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## UMC Reports 2005 Second Quarter Results:

### *Wafer Shipment Growth Rebounds; Trend Expected to Continue*

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**Second Quarter 2005 Overview<sup>1</sup>:**

- Revenue declined 4.2% sequentially to NT\$19.44 billion (US\$615 million)
  - Net income decreased to NT\$299 million (US\$9 million)
  - Wafer shipments increased to 630 thousand 8-inch equivalent wafers
  - EPS was NT\$0.02; EPADS was US\$0.003
  - Revenue from 90nm technology increased to 9% from 7%
  - Increase in ASP and continued increases in wafer shipments anticipated for 3Q05
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Taipei, Taiwan, ROC – July 27, 2005 - **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 2005.

“The second quarter of 2005 was a difficult quarter, but we are quite confident that we have exited the trough of the downturn,” said UMC CEO, Dr. Jackson Hu. “As a result of our effective response to the inventory correction that started in the fourth quarter of 2004, our shipment volume increased 11.7% sequentially to 630 thousand 8-inch equivalent wafers. Despite the mild setback of a 4.2% decline in revenue and a gross margin of 1.1% in 2Q05, we saw a number of positive developments in several different areas. Towards the end of the first quarter of 2005, we started to see an upturn in the consumer market, and more recently, the communication and computer segments seem to have regained momentum. This across-the-board jump in demand leads us to believe that we will soon be entering a new stage of growth.”

Dr. Hu continued, “During the second quarter, we further strengthened our SoC solution programs so that our customers may more effectively address the new cost and time-to-market challenges encountered at nanometer technologies. For 90nm, where comprehensive integrated

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<sup>1</sup> 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, 2005, the three-month period ending March 31, 2005, and the equivalent three-month period that ended June 30, 2004. For all 2Q05 results, New Taiwan Dollar (NT\$) amounts have been converted into U.S. dollars at the exchange rate of NT\$31.59 to one U.S. dollar.

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SoC solutions are particularly necessary to ensure early product success, we have incorporated the industry's latest design for manufacturing (DFM) solutions to supplement our world-class technology, manufacturing, design, and backend support. This complete SoC package will significantly bolster the competitiveness of UMC's customers in today's rapidly advancing semiconductor industry."

"We are also pleased with the early results of our decision to merge the operations of Singapore-based UMCi (now Fab 12i) into UMC. This consolidation will further enhance our ability to serve our global customers. With the demand for advanced process technologies on 300mm wafers gaining momentum, this transaction will greatly increase the synergy of UMC's overall fab operations and expansion plans. We will continue with our 300mm capacity expansion in Taiwan and Singapore, and advance our close partnerships with capital equipment vendors, Electronic Design Automation (EDA) tools and IP providers, packaging and test partners, and customers to further enhance our SoC foundry solutions. We believe that with our proven SoC Solution Foundry strategy, UMC is well-positioned to capitalize on the many new and exciting opportunities facing the semiconductor industry."

## Summary of Operating Results

Operating Results					
(Amount: NT\$ million)	2Q05	1Q05	QoQ % change	2Q04	YoY % change
Revenue	19,443	20,286	(4.2)	29,177	(33.4)
Gross Profit	212	3,057	(93.1)	10,058	(97.9)
Operating Expenses	(3,551)	(2,755)	28.9	(2,466)	44.0
Operating Income	(3,339)	302	NM	7,592	NM
Non-op. Income (Expenses)	3,638	1,217	198.9	5,111	(28.8)
Net Income	299	1,519	(80.3)	12,702	(97.6)
EPS (NT\$ per share)	0.02	0.09		0.76	
(US\$ per ADS)	0.003	0.014		0.120	

Revenue decreased 4.2% quarter-over-quarter to NT\$19.44 billion from NT\$20.29 billion in 1Q05, and decreased 33.4% year-over-year from NT\$29.18 billion in 2Q04. Gross profit for the quarter was NT\$212 million, or 1.1% of revenue, compared to NT\$3.06 billion, or 15.1% of revenue in 1Q05. The operating loss in 2Q05 was 3.34 billion compared to NT\$302 million in operating income in 1Q05. The operating loss and decline in gross profit were mainly attributed to the increase in depreciation as well as operating expenses caused by the UMCi merger and high fixed costs associated with the lower capacity utilization rate in 2Q05. Net income in 2Q05 was NT\$299 million, a sequential decrease of 80.3% from 1Q05 and a 97.6% decrease over 2Q04.

Earnings per ordinary share (EPS) for the quarter were NT\$0.02. Earnings per ADS (EPADS) were US\$0.003. This compares with 1Q05 earnings per ordinary share of NT\$0.09 and earnings per ADS of US\$0.014. One ADS represents five Taiwan-listed ordinary shares. The basic

weighted average number of outstanding shares in 2Q05 was 16,557,109,154, compared to 16,602,337,157 shares in 1Q05 and 16,650,444,591 shares in 2Q04. The diluted weighted average number of outstanding shares was 16,650,017,427 in 2Q05, compared to 16,678,163,409 shares in 1Q05 and 16,996,418,755 shares in 2Q04. The decrease in basic and diluted weighted average outstanding shares in 2Q05 was due to the execution of the Company's 8<sup>th</sup> treasury share repurchase program.

## Detailed Financials Section

Depreciation and amortization totaled NT\$12.49 billion in 2Q05, compared to NT\$10.71 billion in 1Q05. Depreciation within COGS increased 13.7% to NT\$10.67 billion, mainly due to depreciation from Fab12i that was included on UMC's balance sheet starting on April 1 and the incremental depreciation from Fab 12A. Total operating expenses increased 28.9% to NT\$3.55 billion from the NT\$2.76 billion in 1Q05 since UMC started to recognize Fab 12i expenses and amortize goodwill from UMCi in the second quarter. The R&D expense was 11.2% of revenue in 2Q05.

<b>COGS &amp; Expenses</b>					
(Amount: NT\$ million)	2Q05	1Q05	QoQ % change	2Q04	YoY % change
Revenue	19,443	20,286	-4.2	29,177	-33.4
COGS	(19,231)	(17,229)	11.6	(19,119)	0.6
Depreciation	(10,674)	(9,385)	13.7	(8,553)	24.8
Other Mfg. Costs	(8,557)	(7,844)	9.1	(10,566)	-19.0
Gross Profit	212	3,057	-93.1	10,058	-97.9
Gross Margin (%)	1.1%	15.1%		34.5%	
Total Operating Exp.	(3,551)	(2,755)	28.9	(2,466)	44.0
G&A	(851)	(447)	90.4	(603)	41.1
Sales & Marketing	(530)	(521)	1.7	(482)	10.0
R&D	(2,170)	(1,787)	21.4	(1,381)	57.1
Operating Income	(3,339)	302	-1205.6	7,592	-144.0
Operating Margin (%)	-17.2%	1.5%		26.0%	

Net non-operating income was NT\$3.64 billion, including NT\$3.52 billion of investment disposal gains and NT\$439 million of net investment losses. The gain on the disposal of investments included the sale of MediaTek and Novatek shares for NT\$2,369 million and NT\$1,146 million, respectively. Net investment losses mainly came from the NT\$407 million loss from UMCJ in 2Q05.

<b>Non-operating Income (Expenses)</b>			
(Amount: NT\$ million)	2Q05	1Q05	2Q04
Net Non-operating Income (Exp.)	3,638	1,217	5,111
Net Interest Income (Expense)	(10)	0	(113)
Net Investment Income (Loss)	(439)	(1,705)	(82)
Gain on Disposal of Investment	3,515	2,924	6,193
Exchange Gain (Loss)	213	(172)	(335)
Others	359	170	(552)

The net cash outflow was NT\$20.63 billion in 2Q05. Operating cash inflow was NT\$9.00 billion, a NT\$1.20 billion sequential decrease. The cash inflow from investing was mainly attributed to the investment disposal gain from the sale of MediaTek and Novatek shares. The NT\$29.76 billion of financing cash outflow was due to the early repayment of NT\$16.15 billion of UMCi's syndicated loan, NT\$8.57 billion of share repurchases, and NT\$2.82 billion of bonds redemption. Over the next 12 months, we expect to repay NT\$5.25 billion in corporate bonds.

<b>Cash Flow Summary</b>		
(Amount: NT\$ million)	For the 3-Month Period Ended June 30, 2005	For the 3-Month Period Ended March 31, 2005
Cash Flow from Operations	9,002	10,205
Net Income (Loss)	299	1,519
Depreciation & Amortization	12,487	10,705
Changes in working capital	(392)	(684)
Others	(3,392)	(1,335)
Cash Flow from Investing	167	(7,446)
Capital Expenditures	(4,248)	(3,564)
Others	4,415	(3,882)
Cash Flow from Financing	(29,757)	2,593
Effect of Exchange Rate	(46)	0
Net Cash Flow	(20,634)	5,352

Cash and cash equivalents decreased by NT\$20.63 billion to NT\$68.07 billion mainly due to higher cash outflows from financing. The increase in inventory primarily came from the increase of work-in-process wafers that reflect the upward trend of the business. Days sales outstanding<sup>2</sup> decreased slightly to 44 days, and average inventory turnover decreased to 36 days.

<b>Current Assets</b>			
(Amount: NT\$ billion)	2Q05	1Q05	2Q04
Cash & Cash Equivalents	68.07	88.70	82.49
Notes & Accounts Receivable	9.65	9.31	15.70
Days Sales Outstanding	44	45	49
Inventory	7.90	6.91	8.62
Avg. Inventory Turnover	36	41	42
Total Current Assets	93.58	117.15	114.46

Total liabilities decreased by NT\$2.56 billion, to NT\$53.92 billion in 2Q05. UMC's Debt to Equity ratio remained flat at 21% at the end of 2Q05.

<b>Liabilities</b>			
(Amount: NT\$ billion)	2Q05	1Q05	2Q04
Total Current Liabilities	22.07	19.88	30.09
Accounts Payable	3.80	3.81	4.88
Short-term Credit / Bonds	6.90	6.68	10.84
Others	11.37	9.39	14.37
Long-term Liabilities	28.35	33.60	33.84
Total Liabilities	53.92	56.48	70.49
Debt to Equity	21%	21%	29%

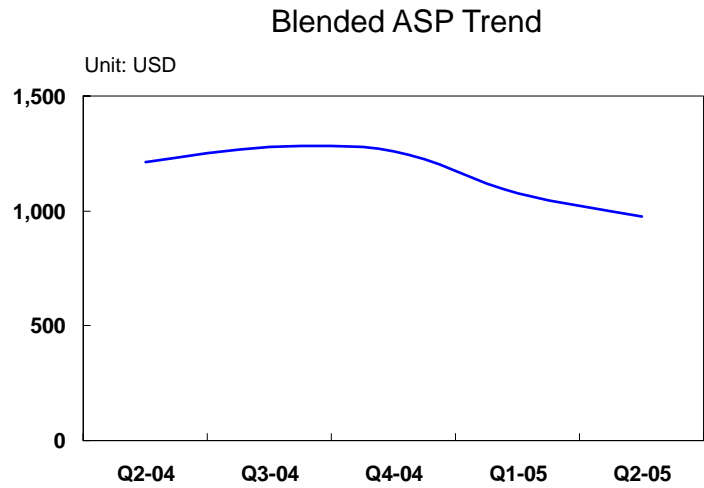
<sup>2</sup> Days Sales Outstanding =  $365 / \left[ \frac{\text{Operating revenues for the three-month period end } *4}{\left( \frac{\text{Beginning NR\&AR balance, net} + \text{Ending NR\&AR balance, net}}{2} \right)} \right]$

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

## Blended Average Selling Price Trend

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The blended average selling price (ASP) decreased 9% sequentially in US dollar terms compared to the previous quarter. The decline in ASP was mainly attributed to much higher shipments from lagging-edge technology nodes.



## Analysis of Revenue<sup>3</sup>

The contribution from Asia Pacific customers increased to 45% in 2Q05 due to the recovery from a soft period in 1Q05.

### Revenue Breakdown by Region

Region	2Q05	1Q05	4Q04	3Q04	2Q04
North America	44%	49%	49%	44%	44%
Asia Pacific	45%	38%	32%	33%	35%
Europe	9%	11%	16%	19%	17%
Japan	2%	2%	3%	4%	4%

The sales from advanced 90nm business increased both in terms of percentage of revenue and absolute revenue due to a jump in demand from communication customers. The percentage of revenue from 0.25um and 0.35um increased to 11% and 25% mainly due to strong demand from consumer customers. The percentage of revenue from 0.13um technology decreased to 14% due to a temporary drop in orders from communication customers in 2Q05.

### Revenue Breakdown by Geometry

Geometry	2Q05	1Q05	4Q04	3Q04	2Q04
90nm	9%	7%	8%	2%	1%
0.13um	14%	20%	19%	18%	13%
0.15um	10%	12%	16%	15%	12%
0.15um<x<=0.18um	20%	20%	19%	25%	27%
0.18um<x<=0.25um	11%	10%	12%	14%	19%
0.25um<x<=0.35um	25%	20%	17%	17%	19%
0.5um and above	11%	11%	9%	9%	9%

The percentage of revenue from IDM customers continued to decrease to 24% in 2Q05 from 31% in 1Q05 due to soft demand.

### Revenue Breakdown by Customer Type

Customer Type	2Q05	1Q05	4Q04	3Q04	2Q04
Fabless	76%	69%	66%	68%	70%
IDM	24%	31%	34%	32%	30%
System	0%	0%	0%	0%	0%

Revenue from the consumer segment increased to 32% of total revenue in 2Q05 because of strong demand for LCD panel driver ICs and DVD-related ICs. Revenue from the communication market slightly decreased to 44% of total revenue in 2Q05, primarily due to inventory digestion by some wireless communication customers.

### Revenue Breakdown by Application <sup>(1)</sup>

Application	2Q05	1Q05	4Q04	3Q04	2Q04
Computer	20%	24%	24%	20%	20%
Communication	44%	45%	49%	44%	44%
Consumer	32%	26%	23%	32%	32%
Memory	2%	2%	1%	2%	2%
Others	2%	3%	3%	2%	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.

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

## Capacity<sup>4</sup>

Capacity for 2Q05 was 962 thousand 8-inch equivalent wafers. The incremental increase in capacity of 12 thousand 8-inch equivalent wafers during 2Q05 was mainly due to capacity expansion at Fab 12A and Fab 12i. Capacity at Fab 8D and Fab 8S in 2Q05 decreased due to a change in production mix. UMC's estimated capacity in 3Q05 will increase to 970 thousand 8-inch equivalent wafers, primarily due to additional leading-edge capacity from Fab 12A and Fab 12i.

**Annual Capacity in  
thousands of 8-inch wafer equivalents**

FAB	Geometry (um)	2004	2003	2002	2001
Fab 6A	6"	346	352	349	345
Fab 8AB	8"	796	801	853	943
Fab 8C	8"	386	325	355	460
Fab 8D	8"	256	238	214	290
Fab 8E	8"	401	354	376	474
Fab 8F	8"	349	342	312	351
Fab 8S <sup>(1)</sup>	8"	131	0	0	0
Fab 12A	12"	392	234	119	22
Fab 12i <sup>(2)</sup>	12"	101	0	0	0
<b>Total<sup>(3)</sup></b>		<b>3,158</b>	<b>2,646</b>	<b>2,578</b>	<b>2,885</b>
<b>YoY Growth Rate</b>		<b>19%</b>	<b>3%</b>	<b>-11%</b>	<b>24%</b>

**Quarterly Capacity in  
thousands of 8-inch wafer equivalents**

FAB	4Q05E	3Q05E	2Q05	1Q05	4Q04
Fab 6A	86	86	86	86	86
Fab 8AB	204	204	204	204	204
Fab 8C	100	100	100	101	101
Fab 8D	68	68	68	72	72
Fab 8E	101	101	101	101	102
Fab 8F	95	95	95	95	95
Fab 8S <sup>(1)</sup>	69	69	69	71	71
Fab 12A	153	153	145	139	127
Fab 12i <sup>(2)</sup>	94	94	94	81	60
<b>Total<sup>(3)</sup></b>	<b>970</b>	<b>970</b>	<b>962</b>	<b>950</b>	<b>918</b>

<sup>(1)</sup> Former fab of SiSMC, which was acquired from Silicon Integrated Systems in July 2004.

<sup>(2)</sup> Former fab of UMCi, a UMC wholly owned subsidiary in December 2004 that was merged into UMC in April 2005

<sup>(3)</sup> One 6-inch wafer is converted into  $0.5625(6^2/8^2)$  8-inch equivalent wafer; one 12-inch wafer is converted into  $2.25(12^2/8^2)$  8-inch equivalent wafers.

<sup>4</sup> 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 Rate<sup>5</sup>

Wafer shipments increased by 12% sequentially to 630 thousand 8-inch equivalent wafers from 564 thousand wafers. The utilization rate for the quarter was 65%, which was higher than the approximately 60% level that we expected in our previous guidance.

### Wafer Shipments

	2Q05	1Q05	4Q04	3Q04	2Q04
Wafer Shipments ('000 8-inch eq.)	630	564	657	791	710

### Quarterly Capacity Utilization Rate

	2Q05	1Q05	4Q04	3Q04	2Q04
Utilization Rate	65%	63% <sup>(1)</sup>	72%	94%	99%
Total Capacity ('000 8-inch eq.)	962	950	918	846	714

<sup>(1)</sup> 1Q05 utilization rate was calculated based on 1Q05 available capacity, which is about 94% of total capacity after factoring in a 6% productivity loss due to annual scheduled maintenance.

## CAPEX

UMC narrowed its cash-based 2005 CAPEX plan to US\$1 billion. By the end of the second quarter, UMC's year-to-date CAPEX totaled US\$332 million.

### UMC Capital Expenditure by Year

(US\$ billion)	2004	2003	2002	2001	2000	1999
CAPEX	\$ 1.53	\$ 0.37	\$ 0.8	\$ 1.1	\$ 2.8	\$ 1.9

### 2005 CAPEX Plan

	8" fab	12" fab	12" R&D	Total
UMC	5%	83%	12%	US\$1 billion
UMCJ	100%	-	-	US\$34 million

<sup>5</sup> Quarterly utilization rate = Quarterly wafer out / Estimated quarterly capacity

## Long-term Investments<sup>6</sup>

### Consolidated Long-term Investments as of June 30, 2005

(Amount: NT\$ million)	As of End of 2Q05				As of End of 1Q05			
	Book value	%	Fair value	%	Book value	%	Fair value	%
<b>Foundry Industry</b>	12,994	31	13,214	19	35,673	56	32,584	38
<b>Strategic Semiconductor Investments</b>	12,102	29	35,163	50	11,138	18	33,454	39
<b>Other Investments</b>	17,111	40	21,394	31	16,854	26	19,884	23
<b>Total</b>	<b>42,207</b>	<b>100</b>	<b>69,771</b>	<b>100</b>	<b>63,665</b>	<b>100</b>	<b>85,922</b>	<b>100</b>

As of June 30, 2005, the total book value of long-term investments held by UMC was NT\$42.21 billion, and the estimated fair value of long-term investments was NT\$69.77 billion. The decrease in book value and fair value of foundry industry investments was mainly due to the removal of UMCi as an investment after the transfer of UMCi's business, operations and assets to UMC's Singapore branch in 2Q05. The increase in other investments is due to an increase in the share price of several investments.

## Recent Developments / Announcements

- Jun. 20, 2005 2005 UMC Fabricates Record-Setting Voltage-Controlled Oscillator Using MOS Technology
- Jun. 16, 2005 2005 UMC's R&D Team Extends Traditional Nitrided Gate-oxide to beyond the 65nm node
- Jun. 13, 2005 2005 UMC Shareholders Approve NT\$1.1 Dividend for Fiscal Year 2004 at Annual Shareholders Meeting
- Jun. 03, 2005 2005 UMC Receives Top Award for Sustainable Development from the ROC Government's Executive Yuan
- Jun. 01, 2005 2005 UMC Celebrates 25th Anniversary
- May 24, 2005 2005 ARM ARTISAN Low-Power IP For 130-Nanometer Process Selected by UMC
- May 19, 2005 2005 UMC Marks 25th Anniversary with Launch of Major Community Support Programs
- Apr. 27, 2005 2005 UMC 1Q 2005 Financial Results

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

<sup>6</sup> 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 2005) with the number of shares owned by the UMC Group as of June 30, 2005. 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, 2005) and is used as the fair value.

## Third Quarter of 2005 Outlook & Guidance

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### Quarter-over-quarter Guidance:

- Wafer shipments: to increase by mid-teen % points
- Wafer ASP (in US\$): to increase by low single digit % points
- Capacity utilization rate: approximately 75%
- Profitability: operating profit margins to be 0% to –3%
- Percentage of 0.18um & below revenues: to reach 60% while 90nm is expected to be approximately 15%
- The communication segment is expected to be the strongest followed by the consumer and computer segments
- 2005 CAPEX budget: US\$1bn

## Conference Call / Webcast Announcement

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**Wednesday, July 27, 2005**

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

Dial-in numbers and Access Codes:

Asia/Europe: +1-617-614-2706

North America: 866-761-0748

Access Code: UMCCall

A live webcast and replay of the 2Q05 results announcement will be available at [www.umc.com](http://www.umc.com) under the “Investor Relations \ Investor Events” section.

## About UMC

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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 Fab 12i are both in volume production for a variety of customer products. UMC employs approximately 10,500 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

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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 is stated or 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 the frequent introduction of new services and technologies based on the latest developments in our industry; 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 activities, armed conflicts and highly contagious diseases; 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 the year ended December 31, 2004 filed with the U.S. Securities and Exchange Commission on June 29, 2005.

The financial statements included in this release are 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 33 to the financial statements on Form 20-F for the year ended December 31, 2004 filed with the U.S. Securities and Exchange Commission on June 29, 2005.

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 -**