC is working closely with several of our customers to ensure its leadership in 65nm process technology – the next generation of IC manufacturing technology.”

“Our capacity is on schedule to increase by 19% to 853 thousand 8-inch equivalents in the third quarter. The availability of this additional capacity, mainly from Fab 8S, Fab 12A and UMCi, will help ease the present tight capacity situation. Going forward, we expect revenue and profit growth to continue into the third quarter.”

Summary of Operating Results

Operating Results					
(Amount: NT\$ million)	2Q04	1Q04	QoQ % change	2Q03	YoY % change
Revenue	29,177	25,326	15.2	21,706	34.4
Gross Profit	10,058	7,612	32.1	4,983	101.9
Operating Expenses	(2,466)	(2,325)	6.1	(2,499)	(1.3)
Operating Income	7,592	5,287	43.6	2,484	205.6
Non-op. Income (Expenses)	5,111	1,639	211.8	610	737.8
Net Income	12,702	6,894	84.2	2,687	372.7
EPS (NT\$ per share)	0.83	0.45		0.17	
(US\$ per ADS)	0.123	0.067		0.025	

Revenue increased 15.2% quarter-over-quarter to NT\$29.18 billion, from NT\$25.33 billion in 1Q04, and increased 34.4% year-over-year to NT\$21.71 billion in 2Q03. Gross profit was NT\$10.06 billion, or 34.5% of revenue, compared to NT\$7.61 billion, or 30.1% of 1Q04 revenue. Operating income of NT\$7.59 billion increased 43.6% sequentially and 205.6% from 2Q03. High capacity utilization and improved ASPs were the key reasons for the increase in revenue, gross profit and operating income during the second quarter. Net income in 2Q04 was NT\$12.70 billion, an increase of 84.2% compared with NT\$6.89 billion in 1Q04.

Earnings per ordinary share (EPS) for the quarter were NT\$0.83. Earnings per ADS (EPADS) were US\$0.123. This compares with 1Q04 earnings per ordinary share and ADS of NT\$0.45 and US\$0.067 respectively. One ADS represents five Taiwan listed ordinary shares. Total weighted average outstanding shares in 2Q04 were 15,319,215,064 shares, compared with 15,420,105,361 shares in 1Q04 and 15,283,598,816 shares in 2Q03. Diluted total weighted average outstanding shares were 15,637,528,044 shares in 2Q04, decreased from 15,851,472,750 shares in 1Q04 due to treasury stock buy-backs.

Detailed Financials Section

Depreciation and amortization totaled NT\$9.27 billion in 2Q04, compared with NT\$9.54 billion in 1Q04. Depreciation within COGS of NT\$8.55 billion remained virtually flat from 1Q04. Other manufacturing costs within COGS increased to NT\$10.57 billion sequentially due to increased wafer shipments. Total operating expenses increased by 6.1% to NT\$2.47 billion. R&D expense, 4.7% of revenue, increased 5.2% quarter-over-quarter to NT\$1.38 billion primarily due to 90nm R&D activities at Fab 12A.

COGS & Expenses					
(Amount: NT\$ million)	2Q04	1Q04	QoQ % change	2Q03	YoY % change
Revenue	29,177	25,326	15.2	21,706	34.4
COGS	(19,119)	(17,714)	7.9	(16,723)	14.3
Depreciation	(8,553)	(8,591)	-0.4	(8,114)	5.4
Other Mfg. Costs	(10,566)	(9,123)	15.8	(8,609)	22.7
Gross Profit	10,058	7,612	32.1	4,983	101.9
Gross Margin (%)	34.5%	30.1%		23.0%	
Total Operating Exp.	(2,466)	(2,325)	6.1	(2,499)	-1.3
G&A	(603)	(534)	12.9	(565)	6.8
Sales and Marketing	(482)	(478)	0.8	(457)	5.5
R&D	(1,381)	(1,313)	5.2	(1,477)	-6.5
Operating Income	7,592	5,287	43.6	2,484	205.6
Operating Margin (%)	26.0%	20.9%		11.5%	

Net non-operating income during 2Q04 was NT\$5.11 billion. Gains on the disposal of investments were NT\$6.19 billion, primarily from the sale and conversion of AU Optronics shares. Net investment loss was NT\$0.08 billion. Investment losses of NT\$0.65 billion from UMCi and NT\$0.25 billion from SiS in 2Q04, were offset by positive income from other investments.

Non-operating Income (Expenses)			
(Amount: NT\$ million)	2Q04	1Q04	2Q03
Net Non-operating Income (Exp.)	5,111	1,639	610
Net Interest Income (Expense)	(113)	(77)	(45)
Net Investment Income (Loss)	(82)	(582)	179
Gain on Disposal of Investment	6,193	2,507	1,063
Exchange Gain (Loss)	(335)	(42)	59
Others	(552)	(167)	(646)

Cash inflow from operations was NT\$16.34 billion, up NT\$3.59 billion sequentially. It reflects higher 2Q04 operating income. Compared with the previous quarter, the increase in investing cash outflow primarily reflects CAPEX for Fab 12A expansion and investment in UMCi. The NT\$6.98 billion of financing cash outflow is mainly from treasury stock buy-backs and convertible bond repayments during the quarter. Over the next 12 months, we expect to retire NT\$12.6 billion of our long-term loans and bond obligations.

Cash Flow Summary		
(Amount: NT\$ million)	For the 3-Month Period Ended Jun. 30, 2004	For the 3-Month Period Ended Mar. 31, 2004
Cash Flow from Operations	16,342	12,757
Net Income (Loss)	12,702	6,894
Depreciation & Amortization	9,269	9,535
Changes in working capital	137	(1,425)
Others	(5,766)	(2,247)
Cash Flow from Investing	(13,907)	(9,996)
Capital Expenditures	(11,216)	(5,891)
Others	(2,691)	(4,105)
Cash Flow from Financing	(6,977)	(8,597)
Net Cash Flow	(4,542)	(5,836)

Cash and cash equivalents decreased by NT\$4.54 billion to NT\$82.49 billion due to cash outflow for capital expenditure for capacity expansion, purchase of additional UMCi shares, treasury stock buy-backs and debt repayment. Days sales outstanding² decreased to 49 days, and average inventory turnover remained at 42 days.

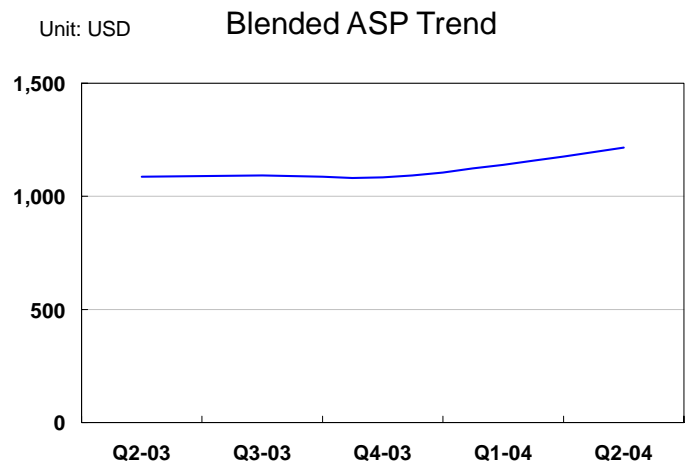
Current Assets			
(Amount: NT\$ billion)	2Q04	1Q04	2Q03
Cash & Cash Equivalents	82.49	87.03	74.94
Notes & Accounts Receivable	15.70	15.57	12.94
Days Sales Outstanding	49	54	53
Inventory	8.62	8.41	7.50
Avg. Inventory Turnover	42	42	44
Total Current Assets	114.46	119.98	102.89

Total debts decreased by NT\$6.95 billion to NT\$70.49 billion in 2Q04. The decrease was primarily due to the repayment and redemption of loans and corporate bonds. As a result, the company's debt to equity ratio decreased to 29%.

Liabilities			
(Amount: NT\$ billion)	2Q04	1Q04	2Q03
Total Current Liabilities	30.09	26.20	31.05
Accounts Payable	4.88	4.65	3.76
Short-term Credit / Bonds	10.84	9.69	15.27
Others	14.37	11.86	12.02
Long-term Liabilities	33.84	44.58	51.09
Total Debts	70.49	77.44	86.20
Debt to Equity	29%	32%	40%

Blended Average Selling Price Trend

The blended average selling price (ASP) rose 6% quarter-over-quarter mainly due to increasing wafer shipments for advanced technology products. It was higher than previously provided guidance.



² Days Sales Outstanding = $365 / \left[\frac{\text{Operating revenues for three-month period end } *4}{\left(\frac{\text{Beginning NR\&AR balance, net} + \text{Ending NR\&AR balance, net}}{2} \right)} \right]$

Average Inventory Turnover = $365 / \left[\frac{\text{COGS for three-month period end } *4}{\left(\frac{\text{Beginning Inventory balance, net} + \text{Ending Inventory balance, net}}{2} \right)} \right]$

Analysis of Revenue³

The percentage of revenue contributed from North America and Europe grew to 44% and 17% respectively in 2Q04. The percentage of revenue contributed from Asia Pacific decreased to 35% in 2Q04.

Revenue Breakdown by Region

Region	2Q03	3Q03	4Q03	1Q04	2Q04
North America	43%	40%	39%	43%	44%
Asia Pacific	39%	38%	41%	37%	35%
Europe	14%	18%	17%	16%	17%
Japan	4%	4%	3%	4%	4%

The percentage of revenue from 90nm, 0.13 and 0.15-micron geometries grew to 1%, 13% and 12% respectively in the second quarter due to more capacity available for advanced processes. The percentage of revenue from 0.18-micron and below technologies in the second quarter increased to 53%, compared with 50% in 1Q04.

Revenue Breakdown by Geometry

Geometry	2Q03	3Q03	4Q03	1Q04	2Q04
90nm	0%	0%	0%	0%	1%
0.13um	6%	9%	12%	12%	13%
0.15um	8%	8%	9%	9%	12%
0.15um<x<=0.18um	24%	26%	25%	29%	27%
0.18um<x<=0.25um	22%	25%	22%	19%	19%
0.25um<x<=0.35um	28%	22%	23%	21%	19%
0.5um and above	12%	10%	9%	10%	9%

IDM orders increased to 30% of revenue in 2Q04.

Revenue Breakdown by Customer Type

Customer Type	2Q03	3Q03	4Q03	1Q04	2Q04
Fabless	78%	71%	71%	72%	70%
IDM	22%	29%	29%	28%	30%
System	0%	0%	0%	0%	0%

Revenue from the communication market segment increased and accounted for 44% of total revenue in 2Q04. Most of the increase was due to the strong demand for programmable logic and handset baseband chips.

Revenue Breakdown by Application ⁽¹⁾

Application	2Q03	3Q03	4Q03	1Q04	2Q04
Computer	31%	28%	26%	24%	20%
Communication	36%	34%	38%	42%	44%
Consumer	28%	32%	31%	30%	32%
Memory	3%	4%	3%	3%	2%
Others	2%	2%	2%	1%	2%

⁽¹⁾ **Computer** consists of ICs such as HDD controllers, DVD-ROM/CD-ROM drives ICs, LCD drivers, graphic processors, and PDAs. **Communication** consists of xDSL, DSP, WLAN, LAN controllers, handset components, caller ID devices, etc. **Consumer** consists of ICs used for DVD players, game consoles, digital cameras, smart cards, toys, etc. **Memory** consists of DRAM, SRAM, Flash, EPROM, ROM, and EEPROM.

³ Revenue in this section represents net wafer sales. All revenue breakdown tables exclude JV's and subsidiaries.

Capacity⁴

Total capacity during the second quarter, including UMCi, was 714 thousand 8-inch equivalent wafers. Compared to 1Q04, the increase of 34 thousand 8-inch equivalent wafers was mainly due to capacity expansions at Fab12A and UMCi. Estimated installed capacity in the third quarter is 853 thousand 8-inch equivalent wafers. The increase in estimated capacity during the third quarter is primarily due to recognized capacity from Fab 8S as of July 1st, and additional 12-inch capacity expansion at 300mm fabs.

Annual Capacity in thousands of 8-inch wafer equivalents

FAB	Geometry (um)	2001	2002	2003	2004E
Fab 6A	6"	345	349	352	346
Fab 8AB	8"	943	853	801	792
Fab 8C	8"	460	355	325	390
Fab 8D	8"	290	214	238	256
Fab 8E	8"	474	376	354	401
Fab 8F	8"	351	312	342	349
Fab 8S	8"	0	0	0	135
Fab 12A	12"	22	119	234	399
Subtotal ⁽¹⁾		2,885	2,578	2,646	3,068
UMCi	12"	0	0	0	101
Total		2,885	2,578	2,646	3,169
YoY Growth Rate		24%	-11%	3%	20%

Quarterly Capacity in thousands of 8-inch wafer equivalents

FAB	4Q03	1Q04	2Q04	3Q04E	4Q04E
Fab 6A	88	88	86	86	86
Fab 8AB	195	196	196	200	200
Fab 8C	90	90	96	99	105
Fab 8D	54	58	61	65	72
Fab 8E	96	96	101	102	102
Fab 8F	81	81	81	92	95
Fab 8S	0	0	0	60	75
Fab 12A	68	68	84	120	127
Subtotal		672	677	705	824
UMCi	0	3	9	29	60
Total		672	680	714	922

⁽¹⁾ One 6-inch wafer is converted into 0.5625 8-inch equivalent wafer; one 12-inch wafer is converted into 2.25 8-inch equivalent wafers.

⁴ Estimated capacity numbers are based on *calculated maximum output* rather than *designed capacity*. The actual capacity numbers may differ depending upon equipment delivery schedules, pace of migration to more advanced process technologies, and other factors affecting production ramp up.

Shipment and Utilization Rate⁵

710 thousand 8-inch equivalent wafers were shipped in 2Q04, a 9.7% increase from 647 thousand 8-inch equivalents shipped in the previous quarter. Overall utilization rate for the quarter was over 99%.

Wafer Shipments

	2Q03	3Q03	4Q03	1Q04	2Q04
Wafer Shipments (K 8-inch eq.)	550	546	644	647	710

Quarterly Capacity Utilization Rate

	2Q03	3Q03	4Q03	1Q04	2Q04
Utilization Rate	85%	84%	96%	100% ⁽¹⁾	99%
Total Capacity (K 8-inch eq.)	647	659	672	680	714

⁽¹⁾ Utilization rate was calculated based on 1Q04 available capacity, which is 95% of total capacity after factoring in a 5% productivity loss due to annual scheduled maintenance.

CAPEX

Capital expenditure for UMC and UMCi during 2Q04 was US\$332 million and US\$263 million, respectively. UMC's 2004 full year CAPEX plans remain unchanged at US\$1.18 billion.

Capital Expenditure by Year - in US\$ billion						
Year	1999	2000	2001	2002	2003	2004E
CAPEX	\$ 1.9	\$ 2.8	\$ 1.1	\$ 0.8	\$ 0.37	\$ 1.18

2004 CAPEX Plan

	8" fab	12" fab	12" R&D	Total
UMC	15%	70%	15%	1,180 million USD
UMCJ	100%	-	-	120 million USD
UMCi	-	100%	-	850 million USD

⁵ Quarterly utilization rate = Quarterly wafer out / Estimated quarterly capacity

Long-term Investments⁶

Consolidated Long-term Investments as of June 30, 2004

(Amount: NT\$ million)	As of End of 2Q04				As of End of 1Q04			
	Book value	%	Fair value	%	Book value	%	Fair value	%
Foundry Industry	42,535	58	43,879	42	39,589	55	45,697	35
Strategic Semiconductor Investments	13,129	18	38,191	37	13,189	18	47,442	37
Other Investments	17,377	24	22,296	21	19,990	27	36,512	28
Total	73,041	100	104,366	100	72,768	100	129,651	100

As of June 30, 2004, the total book value of long-term investments held by UMC was NT\$73.04 billion, and the estimated fair value of long-term investments was NT\$104.37 billion. The increase in foundry industry investments is due to an increase in UMCi shares. The decrease in other investments and fair value of long-term investments is mainly due to the disposal of AU Optronics shares and a decrease in the share prices of several listed investments, respectively.

Recent Developments / Announcements

- Jun. 14, 2004 XILINX and UMC Develop Industry's First FPGAs to Utilize Triple-Oxide 90nm Technology
- Jun. 01, 2004 UMC Shareholders Approve NT\$0.8 Stock Dividend for Fiscal Year 2003
- May 26, 2004 UMC Announces a Device Technique that Enhances Silicon-on-Insulator (SOI) Transistor Performance
- May 24, 2004 UMC's 90-nanometer Manufacturing Technology Sees Strong Acceptance from Industry Leaders
- May 21, 2004 UMC Increases Share Holding in UMCi
- May 19, 2004 UMC Achieves 30% Performance Enhancement on 45nm Transistors Through Substrate Engineering
- May 18, 2004 UMC and TrendChip Partner to Deliver Asia's First ADSL2+ Solution
- May 05, 2004 UMC and AMIC Technology Announce Production of 90-nanometer 36Mb High Speed ZeBL™ SRAM Family
- May 03, 2004 UMC and Synopsys Develop Reference Flow for UMC's Advanced Deep Submicron Processes

Please visit UMC's website <http://www.umc.com/english/news/index.asp> for further details regarding the above announcements.

⁶ The long-term investment information disclosed is UMC Group consolidated data, which includes UMC, Hsun Chieh Investment Corp., Fortune Venture Capital Corp. and UMC Capital Corp. For publicly quoted investments, fair value is calculated by multiplying the average daily closing price of the last month of the accounting period (June of 2004) with the number of shares owned by the UMC Group as of June 30, 2004. Otherwise, book value or underlying equity net value of investments is taken as recorded on the balance sheet at the end of the accounting period (June 30, 2004) and is used as the fair value.

Third Quarter of 2004 Outlook & Guidance

Quarter-over-quarter comparison:

- Wafer shipments: increase of 15% to 16%
- Wafer ASP: expected to increase by 3% to 4% in US dollar terms
- Capacity utilization rate: close to 100%
- Profitability: gross margins to continue improving due to higher ASPs and increased wafer shipments
- Percentage of 0.18um & below revenues: in the high-fifty percent range with the percentage of revenue from 0.13um expected to reach the high-teens
- The communication segment is expected to remain the largest followed by consumer and then computer segments

Conference Call / Webcast Announcement

Wednesday, July 28, 2004

Time: 8:00 PM (Taipei) / 8:00 AM (New York) / 1:00 PM (London)

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A live webcast and replay of the 2Q04 results announcement will be available at www.umc.com under the "Investor Relations \ Investor Events" section.

About UMC

UMC (NYSE: UMC, TSE: 2303) is a leading global semiconductor foundry that manufactures advanced process ICs for applications spanning every major sector of the semiconductor industry. UMC delivers cutting-edge foundry technologies that enable sophisticated system-on-chip (SOC) designs, including 90nm copper, 0.13um copper, and mixed signal/RFCMOS. UMC is also a leader in 300mm manufacturing; Fab 12A in Taiwan and Singapore-based UMCi are both in volume production for a variety of customer products. UMC employs over 9,500 people worldwide and has offices in Taiwan, Japan, Singapore, Europe, and the United States. UMC can be found on the web at <http://www.umc.com>.

Safe Harbor Statements

Except for statements in respect of historical matters, the statements in this release contain "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of UMC to be materially different from what may be implied in such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors, including, among other things: our dependence upon frequent introduction of new services and technologies based on the latest developments; the intensely competitive semiconductor, communications, consumer electronics and computer industries and markets; the risks associated with international global business activities; our dependence upon key personnel; general economic and political conditions, including those related to the semiconductor, communications, consumer electronics and computer industries; possible disruptions in commercial activities caused by natural and human-induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; reduced end-user purchases relative to expectations and orders; fluctuations in foreign currency exchange rates; and those risks identified in the section entitled "Risk Factors" in UMC's Annual Report on Form 20-F for year 2003 filed with the U.S. Securities and Exchange Commission on June 17, 2004.

The financial statements included in this release were unaudited and unconsolidated, and prepared and published in accordance with ROC GAAP. Investors are cautioned that there are many differences between ROC GAAP and U.S. GAAP, as described in note 31 to the financial statements on Form 20-F filed with the U.S. Securities and Exchange Commission on June 17, 2004.

The forward-looking statements in this release reflect the current belief of UMC as of the date of this release and UMC undertakes no obligation to update these forward-looking statements for events or circumstances that occur after such date or to reflect the occurrence of unanticipated events.

- FINANCIAL TABLES TO FOLLOW -