UNITED MICROELECTRONICS CORP
Form 20-F
June 26, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2005.

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report _____

Commission file number 1-15128

United Microelectronics Corporation

(Exact Name of Registrant as Specified in its Charter)

Taiwan, Republic of China

(Jurisdiction of Incorporation or Organization)

No. 3 Li-Hsin Road II, Hsinchu Science Park,

Hsinchu City, Taiwan, Republic of China

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares, as evidenced by	**New York Stock Exchange**
American Depositary Receipts, each representing 5	
Common Shares	

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

19,794,703,324 Common Shares of Registrant issued as of December 31, 2005 (including 942,067,000 treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

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UNITED MICROELECTRONICS CORPORATION

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2005

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SUPPLEMENTAL INFORMATION

The references to United Microelectronics, we, us, our and our company in this annual report refer to United Microelectronics Corporation a its consolidated subsidiaries, unless the context suggests otherwise. The references to United Semiconductor, United Silicon, United Integrated Circuits, UTEK Semiconductor, UMCJ and UMCi are to United Semiconductor Corporation, United Silicon Incorporated, United Integrated Circuits Corporation, UTEK Semiconductor Corporation, UMC JAPAN (formerly Nippon Foundry Inc.) and UMCi Ltd. (formerly UMCi Pte Ltd), respectively. The references to Taiwan and ROC refer to Taiwan, Republic of China. The references to shares and common shares refer to our common shares, par value NT$10 per share, and ADSs refers to our American depositary shares, each representing five common shares. The ADSs are issued under the Deposit Agreement, dated as of September 21, 2000, as amended, supplemented or modified from time to time, among United Microelectronics, Citibank N.A. and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder. ROC GAAP means the generally accepted accounting principles in the Republic of China and US GAAP means the generally accepted accounting principles in the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We publish our financial statements in New Taiwan dollars, the lawful currency of the ROC. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars, ¥ means Japanese Yen, SGD$ means Singapore dollars and n Euro.

FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT

MAY NOT BE REALIZED

Our disclosure and analysis in this annual report contain or incorporate by reference some forward-looking statements. Our forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations and projections about future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

- our dependence on frequent introduction of new product services and technologies based on the latest developments;
- the intensely competitive semiconductor, communications, consumer electronics and PC industries and markets;
- risks associated with our international business activities;
- our dependence on key personnel;
- general economic and political conditions, including those related to the semiconductor, communications, consumer electronics and PC industries;
- natural disasters, such as earthquakes and droughts, which are beyond our control;
- possible disruptions in commercial activities caused by natural and human-induced disasters, including terrorist activities and armed conflict, and outbreaks of contagious diseases, such as avian influenza, that may reduce end-user purchases relative to expectations and orders;

fluctuations in foreign currency exchange rates;

additional disclosures we make in our previous and future Form 20-F annual reports and Form 6-K periodic reports to the U.S. Securities and Exchange Commission; and

those other risks identified in the Item 3. Key Information D. Risk Factors section of this annual report.

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The words may , will , is/are likely to, anticipate, believe, estimate, expect, intend, plan and similar expressions are intended to id of these forward-looking statements. We do not and will not undertake the obligation to update or revise any forward-looking statements contained in this annual report whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

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GLOSSARY

ASIC	Application Specific Integrated Circuit. A custom-designed integrated circuit that performs specific functions which would otherwise require a number of off-the-shelf integrated circuits to perform.
Cell	Semiconductor structure in an electrical state which can store a bit of information, mainly used as the building block of memory array.
Die	A piece of a semiconductor wafer containing the circuitry of an unpackaged single chip.
DRAM	Dynamic Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. It is the most common type of RAM and must be refreshed with electricity hundreds of times per second or else it will fade away.
FPGA	Field Programmable Gate Array. A programmable integrated circuit.
High-k dielectric insulation	Insulating material used to separate interconnect wiring layers.
Integrated circuit	Entire electronic circuit built on a single piece of solid substrate and enclosed in a small package. The package is equipped with leads needed to electrically integrate the integrated circuit with a larger electronic system. Monolithic and hybrid integrated circuits are distinguished by the type of substrate used.
Interconnect	The conductive path made from copper or aluminum that is required to achieve connection from one circuit element to the other circuit elements within a circuit.
Mask	Photomask. A piece of glass on which an integrated circuit circuitry design is laid out.
Memory	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
Micron	A unit of spatial measurement that is one-millionth of a meter.
Nanometer	A unit of spatial measurement that is one-billionth of a meter.
PC	Personal computer.
RAM	Random Access Memory. A type of volatile memory forming the main memory of a computer where applications and files are run.
ROM	Read-Only Memory. Memory that is programmed by the manufacturer and cannot be changed. Typically, ROM is used to provide start-up data when a computer is first turned on.
Scanner	A photolithography tool used in the production of semiconductor devices. This camera-like step-and-scan tool projects the image of a circuit from a master image onto a photosensitized silicon wafer.

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Semiconductor	A material with electrical conducting properties in between those of metals and insulators. Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor s ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
SiGe refill process	A technique used to grow Silicon (Si) with Germanium (Ge) doping to increase the compressive strain in PMOS device channel to improve performance.
SoC	System-on-Chip. A chip that incorporates functions currently performed by several chips on a cost effective basis.
SOI	Silicon-On-Insulator. Silicon wafer consisting of a thin layer of oxide, on top of which semiconductor devices are built.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Stepper	A machine used in the photolithography process in making wafers. With a stepper, a small portion of the wafer is aligned with the mask upon which the circuitry design is laid out and is then exposed to the light source. The machine then steps to the next area repeating the process until the entire wafer has been done.
Transistor	Tri-terminal semiconductor device in which input signal (voltage or current depending on the type of transistor) controls output current. An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products which lose their data content when the power supply is switched off.
Wafer	Thin, round, flat piece of silicon that is the base of most integrated circuits.
8-inch wafer equivalents	Standard unit describing the equivalent amount of 8-inch wafers produced after conversion, used to quantify levels of wafer production for purposes of comparison. Figures of 8-inch wafer equivalents are derived by converting the number of wafers of all dimensions (e.g., 6-inch, 8-inch and 12-inch) into their equivalent figures for 8-inch wafers. 100 6-inch wafers are equivalent to 56.25 8-inch wafers. 100 12-inch wafers are equivalent to 225 8-inch wafers.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected balance sheet data as of December 31, 2004 and 2005 and the selected statements of income and cash flow data for the years ended December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected balance sheet data as of December 31, 2001, 2002 and 2003 and the selected statements of income and cash flow data for the years ended December 31, 2001 and 2002 are derived from our audited consolidated financial statements not included in this annual report.

Our financial statements have been prepared and presented in accordance with ROC GAAP, which differs in many material respects from US GAAP. For a discussion of these differences, see Note 34 to our audited consolidated financial statements included elsewhere in this annual report. Some of the statements of income, cash flow and balance sheet data items have been reconciled to US GAAP and are set forth below. The summary financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our financial statements and the notes to those statements included elsewhere in this annual report.

	Year Ended December 31,					
	2001	2002	2003	2004	2005	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)					
Consolidated Statement of Income Data:						
ROC GAAP						
Net operating revenues	69,817	75,425	95,704	129,191	100,316	3,058
Costs of goods sold	60,568	62,887	73,938	92,393	90,643	2,763
Gross profit	9,249	12,538	21,766	36,798	9,673	295
Operating expenses:						
Sales and marketing	2,276	1,527	2,171	2,775	3,739	114
General and administrative	4,425	3,531	3,996	4,853	4,387	134
Research and development	8,960	7,368	5,859	7,364	9,634	294
Total operating expenses	15,661	12,426	12,026	14,992	17,760	542
Operating income (loss)	(6,412)	112	9,740	21,806	(8,087)	(247)
Net non-operating income (expenses)	(154)	6,904	4,956	9,938	13,693	418
Income (loss) before income tax and minority interest	(6,566)	7,016	14,696	31,744	5,606	171
Income tax (expense) benefit	3,040	(271)	(980)	(374)	(67)	(2)
Cumulative effect of changes in accounting principles (the net amount after deducted tax expense $0)(1)					(113)	(4)
Minority interest (income) loss	369	327	304	473	1,601	49

Net income (loss)	(3,157)	7,072	14,020	31,843	7,027	214
Earnings (loss) per share:(2)(3)						
Basic	(0.16)	0.38	0.76	1.70	0.38	0.01
Diluted(5)	(0.16)	0.38	0.74	1.67	0.38	0.01
Shares used in earnings (loss) per share calculation:(3)						
Basic	18,869	18,657	18,549	18,754	18,411	18,411
Diluted(5)	18,869	18,899	18,974	19,053	18,692	18,692
Earnings (loss) per ADS:(3)						
Basic	(0.80)	1.90	3.80	8.50	1.90	0.06
Diluted(5)	(0.80)	1.90	3.70	8.35	1.90	0.06
US GAAP						
Net operating revenues	69,816	75,425	95,704	129,191	96,782	2,951
Costs of goods sold	(65,668)	(69,258)	(77,473)	(96,895)	(89,743)	(2,736)
Operating income (loss)	(24,223)	(8,306)	5,632	(24,681)	(29,072)	(886)
Net income (loss)	(23,247)	(222)	12,331	(14,237)	(15,669)	(478)
Earnings (loss) per share:(2)(4)						
Basic	(1.28)	(0.01)	0.68	(0.77)	(0.84)	(0.03)
Diluted(5)	(1.28)	(0.01)	0.66	(0.77)	(0.84)	(0.03)
Shares used in earnings (loss) per share calculation:(4)						
Basic	18,179	18,198	18,233	18,544	18,598	18,598
Diluted(5)	18,179	18,198	18,559	18,544	18,598	18,598
Earnings (loss) per ADS:(4)						
Basic	(6.40)	(0.05)	3.40	(3.85)	(4.20)	(0.13)
Diluted(5)	(6.40)	(0.05)	3.30	(3.85)	(4.20)	(0.13)

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	As of December 31,					
	2001	2002	2003	2004	2005	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions)					
Consolidated Balance Sheet Data:						
ROC GAAP						
Current assets	100,787	110,922	154,322	132,936	144,863	4,417
Long-term investment	40,757	37,800	38,859	32,712	29,680	905
Property, plant and equipment	169,121	167,077	149,557	192,024	159,114	4,851
Total assets	320,694	327,029	354,514	376,305	347,049	10,581
Current liabilities	34,524	29,147	44,140	36,598	36,960	1,127
Long-term debt (excluding current portion)	54,695	62,321	60,334	61,288	41,692	1,271
Total liabilities	91,778	93,581	107,203	101,202	82,429	2,513
Stockholders equity	213,322	217,424	232,233	266,374	258,284	7,874
US GAAP						
Cash and cash equivalents	57,826	54,219	89,196	55,558	63,508	1,936
Working capital(6)	66,837	73,268	108,539	96,690	105,846	3,227
Total assets	456,879	442,645	486,307	452,630	426,706	13,009
Total liabilities	91,792	93,112	107,533	101,599	83,943	2,559
Stockholders equity	349,492	333,509	363,736	342,420	336,425	10,257

	As of December 31,					
	2001	2002	2003	2004	2005	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except percentages and per share data)					
Other Consolidated Data:						
ROC GAAP						
Cash flow:						
Capital expenditure	43,051	35,978	24,820	81,110	22,163	676
Cash provided by operating activities.	40,187	30,527	49,625	73,938	45,172	1,377
Cash used in investing activities	(43,257)	(36,439)	(24,114)	(83,132)	(7,613)	(232)
Cash provided (used) by financing activities	18,184	3,162	17,581	(6,832)	(29,592)	(902)
Net increase (decrease) in cash and cash equivalents	14,434	(2,002)	43,869	(17,390)	7,245	221
Gross profit margin	13.2%	16.6%	22.7%	28.5%	9.6%	9.6%
Operating profit (loss) margin	(9.2)%	0.1%	10.2%	16.9%	(8.1)%	(8.1)%
Net profit (loss) margin	(4.5)%	9.4%	14.6%	24.6%	7.0%	7.0%
Capacity utilization rate (on an actual basis)	46.6%	65.2%	84.8%	90.8%	72.4%	72.4%
Dividends declared per share(7)	1.5	1.5	0.4	0.8	1.1	0.0335
US GAAP						
Cash flow:						
Capital expenditure	43,054	36,008	24,827	81,127	22,163	676
Cash provided by operating activities	39,785	30,506	49,543	73,760	45,216	1,379
Cash used in investing activities	(60,259)	(38,035)	(32,923)	(99,155)	(6,233)	(190)
Cash provided (used) by financing activities	18,617	3,162	17,587	(6,820)	(29,565)	(901)
Net increase (decrease) in cash and cash equivalents	(2,524)	(3,607)	34,977	(33,639)	7,951	242
Gross profit margin	5.9%	8.2%	19.0%	25.0%	7.3%	7.3%
Operating (loss) profit margin	(34.7)%	(11.0)%	5.9%	(19.1)%	(30.0)%	(30.0)%
Net (loss) profit margin	(33.3)%	(0.3)%	12.9%	(11.0)%	(16.2)%	(16.2)%

(1) Refer to Note 3 to the audited consolidated financial statements included elsewhere in this annual report.
(2) Earnings (loss) per share is calculated by dividing net income by the weighted average number of shares outstanding during the year.
(3) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.
(4) Retroactively adjusted for all subsequent stock dividends.
(5) Diluted securities include convertible bonds and employee stock options.
(6) Working capital equals current assets minus current liabilities.
(7) Dividends declared per share are in connection with earnings and accumulated capital reserve.
(8) Refer to Note 34 to the audited consolidated financial statements included elsewhere in this annual report.

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Currency Translations and Exchange Rates

In portions of this annual report, we have translated New Taiwan dollar amounts into U.S. dollars for the convenience of readers. The rate we used for the translations was NT$32.80 = US$1.00, which was the noon buying rate announced by the Federal Reserve Bank of New York on December 30, 2005. The translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that rate. The following table shows the noon buying rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00.

	Average(1)	High	Low	At Period-End
2001	33.91	35.13	32.23	35.00
2002	34.53	35.16	32.85	34.70
2003	34.40	34.98	33.72	33.99
2004	33.27	34.16	31.74	31.74
2005	32.13	33.77	30.65	32.80
December	33.29	33.56	32.80	32.80
2006 (through May 31, 2006)	32.17	32.65	31.28	31.99
January	32.04	32.59	31.83	31.97
February	32.32	32.65	31.97	32.40
March	32.46	32.62	32.28	32.42
April	32.29	32.54	31.90	31.90
May	31.74	32.13	31.28	31.99

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Determined by averaging the rates on the last business day of each month during the relevant period for annual periods and the rates on each business day for monthly periods.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Related to Our Business and Financial Condition

The seasonality and cyclical nature of the semiconductor industry and periodic overcapacity make us particularly vulnerable to significant and sometimes prolonged economic downturns.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns. Since most of our customers operate in semiconductor-related industries, variations in order levels from our customers can result in volatility in our revenues and earnings. Because our business is, and will continue to be, largely dependent on the requirements of semiconductor companies for our services, downturns in the semiconductor industry will lead to reduced demand for our services. For example, the semiconductor industry experienced a period of economic downturn beginning in the fourth quarter of 2000 until early 2003, due to a number of factors including a slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide inventory adjustment. As a result of the downturn, our net operating revenues for 2001 decreased 39.6%

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from 2000 and for 2002 increased only slightly by 8.0% from 2001. We incurred a net income of NT$7,072 million for 2002 compared to a net loss of NT$3,157 million for 2001. The semiconductor industry recovered from the downturn in early 2003 but again experienced a slowdown from the third quarter of 2005 until early 2006 due to industry-wide inventory correction. As a result, our net operating revenues decreased from NT$129,191 million in 2004 to NT$100,316 million (US$3,058 million) in 2005. We cannot give any assurance that any future downturn will not affect our results of operations.

Our net operating revenues are also typically affected by seasonal variations in market conditions that contribute to the fluctuation of the average selling prices of semiconductor services and products. The seasonal sales trends for semiconductor services and products closely mirror those for consumer electronics and computer sales. We generally experience seasonal lows in the demand for semiconductor services and products during the second quarter and the beginning of the third quarter of the year, primarily as a result of decreased worldwide production and sales of consumer electronics and computers during such periods, due to decreased demand for consumer electronics and computers. On the other hand, we generally experience seasonal peaks during the latter part of the third quarter and the fourth quarter of the year, primarily as a result of increased worldwide production and sales of consumer electronics and computers during such periods due to increased demand for computers from holiday sales. However, we cannot give any assurance that seasonal variations will meet our expectations. Any change in the general seasonal variations which we cannot anticipate may result in materially adverse effects on our revenues, operations and businesses.

Our operating results fluctuate from quarter to quarter, which makes it difficult to predict our future performance.

Our revenues, expenses and results of operations have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. Our business and operations have at times in the past been negatively affected by, and are expected to continue to be subject to the risk of, the following factors:

- the seasonality and cyclical nature of both the semiconductor industry and the markets served by our customers;
- our customers adjustments in their inventory;
- the loss of a key customer or the postponement of orders from a key customer;
- the rescheduling and cancellation of large orders;
- our ability to obtain equipment, raw materials, electricity, water and other required utilities on a timely and economic basis;
- outbreaks of contagious diseases, including severe acute respiratory syndrome and avian flu;
- environmental events, such as fires and earthquakes, or industrial accidents; and
- technological changes.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our business, financial condition and results of operations. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods. In this event, the price of the shares or ADSs may underperform or fall.

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A decrease in demand for or selling prices of communication devices, consumer electronics and PCs may decrease the demand for our services and reduce our margins.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics and PCs. Percentages of our net wafer sales derived from our products used in communication devices, consumer electronics, PC, memory and other applications were 46.1%, 28.3%, 22.0%, 1.7% and 1.9%, respectively, in 2005. The communications and PC markets experienced a sudden and substantial market downturn and inventory correction in the third quarter of 2005 until early 2006. This downturn resulted in a reduced demand for our services and hence decreased our revenues and earnings. Any significant decrease in the demand for communication devices, consumer electronics or PCs may further decrease the demand for our services. In addition, if the average selling prices of communication devices, consumer electronics or PCs decline significantly, we will be pressured to further reduce our selling prices, which may reduce our revenues and, therefore, reduce our margins significantly. As demonstrated by the downturn in demand for high technology products, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers will experience inventory buildup and/or difficulties in selling their products and, in turn, will reduce or cancel orders for wafers from us. While these downturns are to be expected in the semiconductor business, their timing, severity and recovery cannot be predicted accurately or at all. When they occur, our business, profitability and price of the shares and ADSs are likely to suffer.

Overcapacity in the semiconductor industry may reduce our revenues, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand such as was the case in early 2000. As a result, periods of overcapacity in the semiconductor industry have frequently followed periods of increased demand. In a period of overcapacity, if we are unable to offset the adverse effects of overcapacity through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. Due to the increased demand for semiconductors in 2003, our average capacity utilization rate increased from 65.2% in 2002 to 84.8% in 2003. With a general recovery in the worldwide semiconductor industry, we experienced growth in 2004 with average capacity utilization rate of 90.8%. Our average capacity utilization rate again decreased to 72.4% in 2005 due to a slowdown in our industry compared with the growth in 2004. However, we cannot give any assurance that an increase in the demand for foundry services in the future will not lead to overcapacity again in the near future, which could materially adversely affect our revenues, earnings and margins.

Any problem in the semiconductor outsourcing infrastructure can adversely affect our net operating revenues and profitability.

Many of our customers depend on third parties to provide mask tooling, assembly and test services. If these customers cannot timely obtain these services on reasonable terms, they may not order any foundry services from us. This may significantly reduce our net operating revenues and negatively affect our profitability.

We may be unable to implement new technology as it becomes available, which may result in our loss of customers and market share.

The semiconductor industry is developing rapidly and the related technology is constantly evolving. If we do not anticipate the technology evolution and rapidly adopt new and innovative technology, we may not be able to produce sufficiently advanced products at competitive prices. There is a risk that our competitors may adopt new technology before we do, resulting in our loss of market share. For example, in 2003, we were one of the first foundries to deliver working customer products using advanced 90-nanometer copper technology. This technology has been in volume production since the second quarter of 2004. In 2005, product samples fabricated using 65 nanometer process technology were delivered to customers for validation. Furthermore, we are actively developing 45-nanometer process technologies to significantly increase the competitive advantages of our customers by

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providing better device performance in a smaller die size. If we are unable on a timely basis to begin offering these products on a competitive basis, we may lose to our competitors providing similar technologies to customers, which may cause our net operating revenues to decline unless we can replace lost customers with new customers.

If we lose the support of our technology partners, we may be unable to provide leading technology to our customers.

Enhancing our manufacturing process technologies is critical to our ability to provide services for our customers. We intend to continue to advance our process technologies through internal research and development and alliances with other companies. Although we have an internal research and development team focused on certain customers developing new semiconductor manufacturing process technologies, we are dependent on our technology partners to advance our portfolio of process technologies. We currently have patent cross-licensing agreements with several companies, including Agere Systems Inc., or Agere, International Business Machines Corporation, or IBM, Texas Instruments Incorporated, or Texas Instruments, and Freescale Semiconductor Inc, or Freescale. We also depend upon mask and equipment vendors to supply our technology development teams with the masks and equipment needed to continuously develop more advanced processing technologies. If we are unable to continue any of our joint development arrangements, patent cross-licensing agreements and other agreements, on mutually beneficial economic terms, if we re-evaluate the technological and economic benefits of such relationships, if we are unable to enter into new technology alliances with other leading semiconductor suppliers, or if we fail to secure masks and equipment from our vendors in a timely manner sufficient to support our ongoing technology development, we may lose important customers because we are unable to continue providing our customers with leading edge mass-producible process technologies.

If we cannot compete successfully in our industry, our business may suffer.

The worldwide semiconductor foundry industry is highly competitive. We compete with dedicated foundry service providers such as Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Chartered Semiconductor Manufacturing Ltd., as well as the foundry operation services of some integrated device manufacturers such as IBM and Toshiba Corporation, or Toshiba. Integrated device manufacturers principally manufacture and sell their own proprietary semiconductor products, but may also offer foundry service. Other competitors such as Samsung, DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to develop substantial new foundry capacity. New entrants in the foundry business are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. Some of our competitors have greater access to capital and substantially greater production, research and development, marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

The principal elements of competition in the wafer foundry market include:

- technical competence;
- time-to-volume production and cycle time;
- time-to-market;
- research and development quality;
- available capacity;
- manufacturing yields;
- customer service;

price;

management expertise; and

strategic alliances.

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Our ability to compete successfully also depends on factors partially outside of our control, including product availability and industry and general economic trends. If we cannot compete successfully in our industry, our business may suffer.

If we are unable to continuously improve our manufacturing yields, maintain high capacity utilization and optimize the technology mix of our silicon wafer production, our profit margin may substantially decline.

Our ability to maintain our profitability depends, in part, on our ability to:

- maintain our capacity utilization, that is, the wafer-out quantity of 8-inch wafer equivalents divided by estimated total 8-inch equivalent capacity in a specified period. The estimated capacity numbers may differ depending upon equipment delivery schedules, pace of migration to more advanced process technologies and other factors affecting production ramp-ups;
- maintain or improve our manufacturing yield, that is, the percentage of usable manufactured devices on a wafer; and
- optimize the technology mix of our production, that is, the relative number of wafers manufactured utilizing different process technologies.

Our manufacturing yields directly affect our ability to attract and retain customers, as well as the price of our services. Our capacity utilization affects our operating results because a large percentage of our operating costs are fixed. With the general recovery of the worldwide semiconductor industry in 2004, we experienced growth in our capacity utilization rate that year. Our capacity utilization rate, however, decreased in 2005 because of the market downturn in that year. Our technology mix affects utilization of our equipment and process technologies, which can affect our margins. If we are unable to continuously improve our manufacturing yields, maintain high capacity utilization or optimize the technology mix of our wafer production, our profit margin may substantially decline.

If we are unable to obtain the financing necessary to fund the substantial capital expenditures we expect to incur, we may not be able to implement our planned growth.

Our business and the nature of our industry require us to make substantial capital expenditures leading to a high level of fixed costs. We expect to incur significant capital expenditures in connection with our growth plans. These capital expenditures will be made in advance of any additional sales to be generated by new or upgraded fabs as a result of these expenditures. Given the fixed-cost nature of our business, we have in the past incurred, and may in the future incur, operating losses if our revenues do not adequately offset our capital expenditures. Additionally, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in:

- our growth plan;
- our process technology;
- market conditions;
- interest rates;
- exchange rate fluctuations; and

prices of equipment.

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We cannot assure you that additional financing will be available on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, we may be forced to curtail our expansion plans or delay the deployment of our services, which could result in a loss of customers and limit the growth of our business.

We depend on a small number of customers for a significant portion of our net operating revenues and a loss of some of these customers would result in the loss of a significant portion of our net operating revenues.

We have been largely dependent on a small number of customers for a substantial portion of our business. In 2005, our top ten customers accounted for 58.3% of our net operating revenues. Our top two customers each accounted for 17.8% and 10.5%, respectively, of our net operating revenues in 2005. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our net operating revenues. We cannot assure you that our net operating revenues generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Loss or cancellation of business from significant changes in scheduled deliveries to, or decreases in the prices of services sold to, any of these customers could significantly reduce our net operating revenues.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenues, adjust production costs and allocate capacity efficiently on a timely basis.

Our customers generally do not place purchase orders far in advance (usually two months before shipment). In addition, due to the cyclical nature of the semiconductor industry, our customers purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog. The lack of significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover, our expense levels are based in part on our expectations of future revenues and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our net operating revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter.

We face significant risks, and incur substantial costs, in connection with the operation of our new fab in Singapore.

In March 2001, we entered into a foundry venture agreement with EDB Investments Pte Ltd., or EDB Investments, and Infineon Technologies AG, or Infineon, relating to the formation of UMCi to construct and operate a 12-inch wafer fab in Singapore s Pasir Ris Wafer Fab Park. Under the sale and transfer agreements entered in August 2003 and March 2004, we purchased all of the shares of UMCi held by Infineon and EDB Investments. Through subsequent purchases, UMCi became our wholly owned subsidiary in December 2004. The facilities of our Fab 12i employ advanced process technology of 0.13-micron and 90-nanometer processes. Fab 12i began volume production in the first quarter of 2004 and has a monthly capacity of 14,500 12-inch wafers as of March 31, 2006, which is equivalent to a monthly capacity of 32,625 8-inch wafers. Pursuant to a sale and transfer agreement dated March 31, 2005, UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005.

Doing business in Singapore involves risks related to infrastructure, changes in local laws and economic and political conditions. We chose Singapore in part to take advantage of economic incentives provided under the laws and policies of Singapore. Any change in these or other laws or policies or in the political or economic conditions in Singapore or the surrounding region may have an adverse effect on Fab 12i s business. In addition, due to the high cost of raw materials, labor and equipment in operating this new fab, we expect that our operations in Singapore could incur significant cash outflows over the next few years. Once a fab is in operation at acceptable capacity and yield rates, it can provide significant cash inflows. However, prior to such time, it may incur significant losses due largely to significant depreciation and amortization expenses, which are not expected to be offset by a significant amount of revenues. If Fab 12i fails to achieve sufficient volumes of production at or above acceptable yield rates, or if the cost of production exceeds expectation, Fab 12i could result in substantial loss which may negatively affect our income or loss.

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Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technology and to secure critical processing technology that we do not own at commercially reasonable terms. We cannot assure you that in the future we will be able to independently develop, or secure from any third party, the technology required for upgrading our production facilities. Our failure to successfully obtain such technology may seriously harm our competitive position.

Our ability to compete successfully also depends on our ability to operate without infringing on the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States until they are granted. The semiconductor industry, because of the complexity of the technology used and the multitude of patents, copyrights and other overlapping intellectual property rights, is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. It is common for patent owners to assert their patents against semiconductor manufacturers. We have received from time to time communications from third parties asserting patents that cover certain of our technologies and alleging infringement of intellectual property rights of others, and we expect to continue to receive such communications in the future. We do not believe that we are currently infringing on any patent rights. In the event any third party were to make a valid claim against us or our customers, we could be required to:

- seek to acquire licenses to the infringed technology which may not be available on commercially reasonable terms, if at all;
- discontinue using certain process technologies, which could cause us to stop manufacturing certain semiconductors;
- pay substantial monetary damages; or
- seek to develop non-infringing technologies, which may not be feasible.

Any one of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it could hurt our reputation as a technology leader in our industry and prevent us from manufacturing particular products or applying particular technologies, which could reduce opportunities to generate revenues.

Our inability to enter into certain patent cross licenses on favorable terms could have an adverse effect on our business.

We entered into a patent cross license arrangement with Hitachi in 1994 and renewed that arrangement in 1999. The renewal arrangement expired at the end of 2003 and Renesas Technology Corp. (Renesas), who succeeded to the Hitachi patent portfolio, has asserted, subsequent to the expiration of the patent cross license arrangements, that we have been infringing upon several of their patents and request that we enter into cross licenses with them. However, we believe and have asserted that Renesas has, instead, infringed upon several of our patents. We are currently in negotiations with Renesas with respect to the terms of possible cross license arrangements and Renesas has indicated their willingness to enter into such arrangements on terms that we believe would not have a material adverse effect on our financial position or operations. However, we can not give any assurance that the cross license negotiations will be successful or that we will be able to renew these cross license arrangements on terms that would not have a material adverse effect on our financial position or operations.

Two of our former executives were charged with criminal offenses and our company was fined for violations of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area in connection with our alleged involvement in the operation of Hejian Technology (Suzhou) Co., Ltd., a semiconductor manufacturer in China.

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Hejian Technology (Suzhou) Co., Ltd., or Hejian, a semiconductor manufacturer in Suzhou, China, was set up in December 2001. Soon after the establishment of Hejian, there were various rumors that Hejian was set up by us, which we denied immediately because we did not inject any capital into nor did we transfer any technology to Hejian.

In June 2005, our former Chairman, Robert H. C. Tsao and our former Vice Chairman, John Hshun, were interrogated by the Hsinchu District Prosecutor s Office for a breach of their fiduciary duty owed to us. In January 2006, Hsinchu District Prosecutor s Office announced that our former Chairman and former Vice Chairman would be prosecuted in connection with their alleged breach of fiduciary duties and certain violations of the ROC Commercial Accounting Act. Prior to such charges, both our former Chairman and former Vice Chairman resigned from their respective positions with our company.

The ROC Financial Supervisory Commission, or the ROC FSC, a regulatory authority that supervises securities, banking, futures, and insurance activities in Taiwan, also began their investigation into any violation of ROC securities laws by us. In April 2005, our former Chairman was fined (1) in the amount of NT$2.4 million by the ROC FSC for our delay in making timely public disclosure (within two days) regarding the information relating to Hejian, which was resolved in our board meeting on March 4, 2005 (the March 4 Resolution), and (2) in the amount of NT$0.6 million for our failure to disclose the information regarding the assistance we had provided to Hejian. Our former Chairman s appeal in relation to such fines was overruled in early 2006, and a lawsuit has been filed by our former Chairman with the Administrative High Court seeking to revoke the disposition made by the ROC FSC.

In connection with the March 4 Resolution, our company was also fined in the amount of NT$30,000 by the Taiwan Stock Exchange for a delay in making public disclosure. After our former Chairman and former Vice Chairman were indicted by the prosecutor, our company was found by the ROC Ministry of Economic Affairs to be in violation of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area and fined in the amount of NT$5 million for our alleged illegal investment in Hejian. Although we are currently appealing such fines, we cannot assure you that we would prevail in such appeal.

We have been offered a 15% interest in a holding company that owns Hejian, but such investment may not materialize.

ROC law prohibits investment in China by Taiwanese makers of semiconductors without government approval. In March 2005, the Chairman of the holding company of Hejian offered us a 15% interest in the holding company of Hejian. Immediately after we received the offer, we filed an application with the Investment Commission for their executive guidance and disclosed our receipt of such offer to investors and the public. As of the date of this annual report, we have not entered into any agreement to formalize the terms and conditions in connection with the transfer of the 15% interest. Pending ROC regulatory approval, we will endeavor to include this 15% interest in our assets, which will then be reflected on our financial statements. We cannot assure you at present that the ROC government will approve our acceptance of this 15% interest, or if such acceptance is approved by the ROC government, the agreement that formalizes the terms and conditions will be on the terms that are favorable to us.

If we lose one or more of our key personnel without adequate replacements, our operations and business will suffer.

Our future success to a large extent depends on the continued service of our Chairman and key executive officers. We do not carry key person insurance on any of our personnel. If we lose the services of any of our Chairman or key executive officers, it could be difficult to find and integrate replacement personnel in a short period of time, which could harm our operations and the growth of our business.

We may have difficulty attracting and retaining skilled employees, who are critical to our future success.

The success of our business depends upon attracting and retaining experienced executives, engineers and other employees to implement our strategy. The competition for skilled employees is intense. We expect demand for personnel in Taiwan to increase in the future as new wafer fabrication facilities and other businesses are established

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in Taiwan. We do not have long-term employment contracts with any of our employees. If we were unable to retain our existing personnel or attract, assimilate and recruit new experienced personnel in the future, it could seriously disrupt our operations and delay or restrict the growth of our business.

Our transactions with affiliates and shareholders may hurt our profitability and competitive position.

We have provided foundry services to several of our affiliates and shareholders. These transactions were conducted on an arm s-length basis. Other than capacity commitments to our former foundry venture partners, we currently do not provide any preferential treatment to any of these affiliates and shareholders. However, we may in the future reserve or allocate our production capacity to these companies if there is a shortage of foundry services in the market to enable these companies to maintain their operations and/or to protect our investments in them. This reservation or allocation may reduce our capacity available for our other customers, which may damage our relationships with other customers and discourage them from using our services. This may hurt our profitability and competitive position.

If we restate our financial statements in the future, we could experience a loss in investor confidence in the reliability of our financial statements, which could negatively impact the market price of the shares or ADSs.

Subsequent to the filing of our initial annual report on Form 20-F for the year ended December 31, 2004, and in the process of addressing certain comments received from the Securities and Exchange Commission on such initial annual report, we discovered that certain US GAAP-related financial information was miscalculated. As a result we restated our consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 with respect to certain US GAAP financial information, as further disclosed in Note 33 to our financial statements relating to non-cash charges and adjustments to goodwill, derivative instruments and employee stock bonuses. We filed our restated financial statements in an amendment to our annual report on Form 20-F/A for the year ended December 31, 2004 on February 13, 2006. If we are required to revise, amend or restate our financial statements again in the future, we could experience a loss in investor confidence in the reliability of our financial statements which could negatively impact the market price of the shares or ADSs.

Investor confidence in us may be adversely impacted if we or our independent registered public accountants are unable to attest to the effectiveness of our internal control over financial reporting as of December 31, 2006 as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to the reporting requirements of the Securities and Exchange Commission. The Securities and Exchange Commission, as directed by Section 404 of the U.S. Sarbanes-Oxley Act of 2002, adopted rules requiring U.S. public companies to include a report of management on the company s internal control over financial reporting in its annual report on Form 10-K or Form 20-F, as the case may be, that contains an assessment by management of the effectiveness of the company s internal control over financial reporting. In addition, the company s independent registered public accountants must attest to and report on management s assessment of the effectiveness of the company s internal control over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending on December 31, 2006. Our management may not conclude that our internal controls over financial reporting are effective. Moreover, even if our management does conclude that our internal controls over financial reporting are effective, if the independent registered public accountants are not satisfied with our internal controls, the level at which our controls are documented, designed, operated or reviewed, or if the independent registered public accountants interpret the requirements, rules or regulations differently from us, they may decline to attest to our management s assessment or may issue a report that is adverse. Any of these possible outcomes could result in a loss of investor confidence in the reliability of our financial statements, which could negatively impact the market price of our ADSs.

The differences between ROC and U.S. accounting standards affect the amount of our net income.

Our financial statements are prepared under ROC GAAP, which differ in certain significant respects from US GAAP. For example, ROC GAAP does not require the recognition of the market value of our shares distributed as bonuses to our employees in the calculation of net income. In addition, we have performed impairment test relating to goodwill and long-lived assets under US GAAP, which was not required to apply to financial statements prior to 2005 under ROC GAAP. As a result, our net income (loss) in 2003, 2004 and 2005 under US GAAP was

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NT$12,331 million, NT$(14,237) million and NT$ (15,669) million (US$(478) million), respectively, as compared to net income under ROC GAAP of NT$14,020 million, NT$31,843 million and NT$7,027 million (US$214 million) in 2003, 2004 and 2005, respectively. For a discussion of these differences, see Note 34 to our audited consolidated financial statements included elsewhere in this annual report.

Changes in ROC GAAP may have a material adverse impact on our results of operations.

We used to categorize securities we owned as either short-term investments or long-term investments. Short-term investments were recorded at cost when acquired and stated at the lower of aggregate cost or market value (LCM). Long-term investments were stated at cost when acquired and evaluated under the LCM method or equity method, depending on the percentage of our shareholding. Stock dividends received were not recorded as investment income, but were reflected as an increase in the number of shares held. However, according to the ROC Statement of Financial Accounting Standards No. 34, Accounting for Financial Instruments (ROC SFAS 34), beginning in 2006, investments in debt and equity securities are classified into five main categories: at-fair-value-through-profit-or-loss (the FVTPL), available-for-sale, loans and receivables, held-to-maturity and measured-at-cost. Changes in the values of securities in the FVTPL portfolio are recognized in the profit and loss accounts immediately; changes in the values of available-for-sale category are reported in a separate component of shareholders equity; loans and receivables and held-to-maturity securities are recorded under the amortized cost method. In a departure from previous ROC GAAP, which treated derivatives as off-balance sheet items, ROC SFAS 34 requires all derivatives to be recorded on the balance sheet at fair value and establishes hedge accounting for three different types of hedges: fair value hedge, cash flow hedge and foreign currency net investment hedge. Under hedge accounting, the effective portion of gains or losses from the hedging transactions are either recognized as earnings or charged to stockholders equity, as applicable. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are recorded directly in earnings. We cannot assure you that the implementation of ROC SFAS 34 will not have a material adverse effect on our results of operations or financial condition.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as avian influenza or severe acute respiratory syndrome, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. As a result, we may have to temporarily suspend part of or all of our operations. Furthermore, any future outbreak may restrict the level of economic activity in affected regions, including Taiwan, which may also adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified to improve manufacturing yields and product performance. Impurities or other difficulties in the manufacturing process or defects with respect to equipment or supporting facilities can lower manufacturing yields, interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although we have been enhancing our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. In the past we have encountered the following problems:

- capacity constraints due to changes in product mix or the delayed delivery of equipment critical to our production, including scanners, steppers and chemical stations;

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- construction delays during expansions of our clean rooms and other facilities;
- difficulties in increasing production at new and existing facilities;
- difficulties in upgrading or expanding existing facilities;
- manufacturing execution system or automatic transportation system failure;
- changing or upgrading our process technologies; and
- raw materials shortages and impurities.

We cannot guarantee that we will be able to increase our manufacturing capacity and efficiency in the future to the same extent as in the past.

In addition, the Taiwan government is currently building a high-speed railway system, which would pass near the Tainan Science Park where our 12-inch fab, Fab 12A, is located. Trains on this system are expected to begin running as early as late 2006. Once these trains begin running, they would emit microvibrations that some experts predict could interfere with the operation of lithography equipment used for wafer production in Fab 12A, which is close to the affected area. Although we do not believe that such microvibrations may cause serious direct harm to our operations, they could cause our yield rates at this fab to decline and our costs of producing 12-inch wafers to increase, which could negatively affect our results of operations.

We may have difficulty in ramping up production in accordance with our schedule, which could cause delays in product deliveries and decreases in manufacturing yields.

As is common in the semiconductor industry, we have from time to time experienced difficulties in ramping up production at new or existing facilities or effecting transitions to new manufacturing processes. As a result, we have suffered delays in product deliveries or reduced manufacturing yields. We may encounter similar difficulties in connection with:

- the migration to more advanced process technologies, such as 65- and 45-nanometer process technology;
- the joint development with vendors for more powerful tools (both in production and inspection) needed in the future to meet advanced process technology requirements; and
- the adoption of new materials in our manufacturing processes.

Because we are one of the earliest semiconductor manufacturers in the world to construct 12-inch fabs, we may be subject to risks relating to the construction, ramping up, operation and expansion of these facilities. We might face construction delays, interruptions, infrastructure failure and delays in upgrading or expanding existing facilities, or changing our process technologies, any of which might adversely affect our production schedule. Our failure to follow our production schedule could delay the time required to recover our investments and seriously affect our profitability.

If we are unable to obtain raw materials and equipment in a timely manner, our production schedules could be delayed and we may lose customers.

We depend on our suppliers for raw materials. To maintain competitive manufacturing operations, we must obtain from our suppliers, in a timely manner, sufficient quantities of quality materials at acceptable prices. Although we source our raw materials from several suppliers, a small number of these suppliers account for a substantial amount of our supply of raw materials because of the consistent quality of these

suppliers wafers. For example, in 2005, we purchased a majority of our silicon wafers from three suppliers, Shin-Etsu Handotai Corporation, or Shin-Etsu, MEMC Electronic Materials, Inc. and Formosa Komatsu Silicon Corporation. We do not

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have long-term contracts with most of our suppliers. From time to time, our suppliers have extended lead time or limited the supply of required materials to us because of capacity constraints. Consequently, from time to time, we have experienced difficulty in obtaining the quantities of raw materials we need on a timely basis.

In addition, from time to time we may reject materials that do not meet our specifications, resulting in declines in output or manufacturing yields. We cannot assure you that we will be able to obtain sufficient quantities of raw materials and other supplies in a timely manner. If the supply of materials is substantially diminished or if there are significant increases in the costs of raw materials, we may be forced to incur additional costs to acquire sufficient quantities of raw materials to sustain our operations, which may increase our marginal costs and reduce profitability.

We also depend on a limited number of manufacturers and vendors that make and maintain the complex equipment we use in our manufacturing processes. We also rely on these manufacturers and vendors to improve our technology to meet our customers demands as technology improves. In periods of unpredictable and highly diversified market demand, the lead time from order to delivery of this equipment can be as long as six to 12 months. If there are delays in the delivery of equipment or if there are increases in the cost of equipment, it could cause us to delay our introduction of new manufacturing capacity or technologies and delay product deliveries, which may result in the loss of customers and revenues.

We may be subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. While we believe that our insurance coverage for damage to our property and business interruption due to fire is consistent with semiconductor industry practice, our insurance coverage is subject to deductibles and self-insured retention and may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of a fire, it would temporarily reduce manufacturing capacity and reduce revenues.

We and many of our customers and suppliers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our assets and many of our customers and suppliers are located in the Hsinchu Science Park. We and these customers and suppliers are dependent on the infrastructure supporting the Park. Our operations and the operations of our customers and suppliers are vulnerable to earthquakes, floods, droughts, power losses and similar events that affect the Hsinchu Science Park. The occurrence of any of these events could interrupt our services and cause severe damages to wafers in process. For instance, our operations stopped completely for five days in September 1999 largely because of a power outage caused by a severe earthquake. After the stoppage, we spent several days to ramp up to full operations. Most recently in November 2004, Taiwan experienced significant earthquakes registering up to 6.7 on the Richter scale. We did not experience any significant damage as a result of these earthquakes. We cannot guarantee that future earthquakes will not cause material damage to our facilities or property, including work in progress, or cause significant business interruptions. Although we maintain property and business interruption insurance for such risks, there is no guarantee that future damages or business loss from earthquakes will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient. In addition, shortages or suspension of power supplies to the Hsinchu Science Park have occasionally occurred, and have disrupted our operations. In addition, the Hsinchu area experienced a severe drought in 2001 and is likely to experience other droughts in the future. While the semiconductor manufacturing process uses large amounts of water, if a drought does occur and the authorities are unable to source water from alternative sources in sufficient quantity, we may be required to temporarily shut down or substantially reduce the operations of our fabs located in the Hsinchu Science Park, which would seriously affect our operations.

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If we violate environmental regulations, our operations may be delayed or interrupted and our business could suffer.

We are always subject to environmental regulations and a failure or a claim that we have failed to comply with these environmental regulations could cause delays in our production and capacity expansion and affect our public image, either of which could harm our business. In addition, as environmental regulations are becoming more comprehensive and stringent, we may incur a greater amount of capital expenditures in technology innovation and materials substitution in order to comply with such regulations, which may adversely affect our results of operations.

Political, Economic and Regulatory Risks

We face substantial political risks associated with doing business in Taiwan, particularly due to the tense relationship between the ROC and the People s Republic of China (the PRC) that could negatively affect the value of your investment.

Our principal executive offices and most of our assets and operations are located in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our shares and the ADSs may be affected by changes in ROC governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, relations have often been strained. The PRC government has refused to renounce the use of military force to gain control over Taiwan and, in March 2005, further passed an Anti-Secession Law that authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the ROC and the PRC have on occasion depressed the market prices of the securities of companies in the ROC. In February 2006, the president of Taiwan suspended activities of the country s National Unification Counsel, a committee established to assist Taiwan in its efforts to reunite with the PRC. Such suspension is commonly viewed as having a detrimental effect to reunification efforts between the two countries. Relations between the ROC and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Our business depends on the support of the ROC government, and a decrease in this support may increase our labor costs and decrease our net income after tax.

The ROC government has been very supportive of technology companies such as us. For instance, the ROC s labor laws and regulations do not require employees of semiconductor companies, including our company, to be unionized, and permit these employees to work shifts of 10 hours each day on a two-days-on, two-days-off basis. We cannot assure you, however, that these labor laws and regulations will not change in the future. In the event that the ROC government requires our employees to be unionized or decreases the number of hours our employees may work in a given day, our labor costs may increase significantly which could result in lower margins.

We, like many ROC technology companies, have benefited from substantial tax incentives provided by the ROC government. In 2005, such incentives resulted in a tax credit in the amount of NT$528 million (US$16 million). If these incentives are curtailed or eliminated, our net income after tax may decrease substantially.

The trading price of the shares and ADSs may be adversely affected by the general activities of the Taiwan Stock Exchange and U.S. stock exchanges, the trading price of our shares, increases in interest rates and the economic performance of Taiwan.

Our shares are listed on the Taiwan Stock Exchange. The trading price of our ADSs may be affected by the trading price of our shares on the Taiwan Stock Exchange and the economic performance of Taiwan. The Taiwan Stock Exchange is smaller and, as a market, more volatile than the securities markets in the United States and a number of European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices

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and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. During 2005, the Taiwan Stock Exchange Index reached a low of 5632.97 on October 28, 2005 and peaked at 6,575.53 on December 29, 2005. On May 30, 2006, the Taiwan Stock Exchange Index closed at 6,846.95, and the daily closing value of our shares was NT$20.30 per share. The Taiwan Stock Exchange is particularly volatile during times of political instability, such as when relations between Taiwan and the PRC are strained. Moreover, the Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults, and the government of Taiwan has from time to time intervened in the stock market by purchasing stocks listed on the Taiwan Stock Exchange. The recurrence of these or similar problems could decrease the market price and liquidity of the shares and ADSs.

From September 19, 2000, the commencement date of the listing of our ADSs on the New York Stock Exchange, or NYSE, to May 31, 2006, the daily reported closing prices of our ADSs ranged from US$14.87 per ADS to US$2.80 per ADS. The market price of the ADSs may also be affected by general trading activities on the U.S. stock exchanges, which recently have experienced significant price volatility with respect to shares of technology companies. Fluctuation in interest rates and other general economic conditions may also have an effect on the market price of the ADSs.

Currency fluctuations could increase our costs relative to our revenues, which could adversely affect our profitability.

More than half of our net operating revenues are denominated in currencies other than New Taiwan dollars, primarily U.S. dollars and Japanese Yen. On the other hand, more than half of our costs of direct labor, raw materials and overhead are incurred in New Taiwan dollars. Although we hedge a portion of the resulting net foreign exchange position through the use of forward exchange contracts, we are still affected by fluctuations in exchange rates among the U.S. dollar, the Japanese Yen, the New Taiwan dollar and other currencies. Any significant fluctuation in exchange rates may be harmful to our financial condition. In addition, fluctuations in the exchange rate between the U.S. dollar and the New Taiwan dollar will affect the U.S. dollar value of the ADSs and the U.S. dollar value of any cash dividends we pay, which could have a corresponding effect on the market price of the ADSs.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Taiwan securities market.

In response to declines and volatility in the securities markets in Taiwan, the Republic of China government formed the National Financial Stabilization Fund to support these markets through open market purchases of shares in Taiwan companies from time to time. The details of the transactions of the National Financial Stabilization Fund have not been made public. In addition, the government s Labor Insurance Fund and other funds associated with the government have in the past purchased, and may from time to time purchase, shares of Taiwan companies listed on the Taiwan Stock Exchange or other markets. As a result of these activities, the market price of common shares of Taiwan companies may have been and may currently be higher than the prices that would otherwise prevail in the open market. Market intervention by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Taiwan companies, which may affect the market price and liquidity of our common shares and ADSs.

Our future tax obligations may adversely affect our profitability.

The ROC government enacted the ROC Income Basic Tax Act, also known as the Minimum Income Tax Statute (the Statute), which became effective from January 1, 2006 and imposes an alternative minimum tax (AMT). The AMT is designed to remedy the current excessive tax incentives for individuals and businesses. The AMT imposed under the Statute is a supplemental tax which is payable if the income tax payable pursuant to the ROC Income Tax Act is below the minimum amount prescribed under the Statute. For the purpose of calculating the AMT, the taxable income defined under the Statute includes most income that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits. For businesses, the incomes which previously enjoyed tax-exemption privileges under relevant tax regulations, such as the Act for the Establishment and Administration of the Science Parks and the Statute for Upgrading Industries will be subject to the new AMT system for the calculation of business taxpayers aggregate incomes. The AMT rate for business

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entities is 10%. Under the Statute, a company will be subject to a 10% AMT if its annual taxable income under the Statute exceeds NT$2 million. However, the Statute grandfathered certain tax exemptions granted prior to the enactment of the AMT. For example, businesses already qualified for five-year tax holidays before December 31, 2005 may continue to enjoy tax incentives, and the income exempted thereunder will not to be added to the taxable income for the purpose of calculating the AMT, so long as the construction of their investment projects breaks ground within one year from January 1, 2006 and is completed within three years commencing from the day immediately following their receipts of the applicable permission issued by the competent authority. We do not expect the statute to result in any material impact on our financial conditions or business operations in the short term.

Risks Related to the Shares and ADSs and Our Trading Markets

Restrictions on the ability to deposit shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit shares into our ADS program is restricted by ROC law. Under current ROC law, no person or entity, including you and us, may deposit shares into our ADS program without specific approval of the ROC FSC except for the deposit of the shares into our ADS program and for the issuance of additional ADSs in connection with:

(1) distribution of share dividends or free distribution of our shares;

(2) exercise of the preemptive rights of ADS holders applicable to the shares evidenced by ADSs in the event of capital increases for cash; or

(3) purchases of our shares in the domestic market in Taiwan by the investor directly or through the depositary and delivery of such shares to the custodian for deposit into our ADS program, subject to the following conditions: (a) the depositary may accept deposit of those shares and issue the corresponding number of ADSs with regard to such deposit only if the total number of ADSs outstanding after the deposit does not exceed the number of ADSs previously approved by the ROC FSC, plus any ADSs issued pursuant to the events described in (1) and (2) above and (b) this deposit may only be made to the extent previously issued ADSs have been cancelled and the corresponding shares which are withdrawn from our ADS facility by holders have been sold in the domestic market in Taiwan.

As a result of the limited ability to deposit shares into our ADS program, the prevailing market price of our ADSs on the NYSE may differ from the prevailing market price of the equivalent number of our shares on the Taiwan Stock Exchange.

Holders of our ADSs will not have the same proposal or voting rights as the holders of our shares, which may affect the value of your investment.

Except for treasury shares, each common share is generally entitled to one vote and no voting discount will be applied. However, except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to the shares represented by the ADSs. The voting rights attached to the shares evidenced by our ADSs must be exercised as to all matters brought to a vote of shareholders collectively in the same manner.

Moreover, holders of the ADSs do not have individual rights to propose any matter for shareholders votes at our shareholders meetings. However, holders of at least 51% of the ADS outstanding at the relevant record date may request the depositary to submit to us one proposal per year for consideration at our annual ordinary shareholders meeting, provided that such proposal meets certain submission criteria and limitations, including the language and the length of the proposal, the time of submission, the required certification or undertakings, and the attendance at the annual ordinary shareholders meeting. A qualified proposal so submitted by the depositary will

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still be subject to review by our board of directors and there is no assurance that the proposal will be accepted by our board of directors for inclusion in the agenda of our annual ordinary shareholders meeting. Furthermore, if we determine, at our discretion, that the proposal submitted by the depositary does not qualify, we have no obligation to notify the depositary or to allow the depositary to modify such proposal.

Furthermore, if holders of at least 51% of the ADSs outstanding at the relevant record date instruct the depositary to vote in the same manner regarding a resolution, including election of directors and/or supervisors, the depositary will appoint our Chairman, or his designee, to represent the ADS holders at the shareholders meetings and to vote the shares represented by the ADSs outstanding in the manner so instructed. If by the relevant record date the depositary has not received instructions from holders of ADSs holding at least 51% of the ADSs to vote in the same manner for any resolution, then the holders will be deemed to have instructed the depositary to authorize and appoint our Chairman, or his designee, to vote all the shares represented by ADSs at his sole discretion, which may not be in your interest.

The rights of holders of our ADSs to participate in our rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of shares represented by ADSs or received as share dividends with respect to the shares and deposited into the depositary receipt facility; and
- any cash dividends or distributions received from the shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the shares underlying your ADSs and become a holder of our shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new shares. Although it is expected that the Central Bank of China will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in international economic conditions.

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Our public shareholders may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and by laws governing ROC corporations. The rights of our shareholders to bring shareholders suits against us or our board of directors under ROC law are much more limited than those of the shareholders of U.S. corporations. Therefore, our public shareholders may have more difficulty protecting their interests in connection with actions taken by our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation. Please refer to Item 10. Additional Information B. Memorandum and Articles of Association Rights to Bring Shareholders Suits included elsewhere in this annual report for a detailed discussion of the rights of our shareholders to bring legal actions against us or our directors under ROC law.

Holders of our ADSs will be required to appoint several local agents in Taiwan if they withdraw shares from our ADS program and become our shareholders, which may make ownership burdensome.

Non-ROC persons wishing to withdraw shares represented by their ADSs from our ADS program and hold our shares represented by those ADSs are required to, among other things, appoint a local agent or representative with qualifications set forth by the ROC FSC to open a securities trading account with a local brokerage firm, pay ROC taxes, remit funds and exercise shareholders rights. In addition, the withdrawing holders are also required to appoint a custodian bank with qualifications set forth by the Ministry of Finance to hold the securities in safekeeping, make confirmations, settle trades and report all relevant information. Without making this appointment and opening of the accounts, the withdrawing holders would not be able to subsequently sell our shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange. Under ROC law and regulations, citizens of the PRC are not permitted to hold our shares or withdraw shares represented by ADSs from our ADS program unless they obtain the approval from the competent authority. Due to the absence of relevant rules or guidelines, PRC persons are currently not able to conduct investments in the ROC.

You may not be able to enforce a judgment of a foreign court in the ROC

We are a company limited by shares incorporated under the ROC Company Act. Most of our assets and most of our directors, supervisors and executive officers and experts named in the registration statement are located in Taiwan. As a result, it may be difficult for you to enforce judgments obtained outside Taiwan upon us or such persons in Taiwan. We have been advised by our ROC counsel that any judgment obtained against us in any court outside the ROC arising out of or relating to the ADSs will not be enforced by ROC courts if any of the following situations shall apply to such final judgment:

- the court rendering the judgment does not have jurisdiction over the subject matter according to ROC law;
- the judgment is contrary to the public order or good morals of the ROC;
- the judgment was rendered by default, except where the summons or order necessary for the commencement of the action was legally served on us within the jurisdiction of the court rendering the judgment within a reasonable period of time or with judicial assistance of the ROC; or
- judgments of ROC courts are not recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

We may be considered a passive foreign investment company, which could result in adverse U.S. tax consequences for U.S. investors.

We do not believe that we were a passive foreign investment company for 2005 and we do not expect to become one in the future, although there can be no assurance in this regard. Based upon the nature of our business activities, we may be classified as a passive foreign investment company (PFIC) for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor.

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For example, if we are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of our common and preferred shares, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. See Taxation U.S. Federal Income Tax Considerations For U.S. Persons Passive foreign investment companies.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is United Microelectronics Corporation, commonly known as UMC. We were incorporated under the ROC Company Law as a company limited by shares in May 1980 and our shares were listed on the Taiwan Stock Exchange in 1985. Our principal executive office is located at No. 3 Li-Hsin Road II, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number is 886-3-578-2258. Our Internet website address is www.umc.com. The information on our website does not form part of this annual report. Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000.

We are one of the world s largest independent semiconductor foundries and a leader in semiconductor manufacturing process technologies. Our primary business is the manufacture, or fabrication , of semiconductors, sometimes called chips or integrated circuits , for others. Using our own proprietary processes and techniques, we make chips to the design specifications of our many customers. Our company maintains a diversified customer base across industries, including communication, consumer electronics, computer, memory and others, while continuing to focus on manufacturing for high growth, large volume applications, including networking, telecommunications, Internet, multimedia, PCs and graphics. We sell and market mainly wafers which in turn are used in a number of different applications by our customers. Percentages of our net wafer sales derived from our products used in communication devices, consumer electronics, PCs, memory and other applications were 46.1%, 28.3%, 22.0%, 1.7% and 1.9%, respectively, in 2005.

We focus on the development of leading mass-producible manufacturing process technologies. We were among the first in the foundry industry to go into commercial operation with such advanced capabilities as producing integrated circuits with line widths of 0.25, 0.18, 0.15, 0.13 micron and 90 nanometer. In 2003, we were one of the first foundries to deliver working customer products using advanced 90-nanometer copper technology. This technology has been in volume production since the second quarter of 2004 after passing several full-product certifications, including various reliability, burn-in and packaging criteria. Our 0.15 micron and more advanced technologies have contributed to approximately 39.0% of our total net wafer sales in 2005, compared to 28.6% in 2004. We believe such technologies will better serve the needs of advanced customer chip designs with high performance and low power consumption. In 2005, product samples fabricated using 65-nanometer technology were delivered to customers for validation. Furthermore, we are actively developing 45-nanometer process technologies to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size. Areas of research include strained silicon devices, 3-dimensional transistors, silicon-on-insulator, or SOI, advanced modules such as high-k dielectric insulation and metal gate, raised source and drain, SiGe refill process and advanced interconnect schemes. Advanced technologies have enabled electronic products, especially in relation to computer, communication and consumer products, to integrate their functions in new and innovative methods. Networking capabilities have allowed electronic products such as computers, cell phones, televisions, PDAs, CD-ROMs and digital cameras to communicate with each other to exchange information. More powerful semiconductors are required to drive multimedia functions (eg. processing visual data) and to resolve network bandwidth issues. At the same time, the trend toward personal electronic devices has resulted in products that are becoming physically smaller and consume less power. Process technology must also shrink the volumes of products aggressively to cater to this trend of integrating multiple functions, reducing the number of components needed for operation and lowering IC power consumption. Dedicated semiconductor foundries need to achieve this process improvement and at the same time develop multiple process technologies to satisfy the varying needs of

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computer, communication and consumer products. We believe our superior process technologies will enable us to continue to offer our customers significant performance benefits for their products, faster time-to-market production, cost savings and other competitive advantages.

We provide high quality service based on our performance. In today s marketplace, we believe it is important to make available not only the most manufacturable processes, but also the best solutions to enable customers to design integrated circuits that include entire systems on a chip. Through these efforts, we intend to be the foundry solution for SoC customer needs. To achieve this goal, we believe it is necessary to timely develop and offer the intellectual property and design support that customers need to ensure their specific design blocks work with the other design blocks of the integrated circuit system in the manner intended. Accordingly, we have a dedicated intellectual property and design support team which focuses on timely development of the intellectual property and process specific design blocks our customers need in order to develop products that operate and perform as intended. Our design service team actively cooperates with our customers and vendors of cell libraries and intellectual property offerings to identify, early in the product/market cycle, the offerings needed to ensure that these coordinated offerings are available to our customers in silicon verified form in a streamlined and easy-to-use manner. As a result, we are able to ensure the timely delivery of service offerings from the earliest time in the customer design cycle, resulting in a shorter time-to-volume production. We also provide our customers with real-time Internet access to their confidential production data, resulting in superior communication and efficiency. We further address our customers needs using our advanced technology and proven methodology to achieve fast cycle time, high yield, production flexibility and close customer communication. For example, we select and configure our clean rooms and equipment and develop our processes to maximize the flexibility in meeting and adapting to rapidly changing customer and industry needs. As a result, our cycle time, or the period from customer order to wafer delivery, and our responsiveness to customer request changes are among the fastest in the dedicated foundry industry. We also provide high quality service and engineering infrastructure.

Our production capacity is comparable to that of the largest companies in the semiconductor industry, and we believe our leading edge and high volume capability is a major competitive advantage. We have expanded our operations in Taiwan over the past several years. In 2002, we began volume production of 12-inch wafers at Fab 12A, our 12-inch fab in Taiwan. As of March 31, 2006, Fab 12A had a monthly capacity of 27,500 12-inch wafers, equivalent to a monthly capacity of 61,875 8-inch wafers. We also have a controlling interest in UMCJ, which owns an 8-inch fab in Japan. Our interest in UMCJ gives our company proximity to some of the largest integrated device manufacturers in the world and allows our company to offer them local outsourcing of semiconductor production. In December 2004, UMCi, which operates a 12-inch fab in Singapore s Pasir Ris Wafer Fab Park, became our wholly-owned subsidiary and pursuant to a sale and transfer agreement dated March 31, 2005, UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005. UMCi s 12-inch fab, now renamed Fab 12i, employ advanced process technologies including 0.13-micron and 90-nanometer processes. Fab 12i began volume production in the first quarter of 2004 and has a monthly capacity of 14,500 12-inch wafers as of March 31, 2006, which is equivalent to a monthly capacity of 32,625 8-inch wafers.

Our technology and service have attracted three principal types of foundry industry customers: fabless design companies, integrated device manufacturers and system companies. Fabless design companies design, develop and distribute proprietary semiconductor products, but do not maintain internal manufacturing capacity. Instead, these companies depend on outside manufacturing sources. Integrated device manufacturers, in contrast, traditionally integrated all functions manufacturing as well as design, development, sales and distribution. System companies design and develop integrated circuits to be components within their end or intermediate products and generally do not maintain internal manufacturing capacity. For example, system companies market and sell cellular telephones and/or Internet appliances into which they incorporate semiconductor products.

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Infineon, LSI Logic, STMicroelectronics, Texas Instruments, Freescale, and Philips, and leading fabless design companies, such as ATI, Broadcom, Marvell, MediaTek, Novatek, Realtek, SanDisk and Xilinx. In 2005, our company s top ten customers accounted for 58.3% of our net operating revenues. Our top two customers accounted for 17.8% and 10.5% of our net operating revenues in 2005, respectively. We believe our success in attracting these customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance.

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Please refer to Item 5. Operating and Financial Review and Prospectus B. Liquidity and Capital Resources for a discussion of our capital expenditures in the past three years and the plan for the current year.

Our Strategy

To maintain and enhance our position as a market leader, we have adopted a business strategy with a focus on a partnership business model designed to accommodate our customers business needs and objectives and to promote their interests as our partners. We believe that our success and profitability are inseparable from the success of our customers. The goal in this business model is to create a network of partnerships or alliances among system companies and integrated device manufacturers, intellectual property and design houses, as well as foundry companies. We believe that we and our partners will benefit from the synergy generated through such long-term partnerships or alliances and the added value to be shared among the partners. The key elements of our strategy are:

Operate as a SoC Solution Foundry. We plan to operate as a SoC solution foundry. This involves collaborating closely with customers as well as partners throughout the entire SoC technology supply chain, including equipment, Electronic Design Automation tool and IP vendors, to work synergistically towards a SoC solution for each customer. Our implementation of our SoC solution strategy has resulted in a broad range of options available to SoC designers, including silicon-validated reference flows, in-depth IP portfolio and know-how and extensive libraries of IPs, to better provide value to their customers. Capitalizing on our advanced process technology, extensive packaging and testing capabilities and state-of-art 300mm manufacturing facilities, we believe we are in a better position to deliver integrated SoC solutions for customers than most of our competitors.

Build up Customer-focused Partnership Business Model. We have focused on building partnership relationships with our customers, and we strive to help our customers to achieve their objectives through close cooperation. Unlike the traditional buy-and-sell relationship between a foundry and its customers, we believe our partnership business model will help us understand our customers requirements and, accordingly, better accommodate our customers needs in a number of ways, such as customized processes and services that optimize the entire value chain (not just the foundry portion) and intellectual property-related support. We believe that this business model will enable us to deliver our products to our customers at the earliest time our customers require for their design cycle, resulting in shorter time-to-market and time-to-volume production. Furthermore, we believe we will render more cost-effective services by focusing our research and development expenditures on the specific requirements of our customers. We believe our partnership business model will help us not only survive a market downturn, but also achieve a better competitive position.

Continue to Focus on High Growth Applications and Customers. We believe one measure of a successful foundry company is the quality of its customers. We focus our sales and marketing on customers who are established or emerging leaders in industries with high growth potential. Our customers include industry leaders such as ATI, Broadcom, Marvell, Infineon, LSI Logic, MediaTek, Novatek, Realtek, SanDisk, STMicroelectronics, Texas Instruments, Freescale, Philips and Xilinx. We seek to maintain and expand our relationships with these companies. We strive to demonstrate to these customers the superiority and flexibility of our manufacturing, technology and service capabilities and to provide them with production and design assistance. We are also making efforts to further diversify our customer portfolio by actively pursuing customers in the PC-related area in order to maintain a balanced exposure to different applications. We believe these efforts strengthen our relationships with our customers and enhance our reputation in the semiconductor industry as a leading foundry service provider.

Maintain Our Leading Position in Mass-Producible Semiconductor Technology and Selectively Pursue Strategic Investments in New Technologies. We believe that maintaining and enhancing our leadership in mass-producible semiconductor manufacturing technology is critical to attract and retain customers. Our reputation for technological excellence has attracted both established and emerging leaders in the semiconductor industries who work closely with us on technology development. In addition, we believe our superior processing expertise has enabled us to provide flexible production schedules to meet our customers particular needs. We plan to continue building internal research and development expertise, to focus on process development and to establish alliances with leading semiconductor companies to accelerate access to next-generation technologies. We pioneered the use of copper interconnect metallurgies for the dedicated foundry industry. These copper interconnect metallurgies allow higher conductivity and lower power consumption than traditional aluminum interconnects. In 2002, we began volume production using our advanced 0.13-micron technology. Our extensive experience in the 0.13-micron

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process technology has helped smooth our transition to 90-nanometer production. Many of the materials and techniques, including copper interconnects and low-k dielectric materials, that were first used in connection with the 0.13-micron process technology also apply to the 90-nanometer copper technology. Our 90-nanometer copper technology marks further advance in our technology achievements, incorporating up to nine copper metal layers, triple gate oxide and other advanced features. In 2003, we were one of the first foundries to deliver working customer products using the advanced 90-nanometer copper technology. This technology has been in volume production since the second quarter of 2004. In 2005, product samples fabricated using 65-nanometer technology were delivered to customers for validation. In the fourth quarter of 2005, we shipped more than 63,000 wafers of 90-nanometer and 65-nanometer products in 8-inch. Furthermore, we are actively developing 45-nanometer process technologies to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size. We believe our progress in the development of 90-nanometer copper technology will benefit our customers in the fields of computers, communications, consumer electronics and others with special preferences in certain aspects of the products, such as the ultimate performance, density and power consumption.

We also recognize every company has limited resources and that the foundry industry is ever-evolving. Accordingly, we believe we should invest in new research and development technology intelligently and in a cost-effective manner to achieve the ultimate output of the resulting technology. In doing so, we balance the rate of return of our research and development with the importance of developing a technology at the right time to enhance our competitive edge without unduly diluting our profitability. We intend to avoid investments in technologies that do not present a commercial potential for volume production. We believe that to develop the earliest and most advanced semiconductor technology without regard to its potential for near term volume production may prove costly to our operations and would not strengthen our competitive position. We perceive a benefit to defer investment in the premature equipment needed to claim the earliest advanced technology and instead to purchase a more advanced and less expensive version of equipment from vendors who design such equipment based on pre-production lessons learned from the earliest technology.

Maintain Scale and Capacity Capabilities to Meet Customer Requirements, with a Focus on 12-inch Wafer Facilities for Future Expansion. We believe that maintaining our foundry capacity with advanced technology and facilities is critical to the maintenance of our industry leadership. Our production capacity is currently among the largest of all semiconductor foundries in the world. We intend to increase our 12-inch wafer production capacity to meet the needs of our customers and to fully capitalize on the expected growth of our industry. Our future capacity expansion plans will focus on 12-inch wafer facilities in order to maintain our technology leadership. 12-inch wafers offer manufacturing advantages over 8-inch wafers because of the greater number of chips on each wafer. In addition, 12-inch wafer facilities present a more cost-effective solution in achieving an economic scale of production. We intend to carefully monitor current market conditions in order to optimize the timing of our capital spending. In 2002, we began volume production at Fab 12A, in Tainan, Taiwan. In addition, Fab 12i (the 12-inch Fab formerly operated by UMCi), our 12-inch fab in Singapore s Pasir Ris Wafer Fab Park, began its volume production in the first quarter of 2004, employing advanced process technologies including 0.13-micron and 90-nanometer processes. We are currently evaluating opportunities to expand our wafer fabrication business into the PRC. Our initial budget for purchases of semiconductor manufacturing equipment for 2006 is approximately US$1 billion. Our efforts in increasing our production capacity raised our total production capacity from approximately 265,000 8-inch wafer equivalents per month in December 2003 to approximately 358,000 8-inch wafer equivalents per month in December 2005. Our annual total production capacity reached 4,224,000 8-inch wafer equivalents in 2005.

B. Business Overview

Manufacturing Facilities

To maintain a leading position in the foundry business, we have placed great emphasis on achieving and maintaining a high standard of manufacturing quality. As a result, we seek to design and implement manufacturing processes that produce consistent, high manufacturing yields to enable our customers to estimate, with reasonable certainty, how many wafers they need to order from us. In addition, we continuously seek to enhance our production capacity and process technology, two important factors that characterize a foundry s manufacturing capability. Our large production capacity and advanced process technologies enable us to provide our customers with volume production and flexible and quick-to-market manufacturing services. All of our fabs operate 24 hours per day, seven days per week. Substantially all maintenance at each of the fabs is performed concurrently with production.

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The following table sets forth operational data of each of our manufacturing facilities as of December 31, 2005.

	Fab 6A	Fab 8AB	Fab 8C	Fab 8D	Fab 8E	Fab 8F	Fab 8S	Fab 12A	Fab 12i(5)	UMCJ
Commencement of volume production	1989	1995 for the module formerly named Fab 8A; 1996 for the module formerly named Fab 8B	1998	2000	1998	2000	2000	2002	2004	1996
Estimated full capacity (1) (2)	50,500 wafers per month	68,000 wafers per month	33,400 wafers per month	21,000 wafers per month	34,000 wafers per month	31,000 wafers per month	23,000 wafers per month	25,500 wafers per month	14,000 wafers per month	30,000 wafers per month
Wafer size	6-inch (150mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	12-inch (300mm)	12-inch (300mm)	8-inch (200mm)
Clean room area (3)	4,986 sq. meters	25,029 sq. meters	19,764 sq. meters	16,589 sq. meters	21,576 sq. meters	13,812 sq. meters	8,400 sq. meters	20,898 sq. meters	18,902 sq. meters	8,800 sq. meters
Type of clean rooms (4)	Class-10 @0.1um, clean tunnel	Class-0.1 @0.1um, clean tunnel	Class-0.1 @0.1um, clean tunnel	Class100 @0.3um, SMIF/mini-environment	Class100 @0.3um, SMIF/mini-environment	Class 100 @0.3um, SMIF/mini-environment	Class 100 @0.3um, SMIF/mini-environment	Class 100 @0.3um, SMIF/mini-environment	Class 100 @0.3um, SMIF/mini-environment	Class-0.1 @0.1um, clean tunnel

(1) Measured in original wafer size.

(2) The capacity of a fab is determined based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance and expected product mix.

(3) Area represents the total area of clean rooms within a fab.

(4) Class represents the cleanliness of clean rooms in the fab. Class-10@0.1um means a standard of air purity under which the amount of dust is limited to fewer than 10 particles of contaminants of 0.1 micron or greater per one cubic foot per minute of air flow. Class-0.1@0.1um means a standard of air purity under which the amount of dust is limited to fewer than one particle of contaminant of 0.1 micron or greater per 10 cubic feet per minute of air flow. Class-100@0.3um means a standard of air purity under which the amount of dust is limited to fewer than 100 particles of contaminants of 0.3 micron or greater per one cubic foot per minute of air flow. The general production environment may be organized into clean tunnels or mini environments . In a clean tunnel environment, the clean room is divided into many tunnels with partitions. A higher level of cleanliness is kept inside the tunnel for production. Mini-environments within a clean room use Standard Mechanical Interface technology, or SMIF, which employs input/output devices designed to protect products from contamination while providing a standard mechanical interface to wafer production tools. Mini-environment is generally a preferred approach because it reduces building structural costs and operating costs, allows flexibility in equipment layout and facilitates the ramping-up process during capacity expansion.

(5) Formerly operated by UMCi, which began volume production in the first quarter of 2004.

The following table sets forth the size and primary use of our facilities and whether such facilities, including land and buildings, are owned or leased. Our land in the Hsinchu and Tainan Science Parks is leased from the ROC government.

Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
	27,898/34,981	6-inch wafer production		Owned

Fab 6A, 10 Innovation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 308, ROC			Leased (expires in February 2007)	
Fab 8AB, 3 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC.	62,114/81,751	8-inch wafer production	Leased (expires in March 2014)	Owned
Fab 8C, 6 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC	9,007/28,984	8-inch wafer production	Leased (expires in March 2016)	Owned
Fab 8D, 8 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC	9,089/29,181	8-inch wafer production	Leased (expires in March 2016)	Owned
Fab 8E, 17 Li-Hsin Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC	35,000/74,067	8-inch wafer production	Leased (expires in February 2016)	Owned
Fab 8F, 3 Li-Hsin 6th Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC.	24,180/65,744	8-inch wafer production	Leased (expires in February 2018)	Owned
Fab 8S, 16 Creation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 308, ROC.	20,404,/65,614	8-inch wafer production	Leased (expires in December 2023)	Owned
Fab 12A, 18 Nan-Ke 2nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 744, ROC.	56,000/165,607	12-inch wafer production	Leased (expires in October 2017)	Owned
Fab 12i(1), 3 Pasir Ris Drive 12 Singapore 519528	84,372/141,787	12-inch wafer production	Leased (expires in March 2031)	Owned
UMCJ, 1580, Yamamoto, Tateyama-City, Chiba, Japan	388,402/21,526	8-inch wafer production	71% owned, 29% leased (expires in June 2049)	Owned
United Tower, 3 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 300, ROC.	5,737/85,224	Administration office	Leased (expires in March 2014)	Owned
Tunhwa South Rd. Office, 3F, 76, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan 106, ROC	166/2,221	Administration office	Owned	Owned
Testing Building, 1, Chin-Shan, St. 7, Hsinchu, Taiwan 300, ROC.	10,762/41,318	Leased to several companies	Owned	Owned

(1) UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005.

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Process Technology

Process technology is a set of specifications and parameters that we implement for manufacturing the critical dimensions of the patterned features of the circuitry of semiconductors. Our process technologies are currently among the most advanced in the foundry industry. These advanced technologies have enabled us to provide flexible production schedules to meet our customers particular needs.

The continued enhancement of our process technologies has enabled us to manufacture semiconductor devices with smaller geometries, allowing us to produce more dice on a given wafer. For example, in 1997 we became one of the first foundries to produce semiconductor products using 0.25-micron process technology, and in 1999 we were among the first foundries to offer 0.18-micron process services. In addition, we pioneered the use of copper interconnect metallurgies for the foundry industry. These copper interconnect metallurgies allow better reliability and higher conductivity than traditional aluminum interconnects. We began volume production using 0.13-micron process technology in 2002. Our extensive experience in the 0.13-micron process technology has helped smooth our transition to 90-nanometer pilot production. Our 90-nanometer process marks further advance in our technology achievements, incorporating up to nine copper metal layers, triple gate oxide and other advanced features and using chrom-less phase-shift masks. In 2003, we were one of the first foundries to deliver working customer products using advanced 90-nanometer copper technology. This technology has been in volume production since the second quarter of 2004 after passing several product certifications. In 2005, our research and development teams continued to work closely with the manufacturing staff to finalize our 90-nanometer technology portfolio. These collaborative efforts, performed in our best-in-class 300mm facilities, contributed to the improvement of high density 6T-SRAM yield to the maturity level of more than 90%. Our accomplishments led to multiple design awards followed by first silicon success, including a PC graphic IC and the world s first 90-nanometer Wireless Local Area Network (WLAN) RF chip featuring a unique and specially developed inductor scheme. In addition, we were able to develop, within 6 months, several customized 90-nanometer processes tailored to our customers device specifications, and demonstrated product success by delivering record high yield for the first product lots. We believe these successful 90-nanometer examples have assured customers that they will enjoy time-to-market and cost advantages for their own product lines, including computers, communications and consumer electronics, and others with special preferences in certain aspects of the products, such as the ultimate performance, density and power consumption, when using our technologies. In addition, we have developed a shrink version of our 90-nanometer process technology. This achievement is expected to help customers migrate their 90-nanometer products for higher density and performance to further increase their competitive level in the near future. Meanwhile, our research and development teams have devoted intense efforts to develop 65-nanometer logic/mixed signal technologies at our 300mm fab in Tainan, Taiwan. Our first fully-functional 65-nanometer wireless digital baseband customer IC was produced in July of 2005, after only a year since this research and development project began at this facility.

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A next-generation 65-nanometer FPGA product, with triple gate oxide and 11 copper metal layers, was also successfully verified on its first silicon pilot effort. Our 65-nanometer development team is not only independently developing our technologies in-house but is also bringing up customized process technologies to match customer specific needs. Furthermore, we are actively developing 45-nanometer process technologies to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size.

The table below sets forth our actual process technology range, categorized by line widths, or the minimum physical dimensions of the transistor gate of integrated circuits in production by each fab, in 2005, and the estimated annual full capacity of each fab, actual total annual output and capacity utilization rates in 2003, 2004 and 2005:

	Year Ended December 31, 2005 Range of Process Technologies	Year Ended December 31,		
		2003	2004	2005
	(in microns)	(in thousands of 8-inch wafer equivalents, except percentages)		
Fab				
Fab 6A	0.5	352	346	344
Fab 8AB	0.5 to 0.25	801	796	816
Fab 8C	0.35 to 0.15	325	386	401
Fab 8D	0.18 to 0.09	238	256	274
Fab 8E	0.5 to 0.18	354	401	404
Fab 8F	0.25 to 0.15	341	349	378
Fab 8S	0.25 to 0.15		131	278
Fab 12A	0.18 to 0.065	234	392	597
Fab 12i(1)	0.13 to 0.09		101	363
UMCJ	0.35 to 0.15	360	370	369
Total estimated capacity		3,005	3,528	4,224
Total output (actual)		2,549	3,205	3,059
Capacity utilization		84.8%	90.8%	72.4%

(1) Formerly operated by UMCi, which began volume production in the first quarter of 2004. UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005.

The table below sets forth a breakdown of number and percentage of wafer output by process technologies in 2003, 2004 and 2005. We began commercial operation of our 0.13-micron and 90-nanometer process technologies in the first quarter of 2002 and the second quarter of 2003, respectively.

	Year Ended December 31,					
	2003		2004		2005	
	(in thousands of 8-inch wafer equivalents, except percentages)					
Technology						
90 nanometers	1	0.0%	39	1.2%	183	6.0%
0.13 micron	130	5.1	313	9.8	335	10.9
0.15 micron	124	4.9	327	10.2	313	10.3
0.18 micron	489	19.2	627	19.6	489	16.0
0.25 micron	547	21.5	508	15.9	282	9.2
0.35 micron	855	33.5	944	29.4	1,045	34.1
0.50 micron or higher	403	15.8	447	13.9	412	13.5
Total	2,549	100.0%	3,205	100.0%	3,059	100.0%

Capacity and Utilization

The fabs in Taiwan we own directly are named Fab 6A, Fab 8AB, Fab 8C, Fab 8D, Fab 8E, Fab 8F and Fab 8S, all of which are located in the Hsinchu Science Park in Taiwan, and Fab 12A, which is located in the Tainan Science

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Park in Taiwan. Fab 8AB consists of two modules. Fab 6A commenced production in 1989, and Fab 8A (currently part of Fab 8AB) commenced production in 1995. In 1995, we established three foundry ventures with 11 leading fabless design companies, including Xilinx, Trident and Alliance Semiconductor Corp. to establish state-of-the-art 8-inch fabs. We owned an approximately 40% equity interest in each of these foundry ventures. Assisted by capital contributions made by our partners, we were able to expand our capacity quickly while reducing our capital risk. Three of our fabs, a fab formerly named Fab 8B (currently part of Fab 8AB), Fab 8C and Fab 8D, were established under these foundry ventures and began commercial production in 1996, 1998 and 2000, respectively. The commencement of commercial operations of Fab 8D was delayed because of a fire in 1997 that substantially damaged the fab. In 1998, we obtained management control over UTEK Semiconductor, a publicly listed company in Taiwan, which operated an 8-inch fab that was later renamed Fab 8E, to further increase our capacity. Our capacity increased further in the first quarter of 1999 when we acquired an approximate 52.3% in equity interest and management control of UMCJ, which owns an 8-inch fab in Japan. In the fourth quarter of 2000, we completed construction of Fab 12A, a 12-inch fab in Tainan, Taiwan. We began volume production of 12-inch wafers at Fab 12A in 2002. Fab 12A has a capacity of 27,500 12-inch wafers per month as of March 31, 2006, equivalent to 61,875 8-inch wafers per month. In addition, in March 2001, we entered into a foundry venture agreement with EDB Investments and Infineon to form UMCi to construct and operate a 12-inch fab in Singapore s Pasir Ris Wafer Fab Park. Pursuant to the sale and transfer agreements entered in August 2003 and March 2004, we purchased all of the UMCi shares held by Infineon and EDB Investments. Through subsequent purchases, UMCi became our wholly owned subsidiary in December 2004 and pursuant to a sale and transfer agreement dated March 31, 2005, UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005. UMCi s 12-inch fab, now renamed Fab 12i, employ advanced process technologies including 0.13-micron and 90-nanometer processes. Fab 12i began volume production in the first quarter of 2004 and has a monthly capacity of 14,500 12-inch wafers as of March 31, 2006, which is equivalent to a monthly capacity of 32,625 8-inch wafers.

Furthermore, at the end of 2003, our capacity utilization rate reached 100%, making it impossible for us to meet the demand of our global customers. In view of the timing and resources required in building a new fab, we believed that an acquisition of SiS Microelectronics Corporation, or SiSMC, an 8-inch wafer fab, was the most effective method to quickly relieve the production bottleneck and maximize growth in response to the strong recovery in the semiconductor industry. Consequently, we acquired SiSMC through a share swap in July 2004 and renamed it as Fab 8S . Fab 8S operates an 8-inch wafer fab with a current capacity by 23,000 wafers per month.

Historically, the downturn we experienced from the beginning of the fourth quarter of 2000 until early 2003 had a material adverse effect on industry-wide utilization rates including ours. Due to the decreased demand for semiconductors in 2001 and 2002, our average capacity utilization rate decreased from 100% in 2000 to 46.6% in 2001 and to 65.2% in 2002. With a general recovery in the worldwide semiconductor industry, our average capacity utilization rate increased to 84.8% in 2003 and 90.8% in 2004. Our average capacity utilization rate decreased to 72.4% in 2005 due to a slowdown in our industry.

Equipment

Because the effectiveness and efficiency of our manufacturing processes greatly depend on the quality and technology of our equipment, we generally purchase equipment that complements our existing process technology and anticipated advanced process technology. The principal equipment we use to manufacture semiconductor devices are scanners/steppers, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputters, CVD equipment, probers and testers. Other than an immaterial amount of equipment we lease for the use of our fabs, we own all of our equipment.

Our policy on equipment purchases is to purchase from a small number of qualified vendors to ensure consistency. Due to this policy, our equipment is mostly of consistent quality and capable of delivering similar performance.

In implementing our capacity expansion and technology advancement plans, we expect to make significant purchases of equipment required for our foundry services. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and some equipment has only recently been developed. We believe that our relationships with equipment suppliers are good and that we can leverage our position as a major purchaser of semiconductor manufacturing equipment to purchase equipment on better terms, including shorter lead time, than the terms received by several other foundries.

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Although we have not in the past experienced any material problems in procuring the latest generation equipment on a timely basis, the expansion of our fabrication facilities and facilities of other semiconductor companies may put additional pressure on the supply of advanced equipment and maintenance services for such equipment. In periods of unpredictably high market demand, the lead time from order to delivery of such equipment can be as long as six to 12 months. We seek to manage this process through early reservation of appropriate delivery slots and constant communications with our suppliers as well as by utilizing our good relationships with the vendors.

Raw Materials

Our manufacturing processes use many raw materials, primarily silicon wafers, chemicals, gases and various types of precious sputtering targets. These raw materials are generally available from several suppliers. Our policy with respect to raw material purchases, similar to that for equipment purchases, is to select only a small number of qualified vendors who have demonstrated quality and reliability on delivery time of the raw materials. We generally do not have any long-term supply contracts with our vendors.

Our general inventory policy is to maintain sufficient stock of each principal raw material for production and rolling forecasts of near-term requirements received from customers. In addition, we have agreements with several key material suppliers under which they hold similar levels of inventory in their warehouses for our use. However, we are not under any obligation to purchase raw material inventory that is held by our vendors for our benefit until we actually order it. We typically work with our vendors to plan our raw material requirements on a quarterly basis, with indicative pricing generally set on a quarterly basis. The actual purchase price is generally determined based on the prevailing market conditions. In the past, prices of our principal raw materials have not been volatile to a significant degree. Although we have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate, shortages could occur in various critical materials due to interruption of supply or an increase in industry demand.

The most important raw material used in our production processes is silicon wafer, which is the basic raw material from which integrated circuits are made. The principal suppliers for our wafers are Shin-Etsu, MEMC Electronic Materials, Inc. and Formosa Komatsu Silicon Corporation. We have in the past obtained and believe that we will continue to be able to obtain a sufficient supply of silicon wafers. We believe that we have close working relationships with our wafer suppliers. Based on such long-term relationships, we believe that these major suppliers will use their best efforts to accommodate our demand.

We use a large amount of water in our manufacturing process. We obtain water supplies from government-owned entities and recycle approximately 85% of the water that we use during the manufacturing process. We also use substantial amounts of dual loop electricity supplied by Taiwan Power Company in the manufacturing process. We maintain back-up generators that are capable of providing adequate amounts of electricity to maintain the required air pressure in our clean rooms in case of power interruptions. We believe our back-up devices are adequate in preventing business interruptions caused by power outages and emergency situations.

Quality Control

We believe that our advanced process technologies and reputation for high quality and reliable services and products have been important factors in attracting and retaining leading international and domestic semiconductor companies as customers.

Our process technologies and fabrication facilities have been qualified by our customers after satisfying their stringent quality and reliability requirements. Generally our customers, in addition to conducting their own product qualifications, will perform on-site fab audits. These audits normally address quality management, documentation control, procurement and material incoming inspection, product final inspection, calibration and certification training systems. These audits include both data/record review and physical fabrication area tours for verification of conformity to specifications and procedures. If the audit findings are satisfactory, then the fab facility is termed

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qualified for proceeding with further product qualification and later volume production. Most of our established customers, including AMD, ATI, Conexant Systems, KSC, Infineon, LSI Logic, MediaTek, Novatek, Realtek, Sharp Microelectronics, STMicroelectronics, Texas Instruments, Xilinx, Philips and Sony, have audited our fabrication facilities and our fabs have successfully passed their qualification requirements.

Our policy is to implement quality control measures to ensure the delivery of consistent high yield production with reliable performance for our customers. We test and monitor the quality of raw materials, process and products at various stages in the manufacturing process before shipment to customers. Reliability assurance also includes in-process wafer level reliability monitoring as well as packaged level reliability compliance. Our quality control is also continually enhanced through our top down annual Policy Management and bottom up Total Quality Management, or TQM, activities, involving various independent quality control teams from our various foundries: Quality Improvement and Innovation Team, Employee Suggestion System and Project Management Team. We also have a Quality and Reliability Assurance Division, which consists of 411 engineers, technicians and other staff as of March 31, 2006. This Division is responsible for incoming materials quality inspection, in process quality audit, outgoing product quality inspection, quality system and standards maintenance, reliability assurance, reliability engineering and customer queries. In addition, our efforts to observe benchmark and best practices among fabs in the industry have also contributed to the improvement of our overall quality control procedures.

All our Taiwan-based fabs are ISO/TS 16949:2002 certified and also registered under the Year 2000 version of ISO9001. ISO/TS 16949:2002 sets the criteria for developing a fundamental quality management system. It focuses on continual improvement, defect prevention and the reduction of variation and waste. The Year 2000 version of ISO9001 emphasizes customer satisfaction and resource management.

Services and Products

We primarily engage in wafer fabrication for foundry customers. To optimize fabrication services for our customers, we work closely with them as they finalize circuit design and contract for the preparation of masks to be used in the manufacturing process. We also offer our customers turnkey services by providing them with subcontracted assembly and test services. We believe that this ability to deliver a variety of foundry services in addition to wafer fabrication enables us to accommodate the needs of a full array of integrated device manufacturers, system companies and fabless design customers with different in-house capabilities.

Wafer manufacturing requires many distinct and intricate steps. Each step in the manufacturing process must be completed with precision in order for finished semiconductor devices to work as intended. The processes require taking raw wafers and turning them into finished semiconductor devices generally through five steps: circuit design, mask tooling, wafer fabrication, assembly and test. The services we offer to our customers in each of these five steps are described below.

Circuit Design. At this initial design stage, our engineers generally work with our customers to ensure that their designs can be successfully and cost-effectively manufactured in our facilities. We have assisted an increasing number of our customers in the design process by providing them with access to our partners electronic design analysis tools, intellectual property and design services as well as by providing them with custom embedded memory macro-cells. In our Silicon Shuttle program, we offer customers and intellectual property providers early access to actual silicon samples with their desired intellectual property and content in order to enable early and rapid use of our advanced technologies. The Silicon Shuttle program is a multi-chip test wafer program that allows silicon verification of intellectual property elements. In the Silicon Shuttle program, several different vendors can test their intellectual property using a single mask set, greatly reducing the cost of silicon verification for us and the participating vendors. The high cost of masks for advanced processes makes this program attractive to intellectual property vendors. ARM Limited, Faraday Technology Corp., or Faraday Technology, MIPS Technologies International, Virage Logic Corporation and Virtual Silicon Technology have utilized our Silicon Shuttle program. In our Gold IP program, we coordinate with leading suppliers of intellectual property, design and ASIC services to ensure their offerings are available to our customers in an integrated, easy to use manner which matches customers need to our technologies. With a view to lowering customer design barriers, we expanded our design support functions from conventional design support to adding intellectual property development to complement third-party intellectual properties and to provide customers with the widest range of silicon-verified choices. Our offerings range from design libraries to basic analog mixed-mode intellectual properties which, together, have been proved helpful in shortening our customer s design cycle time.

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Mask Tooling. Our engineers generally assist our customers to design and/or obtain masks that are optimized for our advanced process technologies and equipment. Actual mask production is usually provided by independent third parties specializing in mask tooling.

Wafer Fabrication. As described above, our manufacturing service provides all aspects of the wafer fabrication process by utilizing a full range of advanced process technologies, including 0.15-micron and 0.13-micron processes and copper interconnection technology. We have also made significant progress in developing the advanced 90-nanometer copper technology and the SoC process technology. We have been shipping products based on our 90-nanometer copper technology to our customers since late March 2003. Our first fully-functional 65-nanometer wireless digital baseband customer IC was produced in July of 2005, after only a year since this research and development project began at this facility. A next-generation 65-nanometer FPGA product, with triple gate oxide and 11 copper metal layers, was also successfully verified on its first silicon pilot effort. During the wafer fabrication process, we perform procedures in which a photosensitive material is deposited on the wafer and exposed to light through the mask to form transistors and other circuit elements comprising a semiconductor. The unwanted material is then etched away, leaving only the desired circuit pattern on the wafer. As part of our wafer fabrication services, we also offer wafer probing services, which test, or probe, individual die on the processed wafers and identify dice that fail to meet required standards. We prefer to conduct wafer probing internally to obtain speedier and more accurate data on manufacturing yield rates.

Assembly and Testing. We offer our customers turnkey services by providing the option to purchase finished semiconductor products that have been assembled and tested. We outsource assembly and test services to leading local assembly and test service providers, including Siliconware Precision Industries Co., Ltd., or Siliconware, and Advanced Semiconductor Engineering Inc. in Taiwan. After final testing, the semiconductors are shipped to our customers designated locations.

Customers and Markets

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Infineon, LSI Logic, STMicroelectronics, Texas Instruments, Freescale and Philips, and leading fabless design companies, such as ATI, Broadcom, Marvell, MediaTek, Novatek, Realtek, SanDisk and Xilinx. Although we are not dependent on any single customer, a significant portion of our net operating revenues have been generated from sales to a few customers. Our top ten customers accounted for approximately 58.3% of our net operating revenues in 2005. Our top two customers each accounted for 17.8% and 10.5% of our net operating revenues in 2005. Set forth below is a breakdown of our operating revenues for the periods indicated based on the geographic locations of our customers.

	Year Ended December 31,		
Region	**2003**	**2004**	**2005**
North America	37.3%	42.5%	43.4%
Asia (excluding Japan)	44.8	33.6	43.0
Europe	6.9	15.3	6.9
Japan	11.0	8.6	6.7
Total	100.0%	100.0%	100.0%

We believe our success in attracting these end customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance. Because we are an independent semiconductor foundry, most of our operating revenue is generated by our sales of wafers. Net wafer sales represents 93.8% of our net operating revenue, and excludes revenue from testing, mask and other service. The following table presents the percentages of our net wafer sales by types of customers during the last three years.

	Year Ended December 31,		
Customer Type	**2003**	**2004**	**2005**
Fabless design companies	66.5%	64.8%	65.2%
Integrated device manufacturers	33.5	35.2	34.7
System companies	0.0	0.0	0.1
Total	100.0%	100.0%	100.0%

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We sell and market mainly wafers which in turn are used in a number of different applications by our customers. Percentages of our net wafer sales derived from our products used in communication devices, consumer electronics, PC, memory and other applications were 46.1%, 28.3%, 22.0%, 1.7% and 1.9%, respectively, in 2005.

We focus on providing a high level of customer service in order to attract customers and maintain their ongoing loyalty. Our culture emphasizes responsiveness to customer needs with a focus on flexibility, speed and accuracy throughout our manufacturing and delivery processes. Our customer-oriented approach is especially evident in two types of services: customer design development services and manufacturing services. We believe that our large production capacity and advanced process technology enable us to provide better customer service than many other foundries through shorter turn-around time, greater manufacturing flexibility and higher manufacturing yields.

We work closely with our customers throughout the design development and prototyping processes. Our design support team closely interacts with customers and intellectual property vendors to facilitate the design process and to identify their specific requirements for intellectual property offerings. We are responsive to our customers requirements in terms of overall turn-around time and production time-to-market by, for example, helping our customers streamline their IP offering processes and delivering prototypes in a timely and easy-to-use fashion. We also maintain flexibility and efficiency in our technical capability and respond quickly to our customers design changes.

For IP offerings, we work with several leading IP vendors from digital, memory and analog fields in the semiconductor industry, such as ARM Limited, ARM Physical IP, Inc., Faraday Technology, Virage Logic Corporation, Rambus Inc., Chipidea Microelectronica S.A. and Mosaid Technologies Incorporated, to deliver quality IP blocks that have been silicon validated using our advanced processes for our customers. Our alliance programs with major electronic design automation vendors, such as Cadence, Magma, Mentor, Synopsys and Ansoft, provide our customers with seamless digital/analog reference design procedures and easy-to-use design solutions. For design services, partners such as Faraday Technology are able to provide turnkey solutions from design to production. By continuously enhancing our IP offerings, reference design procedures and design services through collaboration with major vendors, we aim to provide complete, accurate and user-friendly SoC solutions to our customers.

As a design moves into manufacturing production, we continue to provide ongoing customer support through all phases of the manufacturing process. The local account manager works with our customer service representative to ensure the quality of our services, drawing upon our marketing and customer engineering support teams as required.

In 1996, we introduced our original on line service, through which we provided our customers secure access via the Internet to critical manufacturing data, including process step location, start date, estimated ship-out date and quantity as their products move through our fabs. In October 2000, we officially launched our web-based customer information service system, known as MyUMC, which gives our customers easy access to our foundry services by providing a total online supply chain solution. MyUMC offers 24-hour access to detailed account information such as manufacturing, engineering and design support documents through each customer s own customized start page. Some of the features available to customers through MyUMC include:

- viewing the status of orders from the start of production to the final shipping stages;
- viewing design layouts to shorten customers tape out time;
- collecting customer engineering requests;
- gathering and downloading documents for design purposes; and
- accessing online and in real time the same manufacturing data used by our fab engineers.

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MyUMC provides our customers with a level of information previously enjoyed only by integrated device manufacturers that conducted each step of the manufacturing and material procurement processes internally.

To enhance our ability to provide online services to our customers, we are currently in various stages of implementing a business project that provides customers with design support through our help desk and IP/Library information and responses to their mask tooling requests. Moreover, we continuously enrich the content of UMC customers services website and provide customers system-to-system links over the Internet (B2B) with open technology to efficiently meet our customers requests.

We price our products on a per die or per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Our main sales office is located in Taiwan, which is in charge of our sales activities in Asia. Our sales in Europe are currently made through United Microelectronics (Europe) BV, our wholly-owned subsidiary based in Amsterdam. Our sales in North America are made through UMC Group (USA), our subsidiary located in Sunnyvale, California.

We designate a portion of our wafer manufacturing capacity to some of our customers primarily under two types of agreements: reciprocal commitment agreements and deposit agreements. Under a reciprocal commitment agreement, the customer agrees to pay for, and we agree to supply, a specified capacity at a specified time in the future. Under a deposit agreement, the customer makes in advance a cash deposit for an option on a specified capacity at our fabs for a similar period of time. Option deposits are credited to wafer purchase prices as shipments are made. If this customer does not use the specified capacity, it will forfeit the deposit but, in certain circumstances and with our permission, the customer may arrange for a substitute customer to utilize such capacity. We are also obligated in some cases to make available capacity to customers under other types of agreements, such as our capacity commitment arrangement with our venture partners.

We advertise in trade journals, organize technology seminars, hold a variety of regional and international sales conferences and attend a number of industry trade fairs to promote our products and services. We also publish a bi-monthly corporate newsletter for our customers.

Competition

The worldwide semiconductor foundry industry is highly competitive, particularly during periods of overcapacity and inventory correction. We compete internationally and domestically with dedicated foundry service providers as well as with integrated device manufacturers and final product manufacturers which have in-house manufacturing capacity or foundry operations. Some of our competitors have substantially greater production, financial, research and development and marketing resources than we have. As a result, these companies may be able to compete more aggressively over a longer period of time than we can. In addition, several new dedicated foundries have commenced operations and compete directly with us. Any significant increase in competition may erode our profit margins and weaken our earnings.

We believe that our primary competitors in the foundry services market are Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Chartered Semiconductor Manufacturing Ltd., as well as the foundry operation services of some integrated device manufacturers such as IBM and Toshiba. Other competitors such as Samsung, DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to develop substantial new foundry capacity, although much of such capacity involves less cost-effective production than the 12-inch fabs for which we possess technical know-how. New entrants in the foundry business are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. The principal elements of competition in the semiconductor foundry industry include technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, manufacturing yields, customer service and price. We believe that we compete favorably with other foundries on each of these elements, particularly our technical competence and research and development capabilities.

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Intellectual Property

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our production processes and activities. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our production processes. As of March 31, 2006, we held 2,967 U.S. patents and 5,218 patents issued outside of the United States.

Our ability to compete also depends on our ability to operate without infringing on the proprietary rights of others. The semiconductor industry is generally characterized by frequent litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting patents that cover certain of our technologies and alleging infringement of certain intellectual property rights of others. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm our company.

In order to minimize our risks from claims based on our manufacture of semiconductor devices or end-use products whose designs infringe on others intellectual property rights, we in general accept orders only from companies that we believe enjoy satisfactory reputation and for products that are not identified as risky for potential infringement claims. Furthermore, we obtain indemnification rights from customers. We also generally obtain indemnification rights from equipment vendors to hold us harmless from any losses resulting from any suit or proceedings brought against our company involving allegation of infringement of intellectual property rights on account of our use of the equipment supplied by them.

We have entered into various patent cross-licenses with major technology companies, including a number of leading international semiconductor companies such as Agere, IBM, Texas Instruments and Freescale. We may choose to renew our present licenses or to obtain additional technology licenses in the future.

We entered into a patent cross license arrangement with Hitachi in 1994 and renewed that arrangement in 1999. The renewal arrangement expired at the end of 2003 and Renesas, who succeeded to the Hitachi patent portfolio, has asserted, subsequent to the expiration of the patent cross license arrangements, that we have been infringing upon several of their patents and request that we enter into cross licenses with them. However, we believe and have asserted that Renesas has, instead, infringed upon several of our patents. We are currently in negotiations with Renesas with respect to the terms of possible cross license arrangements and Renesas has indicated their willingness to enter into such arrangements on terms that we believe would not have a material adverse effect on our financial position or operations. However, we can not give any assurance that the cross license negotiations will be successful or that we will be able to renew these cross license arrangements on terms that would not have a material adverse effect on our financial position or operations.

Research and Development

We spent NT$5,859 million, NT$7,364 million and NT$9,634 million (US$294 million) in 2003, 2004 and 2005, respectively, on research and development, which represented 6.1%, 5.7% and 9.6%, respectively, of our net operating revenues for these periods. Our research and development efforts are mainly focused on delivering SoC foundry solutions that consist of the world s leading process technologies, customer support services and manufacturing techniques. These resources provide our foundry customers with improved opportunities to develop SoC products that supply the global market. Our commitment to research and development can be illustrated by our 2005 research and development expenditures, which reached approximately 9.6% of corporate revenues. This commitment attracts customers from a diverse background of semiconductor applications to utilize our advanced technologies at 90-nanometer and 65-nanometer process nodes.

As of March 31, 2006, we employed 646 professionals in our research and development activities. In addition, other management and operational personnel are also involved in research and development activities but are not separately identified as research and development professionals. We also have created in-house inventions and know-how. We were issued a substantial number of patents in 2003, 2004 and 2005, most of which are semiconductor-related.

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Our Investments

Depending on the market conditions, we intend to gradually reduce our investments through secondary equity offerings, exchangeable bond offerings and other measures available to our company. We sold 49 million, 84 million and nil common shares of AU Optronics in 2003, 2004 and 2005, respectively. We issued US$235 million Exchangeable Bonds due 2007 in May 2002 and US$206 million Exchangeable Bonds due 2008 in July 2003, which are exchangeable, at the option of the bondholders, into common shares or American depositary shares, and common shares of AU Optronics, respectively. As of December 31, 2004, all bondholders of the Exchangeable Bonds due 2008 have exercised their rights to exchange their bonds into shares of AU Optronics. As of March 31, 2006, we held 1.33% in AU Optronics.

In 2003, we sold 17 million common shares of Novatek for NT$1,626 million, all of our interest in Teco Electric & Machinery Co., Ltd., consisting of 77 million common shares, for NT$886 million and 9 million common shares of MediaTek for NT$3,243 million. In 2004, we sold 6 million common shares of Novatek for NT$513 million and 7 million common shares of MediaTek for NT$1,612 million. In 2005, we sold 25 million common shares of Novatek for NT$3,354 million (US$102 million) and 29 million common shares of MediaTek for NT$7,605 million (US$232 million). As March 31, 2006, we held 11.74% and 6.07% in Novatek and MediaTek, respectively.

In addition, we held a 37.95% stake in Unimicron Technology Corp., a Taiwan-based manufacturer of printed circuit boards and high density interconnections, as of September 30, 2001. Unimicron Technology Corp., Bestmult Industry Co. and UniMicron Technology Co. completed the merger of the three companies on October 31, 2001. Unimicron Technology was the surviving corporate entity and has become one of the top three printed circuit board manufacturing companies in Taiwan. We were a founding investor in Faraday Technology, a company that offers advanced intellectual property and libraries to our foundry customers. As of March 31, 2006, we held 20.40% and 17.95% in Unimicron Technology and Faraday Technology, respectively.

In connection with the settlement of our litigations with SiS, we and SiS agreed in late 2002 to enter into a broad scope of cooperation, including, among other things, exchange of process patents, production support and our board representation in SiS. Under the settlement, SiS also agreed to engage us as its sole external provider of foundry services for its integrated circuits designed with 0.18 micron or smaller processors. To further strengthen our relationship with SiS, we decided to invest in SiS. In July 2004, we acquired SiSMC, a wafer foundry company spun off from SiS in 2003. As of March 31, 2006, we held 16.13% of SiS s outstanding share capital.

In January, 2006, we sold our 63.48% stake in Hsun Chieh Investment Co., Ltd., or Hsun Chieh, to Hsieh Yong Capital Co., Ltd. The percentage of our ownership of Hsun Chieh decreased from 99.97% to 36.49% after the sale. Our representative currently holds one out of three board seats of Hsun Chieh. As a result of the sales, Hsun Chieh is no longer our consolidated subsidiary and all our shares that are held by Hsun Chieh were reclassified as long-term investments from treasury stocks in our books. Consequently, we recorded an increase of NT$10,881 million under our long-term equity investment and stockholders equity in January 2006.

Environmental Matters

The semiconductor production process generates gaseous wastes, liquid wastes, waste water and other industrial wastes in various stages of the manufacturing process. We have installed various types of anti-pollution equipment in our fabrication facilities to reduce, treat and, where feasible, recycle the wastes generated in our manufacturing process. We receive assistance with disposal of industrial waste from the Science Park Administration and Southern Taiwan Science Park Administration. Our operations are subject to regulation and periodic monitoring by Taiwan s Environmental Protection Administration and local environmental protection authorities.

We believe that we have adopted anti-pollution measures for the effective maintenance of environmental protection standards consistent with the practice of the semiconductor industry in Taiwan. In 2005, we spent approximately NT$90 million (US$2.7 million) for pollution control equipment. Our monthly waste disposal fees were approximately NT$5.5 million (US$0.2 million), and our annual cost for environmental monitoring was approximately NT$3.5 million (US$0.1 million). We also believe that we are in compliance in all material respects with applicable environmental laws and regulations.

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Environmental, Safety and Health Management Systems

We have implemented extensive environmental, safety and health management systems. These systems enable our operations to identify applicable environmental, safety and health regulations, assist in evaluating compliance status and timely establish loss preventive and control measures. The systems we implemented in all our fabs have been certified as meeting the ISO 14001 and OHSAS 18001 standards. ISO 14001 consists of a set of standards that provide guidance to the management of organizations to achieve an effective environmental management system. Procedures are established at manufacturing locations to ensure that all accidental spills and discharges are properly addressed. OHSAS 18001 is a recognizable occupational health and safety management system standard, which may be applied to assess and certify our management systems. Our goal in implementing ISO 14001 and OHSAS 18001 systems is to continually improve our environmental, health and safety management.

Litigation

Hejian, a semiconductor manufacturer in Suzhou, China, was set up in December 2001. Soon after the establishment of Hejian, there were various rumors that Hejian was set up by us, which we denied immediately because we did not inject any capital into nor did we transfer any technology to Hejian.

In June 2005, our former Chairman, Robert H. C. Tsao and our former Vice Chairman, John Hshun, were interrogated by the Hsinchu District Prosecutor s Office for a breach of their fiduciary duty owed to us. In January 2006, Hsinchu District Prosecutor s Office announced that our former Chairman and former Vice Chairman would be prosecuted in connection with their alleged breach of fiduciary duties and certain violations of the ROC Commercial Accounting Act. Prior to such charges, both our former Chairman and former Vice Chairman resigned from their respective positions with our company.

The ROC FSC, a regulatory authority that supervises securities, banking, futures, and insurance activities in Taiwan, also began their investigation into any violation of ROC securities laws by us. In April 2005, our former Chairman was fined (1) in the amount of NT$2.4 million by the ROC FSC for our delay in making public disclosure timely (within two days) regarding the information relating to Hejian, which was resolved in the March 4 Resolution, and (2) in the amount of NT$0.6 million for our failure to disclose the information regarding the assistance we had provided to Hejian. Our former Chairman s appeal in relation to such fines was overruled in early 2006, and a lawsuit has been filed by our former Chairman with the Administrative High Court seeking to revoke the disposition made by the ROC FSC.

In connection with the March 4 Resolution, our company was also fined in the amount of NT$30,000 by the Taiwan Stock Exchange for a delay in making public disclosure. After our former Chairman and former Vice Chairman were indicted by the prosecutor, our company was found by the ROC Ministry of Economic Affairs to be in violation of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area and fined in the amount of NT$5 million for our alleged illegal investment in Hejian. Although we are currently appealing such fines, we cannot assure you that we would prevail in such appeal.

In July 1997, Oak Technology, Inc. (Oak) and we entered into a settlement agreement concerning a complaint filed with the United States International Trade Commission (ITC) by Oak Technologies against us and other parties alleging that we undertook unfair trade practices based on alleged patent infringement regarding certain CD-ROM controllers. On October 27, 1997, Oak Technologies filed a civil action in a California federal district court, alleging claims for breach of the express terms of the settlement agreement, breach of the implied covenant of good faith and fair dealing, and fraudulent misrepresentation. We have denied the material allegations of the complaint in the case and asserted counterclaims against Oak Technologies for breach of contract, intentional interference with economic advantage and rescission and restitution based on fraudulent concealment and/or mistake. We also asserted declaratory judgment claims for invalidity and unenforceability of the relevant Oak Technology patent. On May 2, 2001, the United States Court of Appeals for the Federal Circuit upheld findings by the ITC that there had been no patent infringement and no unfair trade practice arising out of the ITC case filed by Oak Technology against us and others. Based on the Federal Circuit s opinion and on a covenant not to sue filed by Oak Technology, our declaratory judgment patent counterclaims were dismissed from the district court case. However, in connection with its breach of contract and other claims, Oak Technology thereafter indicated that it seeks damages in excess of approximately US$750 million. In November 2002, we filed motions for summary judgment on each of Oak

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Technology s claims against us. In that same period, Oak Technology filed motions seeking summary judgment on our claims for fraudulent concealment and intentional interference with economic advantage, and on various defenses asserted by us. In May 2005, the Court issued the following orders: (i) granting our motion for summary judgment on Oak Technology s claim for breach of the settlement agreement; (ii) granting in part and denying in part our motion for summary judgment on Oak Technology s claim for breach of the implied covenant of good faith and fair dealing; (iii) denying a motion by us for summary judgment on Oak Technology s fraud claim based on alleged patent invalidity under 35 U.S.C. § 112; (iv) granting Oak Technology s motion for summary judgment on our fraudulent concealment claims; and (v) granting a motion by Oak Technology for summary judgment on certain of our defenses. The court has heard oral argument on other pending summary judgment motions but has not yet finally ruled on them. In February 2006, we entered into a settlement agreement with Oak Technology and Zoran Corporation (the successor to Oak), in accordance with which the parties thereto fully released one another from any and all claims and liabilities arising out of the facts alleged in the above district court case. The terms of settlement impose no obligation on us except for confidentiality requirements.

In May 2005, as part of the settlement arrangement in a lawsuit of which UMCi was a defendant, we entered into memoranda of understanding pursuant to which such lawsuit was discontinued and, in exchange, inter alia, we agree to apply the Ultra Pure Water System currently in use at Fab 12i (the System) in accordance with our vendor s operating instructions. Notwithstanding the foregoing, we are permitted to make certain modifications to the System, subject to the terms of the memoranda of understanding, should we consider such modifications necessary.

In July 2005, one of our shareholders filed a lawsuit against us alleging that the resolutions of our 2005 general shareholders meeting should be voided or revoked on the basis that the description of the resolutions in the official minutes of the meeting is insufficient. Such claims were overruled by Hsinchu District Court in March 2006. The plaintiff appealed to the Taiwan High Court in March 2006. This lawsuit is in pretrial procedure.

In June 2005, our Singapore Branch as plaintiff issued a Writ of Summons against Tokio Marine & Fire Insurance Company (Singapore) Pte. Ltd. or Tokio Marine, as defendant under a marine cargo insurance policy for the replacement cost of a 300mm Endura System damaged in transit. We believe a chamber of that equipment was damaged in shipment and incurred a cost of approximate US$1.2 million to replace the damaged chamber. Our Singapore Branch filed suit to recover under the insurance policy on the grounds that the equipment was damaged in shipment as a result of rough handling or conditions. Tokio Marine has denied that the incident was a covered event under the policy. The proceedings have reached the discovery stage and based on the progress to date, we believe our Singapore Branch has a meritorious case. Trial is set for the second quarter of 2006. The maximum exposure to our Singapore Branch will be the loss of its claim for reimbursement plus assessments fees and costs for no more than a few hundred thousand U.S. dollars.

Risk Management

As our management believes that management of risks involved in our manufacturing processes is an integral part of our management process and essential to our smooth and safe operation and production, we have endeavored to implement risk management strategies that are pioneering in the semiconductor industry. In 1998, we established our risk management division to comprehensively plan for and respond to emergencies and disasters. This division is now managed by a team of experienced risk management personnel.

We have been working closely with internationally renowned risk consultants in various fields to identify, analyze, and evaluate the risks commonly found in the semiconductor industry. These consultants include EQE International Inc. and VEC International Corp. in the area of seismic protection, Environmental and Occupational Risk Management, Inc. in the area of equipment safety management, and American International Underwriters, Ltd. or Marsh Risk Consulting in the area of loss control audit. We believe our risk evaluation process will enable us to avoid or mitigate potential losses and accordingly protect our company values. In 2001, based on the recommendation of EQE International Inc. and Vibration Engineering Consultants, we completed our seismic protection improvement projects.

In 2005 we achieved a number of risk management goals. We accomplished 12-inch fab Expansion Risk Control to reduce the risks incurred in the expansion of our 12-inch fab. We conducted business continuity plans in

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new fabs. We also established a Smoke Exposure Reduction Project to install movable fans and apply emergency response procedures in fabs without dedicated smoke control systems. Finally, we implemented the Bird Flu Business Continuity Plan to evaluate the potential impact of bird-flu-related disease.

Insurance

We maintain industrial all risk insurance for our buildings, facilities, equipment and inventories. The insurance for fabs and their equipment covers physical damage and business interruption losses up to their respective policy limits except for exclusions as defined in the policy. We also maintain public liability insurance for losses to third parties arising from our business operations. We believe that our insurance coverage is adequate to cover all major types of losses relevant to the semiconductor industry practice. However, significant damage to any of our production facilities, whether as a result of fire or other causes, could seriously harm our business.

C. Organizational Structure

In March 2001, we entered into a foundry venture agreement with EDB Investments and Infineon relating to the formation of UMCi to construct and operate a 12-inch wafer fab, now called Fab 12i, in Singapore Pasir Ris Wafer Fab Park. Pursuant to the sale and transfer agreements entered in August 2003 and March 2004, we purchased all of the shares of UMCi held by Infineon and EDB Investments. Through subsequent purchases, UMCi became our wholly-owned subsidiary in December 2004 and pursuant to a sale and transfer agreement dated March 31, 2005, UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005.

On April 1, 2005, United Foundry Service, Inc. transferred all of its operations and assets to UMC Group (USA). Following the transfer, we have obtained the shareholders approval to liquidate United Foundry Service, Inc.

The following diagram shows our corporate structure as of March 31, 2006:

D. Property, Plants and Equipment

Please refer to B. Business Overview Manufacturing Facilities for a discussion of our property, plants and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial information as prepared in accordance with ROC GAAP. You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to such statements included in this annual report. ROC GAAP varies in certain significant respects from US GAAP. These differences and their effects on our financial statements are described in Note 34 to our audited consolidated financial statements included in this annual report.

For the convenience of readers, NT dollar amounts used in this section for, and as of, the year ended December 31, 2005 have been translated into U.S. dollar amounts using US$1.00 = NT$32.80, the noon buying rate of the Federal Reserve Bank of New York on December 30, 2005. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount.

Overview

We are one of the world s leading independent semiconductor foundries, providing comprehensive wafer fabrication services and technologies to our customers based on their designs. We manage our business and measure our results of operations based on a single industry segment.

We have expanded our production capacity over the past several years, increasing our monthly capacity from 257,000 8-inch wafer equivalents in December 2000 on a combined basis to approximately 358,000 8-inch wafer equivalents in December 2005 on an actual basis. Our annual total production capacity of 8-inch wafer equivalents reached 4,224,000 in 2005. As a result of this increase in capacity, we have benefited from larger economies of scale. The larger economies of scale when capacity utilization rate is high have better enabled us to reduce our per unit production cost, which improves margins. However, when capacity utilization rate is low, this increased capacity has led to higher per unit production cost and decreased margins.

We acquired SiSMC through a share swap in July 2004 and renamed it as Fab 8S . Fab 8S operates an 8-inch wafer fab with a current capacity of 23,000 wafers per month. Under the sale and transfer agreements entered in August 2003 and March 2004, we purchased all of UMCi shares held by Infineon and EDB Investments. Through subsequent purchases, UMCi became our wholly-owned subsidiary in December 2004. Pursuant to a sale and transfer agreement dated March 31, 2005, UMCi transferred its businesses, operations and assets to our newly incorporated Singapore Branch on April 1, 2005.

Cyclicality of the Semiconductor Industry

As the semiconductor industry is highly cyclical, revenues varied significantly over this period. It can take several years to plan and construct a fab and bring it to operations. Therefore, during periods of favorable market conditions, semiconductor manufacturers often begin building new fabs or acquiring existing fabs in response to anticipated demand growth for semiconductors. In addition, after commencement of commercial operations, fabs can increase production volumes rapidly. As a result, large amounts of semiconductor manufacturing capacity typically become available during the same time period. Absent a proportional growth in demand, this increase in supply often results in semiconductor manufacturing overcapacity, which has led to a sharp decline in semiconductor prices and significant capacity under-utilization.

Between 1999 and 2000, as global semiconductor demand experienced substantial growth, our average selling price of semiconductor wafers and devices during that period increased. In connection with this increase in demand and selling price, several semiconductor manufacturers, including our company, announced plans to significantly expand production capacities. However, the semiconductor industry experienced a downturn beginning in the fourth quarter of 2000 until early 2003, which resulted in overcapacity, excess inventory and reduced demand. Such industry downturn had substantially slowed down those expansion plans. Due to the decreased demand for semiconductors in 2001 and 2002, our average capacity utilization rate decreased from 100% in 2000 to 46.6% in 2001 and to 65.2% in 2002. With a general recovery in the worldwide semiconductor industry, our average capacity utilization rate increased to 84.8% in 2003 and 90.8% in 2004 but decreased to 72.4% in 2005. We believe that our results in 2003, 2004 and 2005 reflect the ongoing uncertainty in the global economy, conservative corporate information technology spending and low visibility with respect to end market demand.

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Pricing

We price our products on either a per die or a per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Because semiconductor wafer prices tend to fluctuate frequently, we in general review our pricing on a quarterly basis. As a majority of our costs and expenses are fixed or semi-fixed, fluctuations in our products average selling prices historically have had a substantial impact on our margins. Our average selling price decreased approximately 19.3% from 2004 to 2005, mainly due to the reduction of average selling price from our customers in spite of our shift towards higher-priced product mix using more advanced technology.

We believe that our current level of pricing is comparable to that of other leading foundries in each respective geometry. We believe that our ability to provide a wide range of advanced foundry services and process technologies as well as large manufacturing capacity will enable us to compete effectively with other leading foundries at a comparable price level.

Capacity Utilization Rates

Our operating results are characterized by relatively high fixed costs. In 2003, 2004 and 2005, approximately 71.7%, 70.1% and 74.0%, respectively, of our manufacturing costs consisted of depreciation, a portion of indirect material costs, amortization of license fees and indirect labor costs. Our variable costs decreased in 2005 due to (i) the decrease of direct material costs from NT$6,922 million in 2004 to NT$6,276 million (US$191 million) in 2005 due to lower wafer-start quantities and (ii) the decrease of costs of spare parts in Fab 12A from NT$1,238 million in 2004 to NT$1,010 million (US$31 million) in 2005 as a result of less wafer production.

If our utilization rates increase, our costs would be allocated over a larger number of units, which generally leads to lower unit costs. As a result, our capacity utilization rates can significantly affect our margins. Our utilization rates have varied from period to period to reflect our production capacity and market demand. Due to the decreased demand for semiconductors in 2001 and 2002, our average capacity utilization rate decreased from 100% in 2000 to 46.6% in 2001 and to 65.2% in 2002. With a general recovery in the worldwide semiconductor industry, our average capacity utilization rate increased to 84.8% in 2003 and, 90.8% in 2004 but decreased to 72.4% in 2005. Utilization rates can also be affected by efficiency in production facility and product flow management. Other factors affecting utilization rates are the complexity and mix of the wafers produced, overall industry conditions, the level of customer orders, mechanical failure, disruption of operations due to expansion of operations, relocation of equipment or disruption of power supply and fire or natural disaster.

Our production capacity is determined by us based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance and expected product mix. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors.

Change in Product Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our revenues and profitability. The value of a wafer is determined principally by the complexity of the processing technology used to produce the wafer. Production of devices with higher levels of functionality and greater system-level integration requires more manufacturing steps and generally commands higher wafer prices. The increase in price generally has more than offset associated increases in production cost once an appropriate economy of scale is reached.

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Prices for wafers of a given level of technology generally decline over the processing technology life cycle. As a result, we have continuously been migrating to increasingly sophisticated technologies to maintain the same level of profitability. For instance, we are among the first foundries to produce chips using 0.13-micron technology. In 2003, we were one of the first foundries to deliver working customer products using advanced 90-nanometer copper technology. This technology has been in volume production since the second quarter of 2004. In 2005, product samples fabricated using 65 nanometer process technology were delivered to customers for validation. Furthermore, we are actively developing 45-nanometer process technologies to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size. These types of technology migration require continuous capital and research and development investment. Because developing and acquiring advanced technologies involve substantial capital investment, we expect to continue to spend a substantial amount of capital on upgrading our technologies.

Manufacturing Yields

Manufacturing yield per wafer is measured by the number of functional dice on that wafer over the maximum number of dice that can be produced on that wafer. A small portion of our products is priced on a per die basis, and our high manufacturing yields have assisted us in achieving higher margins. In addition, with respect to products that are priced on a per wafer basis, we believe that our ability to deliver high manufacturing yields generally has allowed us to either charge higher prices per wafer or attract higher order volumes, resulting in higher margins.

We continually upgrade our process technologies. At the beginning of each technological upgrade, the manufacturing yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the current technology. The yield is generally improved through the expertise and cooperation of our research and development personnel and process engineers, as well as equipment and at times raw material suppliers. Our policy is to offer customers new process technologies as soon as the new technologies have passed our internal reliability tests.

Investments

Most of our investments were made to improve our market position and for strategy considerations. Substantially all of our investments are long-term investments, a significant portion of which are in foundry-related companies including fabless design customers, raw material suppliers and intellectual property vendors. In addition, we also invest in non-foundry-related businesses, such as Mega Financial Holding Co. Ltd., or Mega Financial. In recent years, we have from time to time disposed of our long-term investments for financial, strategic or other purposes.

See Item 4. Information on the Company B. Business Overview Our Investments for a description of our investments.

Treasury Share Programs

We have from time to time announced plans, none of which was binding on us, to buy back up to a fixed amount of our shares on the Taiwan Stock Exchange at the price range set forth in the plans. As of December 31, 2003, 2004 and 2005, we purchased an aggregate of 335 million, 528 million and 1,278 million, respectively, of our shares under these plans. From February 16, 2006 to April 15, 2006, we also purchased 1,000 million of our shares for cancellation. Of the repurchase Shares, 137 million shares in aggregate were transferred to our employees and 1,199 million shares in aggregate were cancelled as of May 31, 2006. In addition, on May 22, 2006, we announced a plan, which is not binding on us, to buy back up to 400 million of our shares on the Taiwan Stock Exchange at a price ranging from NT$13.90 to NT$32.15 per share between May 23, 2006 and July 22, 2006 to transfer to employees.

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Critical Accounting Policies

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included in the annual report, which have been prepared in accordance with ROC GAAP. ROC GAAP varies in certain respects from US GAAP. These differences and their effects on our financial statements are described in Note 34 to our audited consolidated financial statements included in this annual report. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis and base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies involve significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue is recognized when title and liability for risk of loss or damage to the products have been transferred to customers, as most of our sales are made in terms of Free on Board (FOB) or Free Carrier (FCA) shipment, for which the title and liability for risk of loss or damage pass to the customer upon our tender of delivery to a carrier approved by the customer. Sales returns and discounts taking into consideration customer complaints and past experiences are accrued in the same year as such sales are made.

Accounts Receivable and Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the evaluation of collectibility and aging analysis of accounts and on management s judgment. In circumstances where the ability of a specific customer to meet its financial obligations is in doubt, a specific allowance will be provided. Considerable judgment is required in assessing the ultimate realization of these receivables including the current credit worthiness and the past collection history of each customer. If the financial conditions of our customers were to worsen, additional allowances would be required. A deterioration of economic conditions either in the ROC or in other major overseas markets may contribute to the deterioration of financial conditions of our customers, resulting in an impairment of their ability to make payments.

The allowances for doubtful accounts accounted for 0.7% and 1% of our accounts receivables as of December 31, 2004 and 2005, respectively. If we were to change our estimated rate on allowance for doubtful receivables either upward or downward by 10%, our income from operations would have been increased or decreased by NT$16 million (US$0.5 million) in 2005.

Inventory

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 net realizable values determined by the average selling price of the most recent periods are used as market values of work-in-process and finished goods. In addition, allowances for obsolete and slow-moving inventories are determined by analyzing the age and sales condition of the inventories.

As of December 31, 2005, even if the market prices of our products had been 10% lower, there would not have been material impact on the total amount of inventory valuation allowances we recognized.

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Deferred Taxes

Most of our existing tax benefits arise from investment tax credits, and others from net operating loss carry-forward and temporary differences. We recognize these tax benefits as deferred tax assets. Income tax expense or benefit is recognized when there is a net change in deferred tax assets and liabilities. A valuation allowance is recorded to reduce our deferred tax assets to the amount that we believe will more likely than not be realized. The assessment of the valuation allowance involves subjective assumptions and estimates as it principally depends on the estimation of future taxable income and ongoing prudent and feasible tax planning strategies. If future taxable income is lower than expected due to future market conditions or other reasons or in the event we determine that we will not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets valuation allowance may be required with the adjusting amount charged to income in this period. Likewise, should future taxable income be higher than expected due to future market conditions or other reasons or in the event we determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to our deferred tax assets valuation allowance would increase income in this period.

Long-lived Assets Impairment

Pursuant to ROC GAAP effective from January 1, 2005, and US GAAP effective from January 1, 2002, we are required to review the long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the long-lived assets might not be recoverable. Such review may include assessing whether there is a significant decrease in market values of long-lived assets or significant deterioration of market conditions to indicate the carrying value of such assets may not be recovered through future cash flows, any change in the use of long-lived assets to negatively affect their fair values, and any obsolescence issues that would lead to a lower fair value determination. If there is an indication that an asset might be impaired, we proceed with a further impairment test, which is performed for asset groups related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments and estimates in determining the independent cash flows that can be related to specific asset groups, including the service potential of long-lived assets through its estimated useful life, cash-flow-generating capacity, physical output capacity, potential fluctuation of economic cycle in the semiconductor industry and operating situation of the Company. Under ROC GAAP, we compare the carrying amount with the recoverable amount derived from discounted cash flow analysis to determine whether the asset is impaired and recognize impairment loss to the extent that its carrying amount exceeds its recoverable amount. If there is evidence that impairment losses recognized previously no longer exists, or has diminished, and the recoverable amount of the long-lived assets increases because of an increase in the asset s estimated service potential, the amount of loss may be reversed to the extent that the resulting carrying value should not exceed the carrying value had no impairment loss been recognized in prior years. Under US GAAP, we compare the carrying amount with undiscounted cash flows to evaluate whether the asset is impaired and recognize an impairment loss equal to the excess of its carrying amount over its fair value derived from discounted cash flow analysis. Such impairment cannot be reversed. Having performed the above impairment tests, no impairment was recognized for the year. However, changes in the estimates of expected cash flows may result in impairment charges in the future.

Goodwill Impairment

Pursuant to ROC GAAP effective from January 1, 2005, and US GAAP effective from January 1, 2002, goodwill is subject to impairment tests on an annual basis, or more frequently whenever events occur or circumstances change indicating that goodwill might be impaired. Furthermore, goodwill shall cease to be amortized since January 1, 2006 under ROC GAAP. The assessment on impairment of goodwill is subject to significant judgment. Under ROC GAAP, such judgment includes identifying the cash generating unit (CGU), making assumptions for discounted cash flow analysis to derive the fair value of the CGU and properly assigning relevant assets, liabilities and goodwill to the CGU. Under US GAAP, we are required to identify the reporting unit, use the appropriate stock price to derive the fair value of reporting unit, and assign the fair value of relevant assets and liabilities to the reporting unit. Ultimately, we compare the fair value of goodwill to its carrying value and determine the impairment loss, if any. If the relevant assumptions and estimates change in the future, they will impact our goodwill impairment test.

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Pensions

We have significant pension benefit costs and liabilities that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected return on plan assets. We consider current market conditions, including changes in interest rates, in selecting these assumptions. In addition to changes resulting from fluctuations in our related headcount, changes in the related pension costs or liabilities may also occur in the future due to changes in assumptions.

Investments in Debt and Equity Securities

Under ROC GAAP, marketable securities are classified as either short-term or long-term investments and carried at the lower of aggregate cost or market value. The determination of whether an investment is short-term or long-term takes into consideration our ability and intention to hold those securities, whether the securities have quoted market prices and whether the securities are actively bought and sold by us. All unrealized losses arising from short-term investments as well as unrealized gains representing recoveries of previously recorded losses are recognized in the statement of income. Unrealized gains in excess of original cost are not recognized until realized. For long-term investments over which we do not have the ability to exercise significant influence or control, a decline in market value below cost is charged to stockholders equity unless this decline is not expected to be recovered in the future, in which case the decline is charged as a loss to the statement of income. Unrealized appreciation in market value above original cost is not recognized until realized.

Under US GAAP and effective from January 1, 2006 under ROC GAAP, equity securities over which we exercise no significant influence or control and have readily determinable fair values and debt securities are to be classified as either trading, available-for-sale or held-to-maturity securities. Debt securities that we have the intent and ability to hold to maturity are classified as held-to-maturity securities and reported at their amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses reported in other comprehensive income under stockholders equity unrealized losses that are deemed to be other than temporary are charged to earnings. For individual securities classified as either available-for-sale or held-to-maturity, we would determine whether a decline in fair value below cost is other than temporary pursuant to guidance provided by SFAS 115 and EITF 03-1. We consider, among other factors, information concerning significant adverse changes in market conditions in which the investee operates and operating issues specific to the investee in determining whether a decline in value is temporary. In general, we consider a decline in market value below cost for a continuous period of six months to be an other than temporary decline. If the decline in fair value is judged to be non-temporary, the cost basis of the individual security is written down to fair value with a charge against earnings.

Derivative Instruments

We have issued several convertible and exchangeable bonds since 2001. These debt instruments contain conversion or exchange option, which give the bondholders the right to convert or exchange the debt into the underlying common stock or ADS at the strike price. The conversion or exchange term may contain a fixed foreign exchange rate feature which determines the rate at which the bond denominated in foreign currency will be converted into common stock denominated in local currency. These debt instruments may also contain call features, which give us the right to redeem the bonds at the early redemption price under certain conditions before maturity. Under US GAAP, the derivative instruments embedded in our convertible bonds and exchangeable bonds are subject to the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). If these derivative features meet the definition of derivative instruments under SFAS 133, these derivatives are required to be fair valued at each reporting date with any change reported to the statement of income. The derivatives are fair valued by using the option pricing model, which requires us to make various assumptions including expected volatility of the stock over the option s life and expected life of the option, among other things. In determining these input assumptions, we consider historical trends in conjunction with the exercise of management s professional judgment. Because the model is sensitive to change in the input assumptions, different assessment of the required inputs may result in different fair value estimates of the options.

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We also held assets in the form of credit-linked deposits and these deposits are credit-linked to debt securities issued by other entities (reference entities securities). Under US GAAP, these credit-linked deposits, which are linked to the credit worthiness of the reference entities securities, contain an embedded derivative that should be bifurcated pursuant to SFAS 133 from the underlying deposits and measured at fair value with any change in fair value recorded in earnings. The derivative instrument is initially fair valued based on the difference in the present value of the additional interest amount earned using the coupon rate and a risk-free interest rate plus a risk premium, and an offsetting asset is recognized to represent the additional interest payments that will be earned by us over the term of the credit-linked deposit. If the credit-worthiness of the reference entities securities, which is influenced by the credit risk of the reference entities, interest rate and contract period, has materially changed, the fair value of the derivative would be recalculated with the impact charged to earnings. If not, the change in the derivatives fair value would reflect only a change in their time value.

Under US GAAP, certain stand alone derivative instruments such as our interest rate swap agreements are fair valued at each reporting period end. The fair value of such instruments is determined using market established valuation techniques which involve certain key inputs such as the expected interest forward rate and expected volatility in interest rates. Any change in such key inputs could materially impact the determination of fair value of these derivative instruments.

Employee Stock Options

Under ROC GAAP, we apply the intrinsic value method to recognize the difference between the market share price and the exercise price of our employee stock options as compensation expense. From January 1, 2004, we also disclose pro forma net income and earnings per share under the fair value method only for the options granted after January 1, 2004.

We have issued employee stock options since 2002, and pro forma information regarding net income and earnings per share is required by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) under US GAAP to account for the employee stock options. The pro forma net income is determined as if the fair value of our employee stock options was recognized as compensation expense for the year. In estimating the fair value of the stock options, the Black-Scholes option pricing model is used. The valuation model requires the input of subjective assumptions and historical records, such as past dividend yields and historical volatility. Because it is unpredictable when our employees will exercise their options, we use the mid-point between the vesting date and the expiration date as the estimation of the expected life of options. Different assumptions of the inputs may lead to different fair value estimates, which in turn may affect our pro forma net income disclosed as the compensation expense varies.

A. Operating Results

Consolidation

Unlike US GAAP, ROC GAAP, prior to January 1, 2005, stipulates that 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 consolidated, and remain so for all subsequent consolidated financial statements unless the percentage of the combined total assets or operating revenues for all such subsidiaries becomes less than 20% of the Company s respective non-consolidated amount. As a result, our consolidated financial statements prepared under ROC GAAP do not include the financial results of Fortune Venture Capital Corporation, United Foundry Services Inc., UMC Capital Corporation (including its subsidiary, UMC Capital (USA)) and United Microelectronics Corp. (Samoa) for 2003, and Fortune Venture Capital Corporation, Unitruth Investment Corp., UMC Capital Corporation (including its subsidiary, UMC Capital (USA)), United Microelectronics Corp. (Samoa), and United Foundry Service Inc. in 2004, each of which is a consolidated subsidiary under US GAAP. In the aggregate, these subsidiaries had net operating revenues equal to approximately nil of our consolidated revenues for each of the years ended December 31, 2003 and 2004. However, effective January 1, 2005, pursuant to ROC SFAS 7, the 10% threshold is no longer applicable and all subsidiaries over which we have control through direct and indirect ownership of greater than over 50% of voting interests or other situations are required to be consolidated. See Note 2 to our audited consolidated financial statements.

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Net Operating Revenues

We generate our net operating revenues primarily from fabricating semiconductor devices. We also derive a small portion of our net operating revenues from wafer probe services that we perform internally as well as mask tooling services and assembly and test services that we subcontract out.

Costs of Goods Sold

Our costs of goods sold consist principally of:

- overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, supplies, utilities and royalties;
- wafer costs;
- direct labor costs; and
- service charges paid to subcontractors for mask tooling, assembly and test services.

Due to the increasing expenditures related to the purchase of equipment and the capacity expansion in 300mm manufacturing facilities, our total depreciation expenses have increased from NT$39,233 million in 2003, to NT$45,590 million in 2004 and to NT$51,366 million (US$1,566 million) in 2005.

Operating Expenses

Our operating expenses consist of the following:

- *Sales and marketing expenses.* Sales and marketing expenses consist primarily of intellectual property development expenses, salaries and related personnel expenses, wafer sample expenses and related marketing expenses. Wafer samples are actual silicon samples of our customers early design ideas made with our most advanced processes and provided to those customers.
- *General and administrative expenses.* General and administrative expenses consist primarily of salaries for our administrative, finance and human resource personnel, fees for professional services, and cost of computer and communication systems to support our operations.
- *Research and development expenses.* Research and development expenses consist primarily of research testing related expenses, salaries and related personnel expenses and depreciation on the equipment used for our research and development.

Non-operating Income and Expenses

Our non-operating income principally consists of:

- interest income, which has been primarily derived from time deposits;

investment income accounted for under the equity method, which has been primarily derived from the recognition of investee companies net income based on the percentage of their ownership we hold;

dividend income, which has been primarily derived from marketable securities and long-term investments;

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gain on sales of investments, which has been primarily derived from our disposal of long-term investments; and

other income, which has been primarily derived from our branch s grant income received from the government in Singapore.

Our non-operating expenses principally consist of:

interest expenses, which have been primarily derived from long-term debt; and

impairment loss, which have been primarily derived from the loss recognized in our long-term investments and other assets pursuant to ROC SFAS No.35, Accounting for Asset Impairment .

Taxation

Based on our status as a company engaged in the semiconductor business in Taiwan, we have been granted exemptions from income taxes in Taiwan with respect to income attributable to capital increases for the purpose of purchasing equipment related to the semiconductor business for a period of four years following each such capital increase. This tax exemption resulted in tax savings of approximately NT$886 million, NT$3,306 million and NT$271 million (US$8 million) in 2003, 2004 and 2005, respectively. Our current tax rate is 25%, the same rate applicable to companies outside the Hsinchu Science Park.

We also benefit from other tax incentives generally available to technology companies in Taiwan, including tax credits applicable against corporate income tax that range from 30% to 50% of the amount of certain research and development and employee training expenses and 5% to 20% of the amount of investment in certain qualified equipment and technology. These tax incentives resulted in tax savings of approximately NT$1,719 million, NT$4,383 million and NT$3,564 million (US$109 million) in 2003, 2004 and 2005, respectively.

After taking into account the tax exemptions and tax incentives discussed above, we recorded NT$979 million, NT$374 million and NT$67 million (US$2 million) of tax expense in 2003, 2004 and 2005, respectively. Our effective income tax rate in 2005 was 1.20%.

In 1997, the ROC Income Tax Law was amended to integrate corporate income tax and shareholder dividend tax to eliminate the double taxation effect for resident shareholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to shareholders as dividends in the following year will be assessed a 10% retained earnings tax. See Item 10. Additional Information E. Taxation ROC Tax Considerations Dividends. As a result, if we do not distribute all of our annual retained earnings generated beginning January 1, 1998 as either cash and/or stock dividends in the following year, these earnings will be subject to the 10% retained earnings tax.

Comparisons of Results of Operations

The following table sets forth some of our results of operations data as a percentage of our net operating revenues for the periods indicated.

	Year Ended December 31,		
	2003	**2004**	**2005**
Net operating revenues	100.0%	100.0%	100.0%
Costs of goods sold	77.3	71.5	90.4
Gross profit	22.7	28.5	9.6
Operating expenses:			
Sales and marketing	2.3	2.1	3.7
General and administrative	4.1	3.8	4.4
Research and development	6.1	5.7	9.6
Operating income (loss)	10.2	16.9	(8.1)

Net non-operating income (expense)	5.1	7.7	13.7
Income (loss) before income tax and minority interest	15.3	24.6	5.6
Income tax (expense) benefit	(1.0)	(0.3)	(0.1)
Cumulative effect of changes in accounting principles (the net amount after deducted tax expense)			(0.1)
Minority interest (income) loss	0.3	0.3	1.6
Net income (loss)	14.6	24.6	7.0

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2004 Compared with 2005

Net operating revenues. Net operating revenues decreased by 22.4% from NT$129,191 million in 2004 to NT$100,316 million (US$3,058 million) in 2005, largely attributable to a decrease in customer demand, which resulted in a 3.8% decrease in wafers sold, from 3,119 thousand wafers in 2004 to 2,999 thousand wafers in 2005. The decrease in our net operating revenues was partially attributable to a decrease in average selling price. Our average selling price in 2005 decreased by 19.3% as compared to 2004 as a result of a fall in market pricing in spite of a shift towards higher-priced product mix using more advanced technology. Our 0.15 micron and more advanced technologies had contributed approximately 39.0% of our net wafer sales in 2005, as compared to 28.6% in 2004.

Cost of goods sold. Cost of goods sold decreased by 1.9% from NT$92,393 million in 2004 to NT$90,643 million (US$2,763 million) in 2005, largely due to a 3.8% decrease in wafers sold from 3,119 thousand wafers in 2004 to 2,999 thousand wafers in 2005.

Gross profit and gross margin. Our gross margin fluctuation depends on the level of manufacturing capacity, wafer shipments and product mix. Gross margin decreased from 28.5% in 2004 to 9.6% in 2005. As our utilization rates decreased, our costs were allocated over a smaller number of units, which led to higher unit costs. Lower wafer shipment and selling price decreases also impaired our gross margin.

Operating income and operating margin. Operating income decreased substantially from NT$21,806 million in 2004 to NT$(8,087) million (US$(247) million) in 2005. Our operating margin decreased from 16.9% in 2004 to (8.1)% in 2005. The decrease in operating margin is largely due to a decrease in gross margin. Operating expenses increased by 18.5% from NT$14,992 million in 2004 to NT$17,760 million (US$542 million) in 2005.

Sales and marketing expenses. Our sales and marketing expenses increased by 34.7% from NT$2,775 million in 2004 to NT$3,739 million (US$114 million) in 2005. The increase in sales and marketing expenses was mainly due to the consolidation effect derived from our newly consolidated subsidiaries. In addition, we also increase our purchase of intellectual properties from third parties to assist our customers to develop SoC. Our sales and marketing expenses as a percentage of our net operating revenues increased from 2.1% in 2004 to 3.7% in 2005.

General and administrative expenses. Our general and administrative expenses decreased by 9.6% from NT$4,853 million in 2004 to NT$4,387 million (US$134 million) in 2005. It was largely due to a significant decrease in UMCi s general and administrative expenses because UMCi s start-up cost was classified as general and administrative expense before it began volume production in the first quarter of 2004, and due to slight decreases in the general and administrative expenses of our subsidiaries. Our general and administrative expenses as a percentage of our net operating revenues increased from 3.8% in 2004 to 4.4% in 2005.

Research and development expenses. Our research and development expenses increased by 30.8% from NT$7,364 million in 2004 to NT$9,634 million (US$294 million) in 2005. The increase in research and development expenses resulted primarily from our continued development of 90-nanometer and 65-nanometer process technologies. Our research and development expenses as a percentage of our net operating revenues increased from 5.7% in 2004 to 9.6% in 2005.

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Net non-operating income. Net non-operating income substantially increased by 37.8% from NT$9,938 million in 2004 to NT$13,693 million (US$418 million) in 2005 mainly due to the reversal of evaluation allowance of inventory resulting from the sale of inventory. Valuation on inventory contributed to NT$837 million gain (US$26 million) in 2005 compared to NT$1,884 million loss in 2004. Due to the appreciation of exchange rate of New Taiwan dollars to U.S. dollars from NT$31.74 on December 31, 2004 to NT$32.80 on December 30, 2005, we had a net foreign exchange gain of NT$295 million (US$9 million) in 2005.

Net income. Due to the factors described above, we incurred a net income of NT$7,027 million (US$214 million) in 2005, compared to a net income of NT$31,843 million in 2004.

2003 Compared with 2004

Net operating revenues. Net operating revenues increased by 35.0% from NT$95,704 million in 2003 to NT$129,191 million in 2004, largely attributable to an increase in customer demand, which resulted in a 19.1% increase in wafers sold, from 2,619 thousand wafers in 2003 to 3,119 thousand wafers in 2004. The increase in our net operating revenues was partially attributable to an increase in average selling price. Our average selling price in 2004 increased by 12.2% as compared to 2003 as a result of a rise in market pricing and a shift towards higher-priced product mix using more advanced technology. Our 0.18micron and more advanced technologies had contributed approximately 54.2% of our net operating revenues in 2004, as compared to 41.1% in 2003.

Cost of goods sold. Cost of goods sold increased by 25.0% from NT$73,938 million in 2003 to NT$92,393 million in 2004, largely resulted from a 19.1% increase in wafers sold in 2004, from 2,619 thousand wafers in 2003 to 3,119 thousand wafers in 2004. The increase in cost of goods sold was partially resulted from a shift towards higher-cost product mix using more advanced technology. Our 0.18micron and more advanced technologies had contributed to approximately 54.2% of our net operating revenues in 2004, compared to 41.1% in 2003.

Gross profit and gross margin. Our gross margin fluctuation depends on the level of manufacturing capacity, wafer shipments and product mix. Gross margin increased from 22.7% in 2003 to 28.5% in 2004. As our utilization rates increased, our costs were allocated over a larger number of units, which led to lower unit costs. Higher wafer shipment, price increases and the improvement in overall product mix also improve our gross margin.

Operating income and operating margin. Operating income increased substantially from NT$9,740 million in 2003 to NT$21,806 million in 2004. Our operating margin increased from 10.2% in 2003 to 16.9% in 2004. The increase in operating margin is largely due to an increase in gross margin. Operating expenses increased by 24.7% from NT$12,026 million in 2003 to NT$14,992 million in 2004.

Sales and marketing expenses. Our sales and marketing expenses increased by 27.8% from NT$2,171 million in 2003 to NT$2,775 million in 2004. The increase in sales and marketing expenses was mainly due to an increase in purchasing intellectual properties from third parties to help our customers to develop SoC. Our sales and marketing expenses as a percentage of our net operating revenues decreased slightly from 2.3% in 2003 to 2.1% in 2004.

General and administrative expenses. Our general and administrative expenses increased by 21.4% from NT$3,996 million in 2003 to NT$4,853 million in 2004 largely due to increases in amortization of goodwill from our investment in UMCi amounting to NT$321 million. In addition, the increase in our general and administrative expenses was also attributable to an increase in personnel expenses, since we accrued more incentives to our employees due to significant growth in our net operating income from NT$95,704 million in 2003 to NT$129,191 million in 2004. Our general and administrative expenses as a percentage of our net operating revenues decreased slightly from 4.1% in 2003 to 3.8% in 2004.

Research and development expenses. Our research and development expenses increased by 25.7% from NT$5,859 million in 2003 to NT$7,364 million in 2004. The increase in research and development expenses resulted primarily from our continued development of 90-nanometer and 65-nanometer process technologies. Our research and development expenses as a percentage of our net operating revenues decreased slightly from 6.1% in 2003 to 5.7% in 2004.

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Net non-operating income. Net non-operating income substantially increased by 100% from NT$4,956 million in 2003 to NT$9,938 million in 2004 mainly due to gain on disposal of investments, offset by net exchange and other losses. Gain on disposal of investments increased substantially from NT$6,885 million in 2003 to NT$12,869 million in 2004 mainly due to the conversion of our exchangeable bonds into shares of AU Optronics and the sale of our investments in AU Optronics. The gain on the conversion of our exchangeable bonds into shares of AU Optronics and sale of shares of AU Optronics was NT$7,806 million and NT$2,483 million, respectively. Due to the appreciation of exchange rate of New Taiwan dollars to U.S. dollars from NT$33.99 on December 31, 2003 to NT$31.74 on December 31, 2004, we had a net exchange loss of NT$929 million in 2004. Other losses increased from NT$263 million in 2003 to NT$1,112 million in 2004 mainly due to write-off of idle assets.

Net income. Due to the factors described above, we incurred a net income of NT$31,843 million in 2004, compared to a net income of NT$14,020 million in 2003.

B. Liquidity and Capital Resources

The foundry business is highly capital intensive. Our development over the past three years has required significant investments. Additional expansion for the future generally will continue to require significant cash for acquisition of plant and equipment to support increased capacities, particularly for the production of 12-inch wafers, although our expansion program will be adjusted from time to time to reflect market conditions. In addition, the semiconductor industry has historically experienced rapid changes in technology. To maintain competitiveness at the same capacity, we are required to make adequate investments in plant and equipment. In addition to our need for liquidity to support the large fixed costs of capacity expansion and the upgrading of our existing plants and equipment for new technologies, as we ramp up production of new plant capacity, we require significant working capital to support purchases of raw materials for our production and to cover variable operating costs such as salaries until production yields provide sufficiently positive margins for a fabrication facility to produce operating cash flows.

We have financed our capital expenditure requirements with cash flows from operations as well as from bank borrowings, the issuance of bonds and equity-linked securities denominated in NT dollars and U.S. dollars and the proceeds from our ADS offering in September 2000. We incurred capital expenditures of NT$24,820 million, NT$81,110 million and NT$22,163 million (US$676 million) in 2003, 2004 and 2005, respectively, requiring a significant amount of funding from financing activities. Once a fab is in operation at acceptable capacity and yield rates, it can provide significant cash flows. Cash flows significantly exceed operating income, reflecting the significant non-cash depreciation expense. We generated cash flows from operations of NT$49,625 million, NT$73,938 million and NT$45,172 million (US$1,377 million) in 2003, 2004 and 2005, respectively.

As of December 31, 2005, we had NT$108,627 million (US$3,312 million) of cash and cash equivalents and NT$4,883 million (US$149 million) of marketable securities.

Operating Activities

Our operating activities generated cash of NT$45,172 million (US$1,377 million) in 2005. Cash generated from our operating activities for 2005 was primarily attributable to add-back of non-cash items, such as depreciation and amortization in the amount of NT$54,644 million (US$1,666 million).

Investment Activities

Net cash used in our investment activities was NT$7,613 million (US$232 million) in 2005. In 2005, we used cash of NT$22,163 million (US$676 million) to purchase equipment primarily used at our fabs.

We held several credit-linked deposits and repackage bonds with a carrying value of approximately NT$1,117 million (US$34 million) as of December 31, 2005. Please refer to Item 11. Quantitative and Qualitative Disclosures about Market Risk included elsewhere in this annual report for a detailed discussion of the credit-linked deposits and repackage bonds.

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Financing Activities

Net cash used in our financing activities was NT$29,592 million (US$902 million) in 2005. For financing activities in 2005, we purchased 750 million treasury shares for cash NT$16,379 million (US$499 million). We also repaid long-term loans and bonds of NT$20,382 million (US$621 million) and NT$2,820 million (US$86 million), respectively, in cash in 2005. The issuance of zero coupon convertible bonds due 2008 provided NT$12,479 million (US$381 million) in cash.

Our outstanding short-term loans were NT$6,136 million (US$187 million) as of December 31, 2005. We had total availability under existing short-term lines of credit, which can be drawn in NT dollars, U.S. dollars, Japanese Yen, Singapore dollars and/or Euros at our discretion, of NT$14,658 million (US$447 million) as of December 31, 2005. All of our short-term loans are revolving facilities with terms of six months or one year, which may be extended for terms of six months or one year each with lender consent. The weighted average annual effective interest rate under these facilities ranged between 1.5% and 4.9% as of December 31, 2005. Our obligations under our short-term loans are unsecured.

We had no long-term loans as of December 31, 2005.

We had bonds payable of NT$51,942 million (US$1,584 million) in the aggregate as of December 31, 2005.

We have pledged a substantial portion of our assets with a carrying value of NT$22,268 million (US$679 million) as of December 31, 2005 to secure our obligations under the short-term loans.

As of December 31, 2005, our outstanding long-term liabilities primarily consisted of:

- NT$10.5 billion unsecured domestic bonds consisting of two tranches: NT$3 billion 5.185% unsecured bonds due April 2006 and NT$7.5 billion 5.285% unsecured bonds due April 2008;
- NT$5 billion 3.520% unsecured domestic bonds due October 2006;
- NT$15 billion unsecured domestic bonds, consisting of two tranches: NT$7.5 billion five-year unsecured bonds with interest rates of 4.0% minus 12-month U.S. dollar LIBOR but at the minimum of 0%, and NT$7.5 billion seven-year unsecured bonds with interest rates of 4.3% minus 12-month U.S. dollar LIBOR but at the minimum of 0%; and
- US$97.9 million Zero Coupon Exchangeable Bonds due 2007.

In May 2002, we issued US$235 million Zero Coupon Exchangeable Bonds due 2007. The proceeds of this offering have been used to purchase equipment for Fab 8D. These bonds, which are scheduled to mature on May 10, 2007, are exchangeable, at the option of the bondholders, into common shares or ADSs of AU Optronics at an initial exchange price of NT$59.34 per common share of AU Optronics at any time on or after June 19, 2002, and are redeemable by us under certain circumstances on or any time after August 10, 2002 and prior to May 10, 2007. As of May 31, 2006, US$139 million of the Zero Coupon Exchangeable Bonds due 2007 were exchanged into 88 million common shares of AU Optronics. The current exchange price is NT$46.1 per common share of AU Optronics.

- ¥9,350 million Zero Coupon Convertible Bonds due 2007;

In March 2002, UMCJ issued ¥17,000 million Zero Coupon Convertible Bonds due 2007 at an issue price of 101.75% of the principal amount. The proceeds of this offering have been used to finance capital expenditures and repay certain loans. The initial conversion price was set at ¥400,000 per share, subject to adjustments upon the occurrence of certain events set forth in the indenture. The current conversion price is ¥400,000 per share. The

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bonds are redeemable by UMCJ under certain circumstances at any time on or after March 25, 2005 and prior to March 26, 2007. As of December 31, 2005, UMCJ repurchased ¥7,850 million of the bonds from the open market of which ¥7,650 million were cancelled.

¥21,500 million Zero Coupon Convertible Bonds due 2013; and

In November 2003, UMCJ issued ¥21,500 million Zero Coupon Convertible Bonds due 2013 at an issue price of 101.25% of the principal amount. The proceeds of this offering have been used to finance capital investments and our investments in UMCi. The conversion price was set at ¥187,500 per share, subject to adjustments upon the occurrence of certain events set forth in the indenture. The bonds are redeemable by UMCJ under certain circumstances at any time on or after November 27, 2006 and prior to November 25, 2013. As of December 31, 2005, UMCJ repurchased ¥10,490 million of the bonds from the open market.

US$381.4 million Zero Coupon Convertible Bonds due 2008.

In October 2005, we issued US$381.4 million Zero Coupon Convertible Bonds due 2008. The proceeds of this offering have been used to purchase of raw materials abroad. The bonds, which are scheduled to be mature in February 2008, are convertible at the option of the bondholders into our ADSs at an initial conversion price of US$3.814 per ADS at any time on or after November 4, 2005 and are redeemable by us under certain circumstances on or any time after April 5, 2007. As of May 31, 2006, none of the holders of our Zero Coupon Convertible Bonds due 2008 had exercised conversion rights to receive our ADSs. The current conversion price is NT$3.814 per ADS.

The current portion of bonds due within one year were NT$10,250 million (US$313 million).

Capital Expenditures

We have entered into several construction contracts for the expansion of our factory space. As of December 31, 2005, these construction contracts amounted to NT$590 million (US$18 million) with an unaccrued portion of the contracts of NT$480 million (US$15 million).

In 2005, we spent approximately NT$22,163 million (US$676 million) primarily to purchase 8-inch and 12-inch wafer-processing equipment and other equipment for research and development and production purposes. Our initial budget for purchases of semiconductor manufacturing equipment for 2006 is approximately US$1 billion. We may adjust the amount of our capital expenditures upward or downward based on the progress of our capital projects, market conditions and our anticipation of future business outlook.

We believe that our existing cash and cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure requirements at least through the end of 2006. We also expect to fund a portion of our capital requirements in 2006 through the cash provided by operating activities. Due to rapid changes in technology in the semiconductor industry, however, we have frequent demand for investment in new manufacturing technologies. We cannot assure you that we will be able to raise additional capital, should that become necessary, on terms acceptable to us, or at all. If financing is not available on terms acceptable to us, management intends to reduce expenditures so as to delay the need for additional financing. To the extent that we do not generate sufficient cash flows from our operations to meet our cash requirements, we may rely on external borrowings and securities offerings to finance our working capital needs or our future expansion plans. The sale of additional equity or equity-linked securities may result in additional dilution to our shareholders. Our ability to meet our working capital needs from cash flow from operations will be affected by the demand for our products and change in our product mix, which in turn may be adversely affected by several factors. Many of these factors are beyond our control, such as economic downturns and declines in the average selling prices of our products. The average selling prices of our products have been subjected to downward pressure in the past and are reasonably likely to be subject to further downward pressure in the future. We have not historically relied, and we do not plan to rely in the foreseeable future, on off-balance sheet financing arrangements to finance our operations or expansion.

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Transactions with Related Parties

Our transactions with related parties have been conducted on arm s-length terms. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions and Note 26 to our audited consolidated financial statements included in this annual report.

Inflation/Deflation

We do not believe that inflation in the ROC has had a material impact on our results of operations.

US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with ROC GAAP, which differs in certain material respects from US GAAP. Such differences include methods of consolidation and methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP. Note 34 to our audited financial statements, included in this annual report, provide a discussion and quantification of the material differences between ROC GAAP and US GAAP as they related to us. We provide a discussion of some of the material differences included therein below.

The following table sets forth a comparison of our net income and stockholders equity in accordance with ROC GAAP and US GAAP for the periods indicated.

	Year Ended December 31,			
	2003	2004	2005	
	NT$	NT$	NT$	US$
	(in millions)			
Net income (loss)				
Net income (loss), ROC GAAP	14,020	31,843	7,027	214
US GAAP adjustments:				
Compensation	(2,915)	(3,751)	(2,441)	(74)
Equity investments:				
Compensation	(421)	(371)	(209)	(6)
Net income variance between US GAAP and ROC GAAP	(111)	(400)	940	28
Investment in debt and equity securities	2,168	(2,710)	271	8
Convertible/exchangeable bond liabilities	(305)	(88)	(39)	(1)
Derivative instruments	(347)	520	(1,612)	(49)
Goodwill		(39,774)	(19,374)	(591)
Income tax effect	242	494	(232)	(7)
Net income (loss), US GAAP	12,331	(14,237)	(15,669)	(478)

	As of December 31,			
	2003	2004	2005	
	NT$	NT$	NT$	US$
	(in millions)			
Stockholders equity				
Total stockholders equity, ROC GAAP	232,233	266,374	258,284	7,874
Compensation	129	154	56	2
Equity investments				
Net income variance between US GAAP and ROC GAAP	(477)	394	465	14
Stockholders equity variance between US GAAP and ROC GAAP	951	1,068	3,175	97
Investment in debts and equity securities	32,842	16,477	37,333	1,139
Treasury stock	(3)	(2)		
Derivative instruments	449	572	(624)	(19)
Convertible/exchangeable bond liabilities	(575)	(663)	(702)	(21)
Goodwill amortization and impairment loss	98,268	57,633	38,258	1,166

Income tax effect	(81)	413	180	5
Stockholders equity, US GAAP	363,736	342,420	336,425	10,257

(1) Refer to Note 34 to our audited financial statements included elsewhere in this annual report.

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Difference between ROC GAAP and US GAAP that have a material effect on our net income and stockholders equity under ROC GAAP include compensation expenses, derivative instruments, investments in debt and equity securities and consolidated goodwill.

Compensation Expenses

Pursuant to our Articles of Incorporation, we are required, under certain circumstances, to distribute a certain percentage of unappropriated earnings to employee bonuses and remuneration to directors and supervisors. See Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions . The remuneration to directors and supervisors is settled in cash while the employee bonuses for 2002, 2003 and 2004 were settled in the form of shares and for future periods such bonuses will be settled in cash or shares at our discretion. The number of shares granted as employee bonuses is determined by dividing the total nominal NT dollar amount of the bonuses to be settled in shares by the par value of the shares, i.e. NT$10 per share, rather than their market value, which has generally been substantially higher than par value. Under ROC GAAP, the distribution of employee bonuses and remuneration to directors and supervisors are treated as appropriation of retained earnings, and we are not required to, and do not, charge them to earnings. Under US GAAP, however, we are required to charge the market value of the shares for employee bonuses and the cash amount of remuneration as compensation expenses in the related service period, correspondingly reducing our net income and earnings per share calculated in accordance with US GAAP. When services are rendered, the fair value of the minimum bonuses is recognized as the compensation expense based on the provisions of our Articles of Incorporation which mandates a minimum percentage of our undistributed earnings, after certain adjustments, to be retained as bonuses and remuneration. The minimum bonuses in shares are fair valued by using the closing price at the balance sheet date because the shareholders approval obtained in the subsequent year is reasonably assured. When bonuses are approved by the shareholders in the subsequent year, which normally occurs during the second fiscal quarter, additional compensation expense, if any, is recorded for the difference between the minimum amount initially accrued and the fair market value of the shares actually granted to employees. Accordingly, net income and earnings per share calculated under ROC GAAP and US GAAP will be different. See Note 34 to our audited consolidated financial statements.

Derivative Instruments

Under US GAAP, as prescribed by SFAS 133, the embedded derivative features contained in our exchangeable bonds, convertible bonds and credit-linked deposits are bifurcated and separately accounted for, if the economic characteristics and risks of the embedded derivative instruments and the host contracts are not clearly and closely related. Those bifurcated embedded derivatives are accounted for at fair value with the changes in fair value included in earnings of the year. Freestanding derivatives such as interest rate swap agreements are recorded at fair value with changes in fair value charged to earnings unless hedge accounting has been applied. Under ROC GAAP, those derivative instruments are neither bifurcated nor required to be accounted for as a hedging instrument before the adoption of ROC SFAS 34 and SFAS 36 effective since January 1, 2006. See Note 34 to our audited consolidated financial statements.

Investments in Debt and Equity Securities

Under ROC GAAP, marketable securities are classified as either short-term or long-term investments and carried at the lower of aggregate cost or market value. The determination of whether an investment is short-term or long-term takes into consideration our ability and intention to hold those securities, whether the securities have quoted market prices and whether the securities are actively bought and sold by us. All unrealized losses for short -term investments are recognized in the statement of income. Unrealized gains are also recognized in the statement of income to the extent they represent recoveries of previously recorded losses. Unrealized gains in excess of original cost are not recognized until realized. For long-term investments, a decline in market value below cost is charged to stockholders equity unless this decline is not expected to be recovered in the future in which case, the decline is charged as a loss to the statement of income. Unrealized appreciation in market value above original cost is not

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recognized until realized. Under US GAAP, according to SFAS 115, equity securities, over which we exercise no significant influence or control and with readily determinable fair values, and debt securities are to be classified as either trading, available-for-sale or held-to-maturity securities. Debt securities that we have the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income except for unrealized losses that are deemed to be other than temporary which are charged to earnings. See Note 34 to our audited consolidated financial statements.

Goodwill

Under ROC GAAP, the fair value of the net assets received is deemed to be the value of the consideration for the acquisition of the remaining interests in United Semiconductor, United Silicon, UTEK Semiconductor and United Integrated Circuits in January 2000. The acquisition cost of SiSMC was determined using the market price of the shares exchanged by us. Under US GAAP, EITF No. 99-12 requires that the securities exchanged should be valued based on the market prices a few days before and after the date when the terms of the acquisition are agreed to and announced. The acquisition was accounted for using the purchase method of accounting and the purchase price was determined by the market value of the shares exchanged. The difference between the fair value of the shares exchanged and the fair value of the net assets acquired created goodwill.

Goodwill is subject to an annual impairment test or more frequently whenever events and circumstances change indicating the goodwill may be impaired. Under ROC GAAP, our assessment includes identifying the goodwill-allocated cash generating unit (CGU), determining the recoverable amount of CGU by using cash flow analysis, and ultimately comparing the recoverable amount with the carrying amount of CGU including goodwill. If CGU s carrying amount is greater than its recoverable amount, an impairment loss is recognized and the written-down of goodwill cannot be reversed. Under US GAAP, we have identified that we have only one reporting unit, whose fair value is best determined by its quoted market prices on the New York Stock Exchange (for its ADS securities) and on the Taiwan Stock Exchange (for its common stock). The fair value of the reporting unit is allocated to relevant individual asset and liability to determine the fair value of the goodwill assigned to the reporting unit. If the carrying value of the goodwill is greater than its fair value, we write down the goodwill and recognize the impairment loss. Such write-down cannot be reversed. In the past, the quoted market prices on these stock exchanges have been very volatile, which we believe is reflective of the cyclical nature of its business and industry. We experienced a gradual and continual decline in our stock price commencing in the second quarter of 2004. We believed the decline was primarily driven by lower investor confidence in the short-term prospects of the Taiwan semiconductor industry which also had the same impact on the stock prices of other semiconductor companies in Taiwan. Although our quoted stock price remained comparatively stable at the end of 2005, it didn t climb up enough to support the fair value of goodwill to be greater than its carrying value. As such, we recognized a goodwill impairment charge of nil, NT$39,795 million and NT$20,660 million for the years ended December 31, 2003, 2004 and 2005, respectively.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which revised SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS 123R to the first fiscal year beginning after June 15, 2005. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements base on their fair values. We will adopt this statement from the fiscal year beginning on January 1, 2006 and do not expect a material impact on our financial statements resulting from this adoption.

In November 2004, FASB issued SFAS No. 151, Inventory Costs (SFAS 151), which amended the guidance in Chapter 4 of ARB No. 43, Inventory Pricing (ARB 43), to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage is to be recognized as current period charges and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. We will adopt SFAS 151 for the fiscal year beginning on January 1, 2006. The adoption of this standard may affect our operating results, but the significance of which cannot be reasonably estimated since such impact is affected by the actual variability in the market for our products.

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In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154), which replaced APB Opinion No. 20, Accounting Changes (APB 20) and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements (SFAS 3). Though SFAS 154 carriers forward the guidance in APB 20 and SFAS 3 with respect to accounting for changes in estimates, changes in reporting entity and the correction of errors, SFAS 154 establishes new standards on accounting for voluntary changes in accounting principles, whereby such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle, and the correction of errors in previously issued financial statements be termed a restatement. The guidance is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, it does not change the transition provisions of any existing accounting pronouncements. We do not believe the adoption of SFAS 154 will have an immediate material effect on our financial statements.

In February 2006, FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instrument (SFAS 155), which amends SFAS No. 133, Accounting for derivative instruments and hedging activities and FASB Statement No. 140, Accounting for Transfers and Servicing of Financial assets and extinguishments of liabilities . The standard allows financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. The standard also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The guidance is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not believe the adoption of SFAS 155 will have an immediate material effect on our financial statements.

C. Research, Development, Patents and Licenses, Etc.

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, effective research and development is essential to our success. We invested approximately NT$5,859 million, NT$7,364 million and NT$9,634 million (US$294 million) in 2003, 2004 and 2005, respectively, in research and development, which represented 6.1%, 5.7% and 9.6%, respectively, of net operating revenues for such years. We believe that our continuous spending on research and development will help us maintain our position as a technological leader in the foundry industry. As of March 31, 2006, we employed 646 professionals in our research and development division.

Our current research and development activities seek to upgrade and integrate manufacturing technologies and processes, as well as to develop embedded memory technologies, including DRAM, SRAM, 1T-SRAM, 6T-SRAM and nonvolatile memories, and advanced device technologies, including SOI and strained silicon. Although we emphasize firm-wide participation in the research and development process, we maintain a central research and development team primarily responsible for developing cost-effective technologies that can serve the manufacturing needs of our customers. Monetary incentives are provided to our employees if projects result in successful patents. We believe we have a strong foundation in research and development and intend to continue our efforts on technology developments. Our top management believes in the value of continued support of research and development efforts and intends to continue our foundry leadership position by providing customers with comprehensive technology and SoC solutions in the industry.

D. Trend Information

Please refer to Overview for a discussion of the most significant recent trends in our production, sales, costs and selling prices. In addition, please refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments and events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

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E. Off-balance Sheet Arrangements

We do not generally provide letters of credit to, or guarantees for, or engage in any repurchase financing transactions with any entity other than our consolidated subsidiaries. We have, from time to time, entered into interest rate swaps to manage our interest rate risks on our floating rate debt instruments and foreign currency forward contracts to hedge our existing assets and liabilities denominated in foreign currencies and identifiable foreign currency purchase commitments. We do not engage in any speculative activities using derivative instruments. See Item 11. Quantitative and Qualitative Disclosure about Market Risk.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commitments with definitive payment terms on a consolidated basis which will require significant cash outlays in the future as of December 31, 2005.

		Payments Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years (consolidated)**	**4-5 Years**	**After 5 Years**
			(in NT$ millions)		
Long-term debt(1)					
Secured long-term loans					
Unsecured long-term loans					
Secured bonds					
Unsecured bonds	51,942	10,250	31,088	7,500	3,104
Capital lease obligations(2)					
Operating leases obligations(3)	5,476	980	2,219	378	1,899
Purchase obligations(4)	6,742	441	1,340		4,961
Other long-term obligations(5)	7,871	5,119	2,376	376	
Total contractual cash obligations					

(1) Assuming the convertible bonds and exchangeable bonds are both paid off upon maturity.
(2) Represents our obligations to make lease payments for equipment.
(3) Represents our obligations to make lease payments to use machineries, equipments and land on which our fabs are located, primarily in the Hsinchu Science Park and the Tainan Science Park in Taiwan and, Pasir Ris Wafer Fab Park in Singapore, and UMCJ.
(4) Represents commitments for construction and purchase of raw materials. These commitments are not recorded on our balance sheet as of December 31, 2005.
(5) Represents intellectual properties and royalties payable under our technology license agreements. The amounts of payments due under these agreements are determined based on fixed contract amounts.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors, Supervisors and Senior Management

The following table sets forth the name, age, position and tenure of each of our directors, supervisors and executive as of March 31, 2006. The biography of each of our directors, supervisors and executive offers is as of June 12, 2006. Robert H.C. Tsao and John Hsuan resigned as Chairman and Vice Chairman, respectively, and as directors on January 9, 2006. There is no family relationship among any of these persons.

In the shareholders meeting held on June 12, 2006, our shareholders elected five new directors, Fu-Tai Liou, Shih-Wen Sun, Stan Hung, Chung-Laung Liu and Chun-Yen Chang, and two new supervisors, Ta-Sing Wang and Ting-Yu Lin. The newly elected directors and supervisors took their offices on June 12, 2006. The business address of our directors, supervisors and executive officers is the same as our registered address.

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Name	Age	Position	Years with Us
Jackson Hu (1)	57	Chairman, Director (Representative of Chuin Li Investment Co.) and Chief Executive Officer	3
Peter Chang	60	Vice Chairman and managing director (Representative of Hsun Chieh Investment Co.)	14
Hong-Jen Wu	54	President	26
Ching-Chang Wen (2)	56	Director (Representative of Shieh Li Investment Co.) and Business Group President	8
Fu-Tai Liou	53	Business Group President	9
Shih-Wei Sun (3)	49	Director, Senior Vice President	11
Stan Hung	46	Senior Vice President	15
Paul S.C. Hsu (4)	70	Director	2
Jack K.C. Wang (4)(5)	58	Director	11
Mao-Chung Lin (4)(5)	73	Director	17
Tzyy-Jang Tseng	56	Supervisor (Representative of Hsun Chieh Investment Co., Ltd.)	5
Tsing-Yuan Hwang	57	Supervisor (Representative of Chuin Tsie Investment Co.)	11
Chitung Liu	40	Chief Financial Officer	5

(1) Jackson Hu is a representative of Hsun Chieh Investment Co. after the shareholders meeting on June 12, 2006.
(2) Ching-Chang Wen is a representative of Hsun Chieh Investment Co. after the shareholders meeting on June 12, 2006.
(3) Shih-Wei Sun is a representative of Silicon Integrated Systems Corp. after the shareholders meeting on June 12, 2006.
(4) Member of the Audit Committee.
(5) The term of the director expired on June 11, 2006.

The following table sets forth the name, age and position of each of the new director and supervisor who took office on June 12, 2006.

Name	Age	Position
Fu-Tai Liou	53	Director (Representative of Hsun Chieh Investment Co.) and Business Group President
Stan Hung	46	Director (Representative of Silicon Integrated Systems Corp.) and Senior Vice President
Ta-Sing Wang	33	Supervisor (Representative of Silicon Integrated Systems Corp.)
Ting-Yu Lin	45	Supervisor
Chung-Laung Liu (1)	59	Director
Chun-Yen Chang (1)	74	Director

(1) Member of the Audit Committee.

Jackson Hu is the Chairman, director and the Chief Executive Officer of our company. Dr. Hu is a representative of Hsun Chieh Investment Co. Dr. Hu earned his Bachelor s degree in electrical engineering from National Taiwan University in 1971 and Master s and Ph.D. degrees in Computer Science from the University of Illinois at Urbana-Champaign. He also obtained an MBA from Santa Clara University. Dr. Hu joined us at the beginning of 2003 as the president of our New Business Development Group and head of the Design Support Division. Prior to joining us, Dr. Hu served as the president and chief executive officer of SiRF Technology Inc. from 1996 to 2002 and the senior vice president and general manager of S3 from 1994 to 1996. Mr. Hu is also a director of Compal Communications, Inc.

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Peter Chang is a Vice Chairman and a managing director of our company. Mr. Chang is a representative of Hsun Chieh Investment Co. Mr. Chang holds a Master s degree in Electrical Engineering from the University of Texas at Austin in 1971. Prior to becoming a director and the CEO of our company in 1999, Mr. Chang served as the president of United Semiconductor from 1996 to 1999.

Hong-Jen Wu is the president of our company. Mr. Wu was a director of our company serving in the capacity of the representative of Chuin Tsie Investment Co. from June 1, 2004 to June 13, 2005. Mr. Wu received a Master s degree in Chemical Engineering from the National Taiwan University in 1976. Prior to joining our company in 1980, Mr. Wu was a senior engineer at Taiwan General Equipment Corp.

Ching-Chang Wen is a director and a business group president of our company. Dr. Wen is a representative of Hsun Chieh Investment Co. He received a Ph.D. degree in Electrical Engineering from the University of Pennsylvania in 1979. Prior to joining United Microelectronics Corporation in 1996, Dr. Wen served as a vice president of Winbond Electronics Corp. Mr. Wen is also a director and president of UMCJ.

Fu-Tai Liou is a director and a business group president of our company. Dr. Liou is a representative of Hsun Chieh Investment Co. Dr. Liou was a director of our company from May 2001 to May 2004. Dr. Liou received a Ph.D. degree in Material Science and Engineering from the State University of New York at Stony Brook in 1979. Prior to joining United Microelectronics Corporation in 1997, Dr. Liou was a vice president of SGS-Thompson.

Shih-Wei Sun is a director and an executive vice president of our company and is in charge of our Research and Development Department. Dr. Sun is a representative of Silicon Integrated Systems Corp.. Dr. Sun holds a Ph.D. degree in Electronics Materials from Northwestern University.

Stan Hung is a director and a senior vice president of our company. Mr. Hung is a representative of Silicon Integrated Systems Corp. Mr. Hung was a director of our company from May 2001 to May 2004 and our CFO from 2000 to 2005. Mr. Hung received a Bachelor s degree in Accounting from TamKang University in 1982. Prior to joining United Microelectronics Corporation in 1991, Mr. Hung was a manager at Unipac Optoelectronics Corporation. Mr. Hung is also the Chairman of Epitech Technology Corp., supervisors of SpringSoft Co., Ltd. and Novatek Microelectronics Corp. and directors of A-DATA Technology Co., Fortune Venture Capital Corporation, United Microdisplay Optronics Corporation, TLC Capital Co., Ltd. and Rechi Precision Co., Ltd.

Jack K. C. Wang was a director of our company from June 2004 to June 2006. Mr. Wang received a Bachelor s degree in Chinese Literature from the Culture University in Taiwan in 1955. Mr. Wang is also the Chairman of Sen Dah Investment Co., Ltd.

Mao-Chung Lin was a director of our company from June 2004 to June 2006. Mr. Lin was a supervisor of our company from May 2001 to May 2004. Mr. Lin received a Bachelor s degree in Business Administration from the National Taiwan University in 1955. Mr. Lin is also the president of Sunrox International, Inc.

Paul S.C. Hsu is a director of our company. Professor Hsu received a Ph.D. degree in Business Administration from The University of Michigan in 1974. Professor Hsu is Far East Group Chair Professor of Management, Yuan-Ze University, Taiwan, and the Chairman of Taiwan Assessment and Evaluation Association. Professor Hsu is a director of Faraday Technology Corporation and Taiwan Chi Cheng Enterprise Co. and a supervisor of Far Eastern International Bank.

Chung-Laung Liu is a newly elected director of our company. Professor Liu received a Doctor degree in Science from Massachusetts Institute of Technology in 1962. Professor Liu is the William M.W. Mong Honorary Chair Professor of National Tsing Hua University, Taiwan. Professor Liu is also a director of Mototech Technology Corporation, Lightronik Technology Inc., Cadence Methodology Service Company, Macronix International Co., Ltd. Anpec Electronics Corporation and MediaTek Incorporation.

Chun-Yen Chang is a newly elected director of our company. Professor Chang received a Ph.D. degree in Electronics Engineering from National Chiao Tung University in 1970. Professor Chang is a chair professor and president of National Chiao Tung University, Taiwan. Professor Chang is also a director of United Test and Assembly Center Ltd and Himax Technologies, Inc.

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Tzyy Jang Tseng is a supervisor of our company. Mr. Tseng is a representative of Hsun Chieh Investment Co. Mr. Tseng received a Master s degree in Physics from the National Tsing Hua University of Taiwan. Mr. Tseng is also the Chairman of Unimicron Technology and Subtron Technology Co., Ltd., and a supervisor of Fortune Venture Capital Corporation and a director of Premier Image Technology Corporation.

Tsing-Yuan Hwang was a supervisor of our company and a representative of Chuin Tsie Investment Co from June 2004 to June 2006. Mr. Hwang received an MBA from the Nihon University in 1982. Mr. Hwang is also a director of President Chain Store Corp., Hon Hai Precision Industry Co., Ltd. and Taiwan Television Enterprise, Ltd., and a supervisor of GreTai Securities Market.

Ta-Sing Wang is a newly elected supervisor of our company and a representative of Silicon Integrated System Corp. Mr. Wang received an MBA degree from Columbia University. Mr. Wang is also a director of Pacific Technology Group.

Ting-Yu Lin is a newly elected supervisor of our company. Mr. Lin received a Master degree in International Finance from Meiji University. Mr. Lin is also the Chairman of Sunrox International Inc.

Chitung Liu is the Chief Financial Officer of our company. Mr. Liu is an EMBA candidate of National Taiwan University. Prior to joining our company in 2001, Mr. Liu was a managing director of UBS. Mr. Liu is also a director of Novatek Microelectronics Corp.

B. Compensation

The aggregate compensation paid and benefits in kind granted to our directors and supervisors in 2005 were approximately NT$27 million (US$886 million). Some of the remuneration was paid to the legal entities which some of our directors or supervisors represent. The aggregate compensation paid and benefits in kind granted to our executive officers in 2005 were approximately NT$214 million, which include 9,198,000 shares as employee bonus and NT$15 million for housing and transportation expenses. The number of shares distributed to our executive officers as employee bonus was calculated at the market value of NT$18.98 per share, which is the average market price in the last month of 2004, in accordance with FSC s disclosure requirement for our annual report.

The following table sets forth total compensation paid to each of our directors and supervisors in their respective capacities in 2005.

Name	Capacity	Total Compensation (in NT$ thousands)
Jackson Hu	Chairman (Representative of Chuin Li Investment Co.)	2,455(1)
Peter Chang	Vice Chairman and managing director (Representative of Hsun Chieh Investment Co.)	2,455(1)
Hong-Jen Wu	Director (Representative of Chuin Tsie Investment Co.)	2,455(1)
Ching-Chang Wen	Director (Representative of Shieh Li Investment Co.)	2,455(1)
Silicon Integrated Systems Corp.	Director	2,455
Jack K.C. Wang	Director	2,455
Mao-Chung Lin	Director	2,455
Paul S.C. Hsu	Director	2,455
Tzong-Yeong Lin	Supervisor (Representative of Chaio Tung Bank Co., Ltd.)	0(1)
Tzyy Jang Tseng	Supervisor (Representative of Hsun Chieh Investment Co.)	2,455(1)
Tsing-Yuan Hwang	Supervisor (Representative of Chuin Tsie Investment Co.)	2,455(1)

(1) Paid to legal entity for which individual served as representative.

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C. Board Practices

All of our directors and supervisors were elected in June 2006 for a term of three years. Neither we nor any of our subsidiaries has entered into a contract with any of our directors and supervisors by which our directors or supervisors are expected to receive benefits upon termination of their employment.

Our board of directors established an audit committee in March 2005. The audit committee is appointed by the board of directors and consisted of Jack K.C.Wang, Mao-Chung Lin, and Paul S.C. Hsu from March 2005 to June 2006. After the re-election of directors in the shareholders meeting on June 12, 2006, our board of directors appointed Chung-Laung Liu, Chun-Yen Chang and Paul S.C. Hsu to be the members of the audit committee. Each audit committee member is an independent director who is financially literate with accounting or related financial management expertise. The audit committee meets as often as it deems necessary to carry out its responsibilities. Pursuant to an audit committee charter, the audit committee has responsibility for, among other things, overseeing the qualifications, independence and performance of our internal audit function and independent auditors, and overseeing the accounting policies and financial reporting and disclosure practices of our company. The audit committee also has the authority to engage special legal, accounting or other consultants it deems necessary in the performance of its duties.

In November 2003, the Securities and Exchange Commission approved changes to the NYSE s listing standards related to the corporate governance practices of listed companies. Under these rules, listed foreign private issuers, like us, must disclose any significant ways in which their corporate governance practices differ from those followed by NYSE-listed U.S. domestic companies under the NYSE s listing standards. A copy of the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to U.S. companies is available on our website http://www.umc.com/english/investors/Corp_gov_difference.asp.

D. Employees

As of March 31, 2006, we had 11,195 employees, which included 5,490 engineers, 5,171 technicians and 534 clerical workers performing administrative functions at our plants in Taiwan. We have in the past implemented, and may in the future evaluate the need to implement, labor redundancy plans based on the work performance of our employees.

	As of December 31,		
Employees	**2003**	**2004**	**2005**
Engineers	3,918	4,892	5,745
Technicians	4,469	5,230	5,671
Administrative Staff	510	520	652
Total	8,897	10,642	12,068

Employee salaries are reviewed annually. Salaries are adjusted based on industry standards, inflation and individual performance. As an incentive, additional bonuses in cash may be paid at the discretion of management based on the performance of individuals. In addition, except under certain circumstances, ROC law requires us to reserve from 10% to 15% of any offerings of our new shares for employees subscription.

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Our employees participate in our profit distribution pursuant to our articles of incorporation. Employees are entitled to receive additional bonuses based on a certain percentage of our allocable surplus income. The amount allocated for employees in 2005 in relation to retained earnings in 2004 totaled NT$1,973 million (US$60 million), all of which were paid in the form of shares. The number of shares issued as employee share bonus is calculated by valuing the shares at their par value, or NT$10 per share, rather than their fair market value. Accordingly, the value of the shares received by employees is significantly more than the cash amount employees would receive if the employee share bonus was paid in cash. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources US GAAP Reconciliation.

Our employees are not covered by any collective bargaining agreements. We believe we have a good relationship with our employees.

E. Share Ownership

As of March 31, 2005, each of our directors, supervisors and executive officers held shares and/or ADSs of United Microelectronics, either directly for their own account or indirectly as the representative of another legal entity on our board of directors, except for Paul S.C. Hsu, one of our independent directors. As of March 31, 2005, none of our directors, supervisors or executive officers held, for their own account, 5% or more of our outstanding shares. As of April 15, 2006, our most recent record date, Hsun Chieh Investment Co. held approximately 600 million of our shares, representing approximately 3% of our issued shares.

We have an Employee Stock Options Plan, pursuant to which options may be granted to our full-time regular employees, including those of our domestic and overseas subsidiaries. The exercise price for the options would be the closing price of our common shares on the Taiwan Stock Exchange on the day the options are granted, while the expiration date for such options is 6 years from the date of its issuance. In September 2002, October 2003, September 2004 and December 2005, we obtained approvals from relevant ROC authorities for the grant of up to 1,000 million, 150 million, 150 million and 350 million stock options, respectively, to acquire our common shares under our Employee Stock Options Plan. In October 2002, January 2003, November 2003, March 2004, July 2004, October 2004, April 2005, August 2005, September 2005, January 2006 and May 2006, we granted 939 million, 61 million, 57 million, 33 million, 57 million, 20 million, 23 million, 54 million, 52 million, 39 million and 42 million stock options, respectively, to our employees.

According to our Employee Stock Options Plan, an option holder may exercise an increasing portion of his or her options starting two years after the grant of the options. According to the vesting schedule, 50%, 75% and 100% of such option holder s options shall vest two, three and four years after the grant of the options, respectively. Upon a voluntary termination or termination in accordance with the ROC Labor Law, the option holder shall exercise his or her vested options within 30 days, subject to exceptions provided therein, and after the termination otherwise such options shall terminate. If termination was due to death, the heirs of such option holder have one year starting from the date of the death to exercise his or her vested options. If termination was due to retirement or occupational casualty, the option holder or his or her heirs may exercise all his or her options within a certain period as provided. The options are generally not transferable or pledgeable by the option holders.

The following table sets forth the stock options held by each of our directors, supervisors and executive officers as of March 31, 2006.

Name	Number of Shares Issuable upon Exercise of Option	Per Share Exercise Price	Unit Granted/Total Outstanding Shares	Expiration Date
Jackson Hu	5,000,000/15,000,000	17.9/23.2	0.10%	January 3, 2009/ November 26, 2009
Peter Chang	10,000,000	15.9	0.05%	October 7, 2008
Hong-Jen Wu	10,000,000	15.9	0.05%	October 7, 2008
Ching-Chang Wen	10,000,000	15.9	0.05%	October 7, 2008
Jack K.C. Wang				
Mao-Chung Lin				
Paul S.C. Hsu				
Tzyy-Jang Tseng				
Tsing-Yuan Hwang	10,000,000	15.9	0.05%	October 7, 2008
Fu-Tai Liou	8,000,000	15.9	0.04%	October 7, 2008
Shih-Wei Sun	10,000,000	15.9	0.05%	October 7, 2008
Stan Hung	10,000,000	15.9	0.05%	October 7, 2008
Chitung Liu	1,500,000	15.9	0.00%	October 7, 2008

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of (i) April 15, 2006, our most recent record date and (ii) as of certain record dates in each of the preceding three years, for (1) the shareholders known by us to beneficially own more than 2% of our shares and (2) all directors, supervisors and executive officers as a group. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules.

	As of April 14, 2006		As of April 15, 2005	As of April 11, 2004	As of April 5, 2003
Name of Beneficial Owner	Number of shares beneficially owned	Percentage of shares beneficially owned	Percentage of shares beneficially owned	Percentage of shares beneficially owned	Percentage of shares beneficially owned
Hsun Chieh Investment Co., Ltd.(1)	599,696,356	3.02%	3.05%	3.12%	3.13%
Xilinx, Inc.	436,927,795	2.20%	2.22%	2.27%	2.28%
Silicon Integrated Systems Corp.	428,511,368	2.16%	2.18%	0.00%	0.00%
Directors, supervisors and executive officers as a group	1,359,793,242	6.85%	6.44%	6.02%	6.10%

(1) 36.5% owned by United Microelectronics as of March 31, 2006.

None of our major shareholders have different voting rights from those of our other shareholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly.

For information regarding our shares held or beneficially owned by persons in the United States, see Item 9. The Offer and Listing A. Offer and Listing Details Market Price Information for Our American Depositary Shares in this annual report.

B. Related Party Transactions

From time to time we have engaged in a variety of transactions with our affiliates. We generally conduct transactions with our affiliates on an arm s-length basis. The sales and purchase prices with related parties are determined through negotiation, generally based on market price. The prices of acquisition or disposal of buildings and facilities with related parties are determined by fair market value, endorsed by an independent professional appraisal company.

In 1997, we made initial investments as a founding shareholder in several fabless design companies, including AMIC Technology Inc., AMIC Technology (Taiwan) Inc., Broadmedia Inc. (which has been merged into C-Com Corporation in August 2003), DAVICOM Semiconductor (Taiwan), Inc., Integrated Telecom Express Inc. (which was liquidated in May 2003), Integrated Technology Express Inc., MediaTek and Novatek, and received a majority

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interest in AMIC Technology Inc. and minority interests in the other companies. After the establishment of these companies, we sold in 1997 our semiconductor design equipment and related assets to these companies at the fair market value of these assets. In January 2000, we completed a merger in which United Integrated Circuits, UTEK Semiconductor, United Silicon and United Semiconductor were emerged into United Microelectronics. Through the consolidation, we acquired shareholding of Holtek Semiconductor Inc.

In December 2000, we sold all of our shares of AMIC Technology Inc. to AMIC Technology (Taiwan), Inc. In October 2003, we sold 17 million shares of our equity interest in Novatek, and in 2003, we sold 9 million shares of our equity interest in MediaTek. In 2004, we sold 6 million shares of Novatek and 7 million shares of Mediatek. In 2005, we sold 25 million common shares of Novatek for NT$3,354 million (US$102 million) and 29 million common shares of MediaTek for NT$7,605 million (US$232 million). In the first quarter of 2006, we sold 2 million shares of MediaTek for NT$583 million (US$18 million). As of March 31, 2006, we held 11.74% and 6.07% in Novatek and MediaTek, respectively.

In connection with the settlement of our litigations with SiS, we and SiS agreed in late 2002 to enter into a broad scope of cooperation, including, among other things, exchange of process patents, production support and our board representation in SiS. Under the settlement, SiS also agreed to engage us as its sole external provider of foundry services for its integrated circuits designed with 0.18 micron or smaller processors. To further strengthen our relationship with SiS, we decided to invest in SiS. In July 2004, we acquired SiSMC, a wafer foundry company spun off from SiS in 2003. As of March 31, 2006, we held 16.13% of SiS outstanding share capital.

The following table shows our aggregate ownership interest, on a consolidated basis, in major related fabless design companies that we enter into transactions from time to time as of March 31, 2006.

Name	Ownership%
AMIC Technology (Taiwan), Inc.	28.95
ITE Tech. Inc.	22.07
Holtek Semiconductor Inc.	24.81
Davicom Semiconductor, Inc.	21.56
Silicon Integrated Systems Corp.	16.13

We provide foundry services to these fabless design companies on arm s-length prices and terms. We derived NT$2,191 million, NT$3,718 million and NT$5,257 million (US$160 million) of our net operating revenues in 2003, 2004 and 2005, from the provision of our foundry services to these fabless design companies.

Chiao Tung Bank became a wholly-owned subsidiary of Mega Financial in 2002. As of March 31, 2006, we had a 0.86% equity interest in Mega Financial. In 2004, we paid off all of the loans in the amount of NT$283 million extended by Chiao Tung Bank. Tzong-Yeong Lin, who served in the capacity of the representative of Chiao Tung Bank as one of our supervisors, resigned on May 30, 2005. In addition, all of our representatives served on the board of directors and as a supervisor of Mega Financial resigned from such positions on October 27, 2005. As a result, Chiao Tung Bank is no longer our related party after October 27, 2005.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Please refer to Item 18 for a list of all financial statements filed as part of this annual report on Form 20-F.

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Except as described in Item 4. Information on the Company B. Business Overview Litigation, we are not currently involved in material litigation or other proceedings that may have, or have had in the recent past, significant effects on our financial position or profitability.

As for our policy on dividend distributions, see Item 10. Additional Information B. Memorandum and Articles of Association Dividends and Distributions. The following table sets forth the cash dividends per share and stock dividends per share as a percentage of shares outstanding paid during each of the years indicated in respect of shares outstanding at the end of each such year, except as otherwise noted. On June 12, 2006, our shareholders approved a stock dividend of NT$0.1 per share for an aggregate of 179,031,672 shares and a cash dividend of NT$0.4 per share for an aggregate of NT$7,161,266,830.

	Cash Dividend per Share NT$	Stock Dividend per Share(1) NT$	Total Number of Shares Issued as Stock Dividend	Number of Outstanding Shares at Year End
1995	0.5	5.0	417,459,806	1,343,478,004
1996		9.3	1,237,236,274	2,752,551,663
1997		3.0	868,629,276	4,117,758,265
1998		2.9	1,199,052,940	5,480,221,725
1999		1.5	834,140,790	6,638,054,462
2000		2.0	1,809,853,716	11,439,016,900
2001		1.5	1,715,104,035	13,169,235,416
2002		1.5	1,968,018,212	15,238,578,646
2003		0.4	607,925,145	15,941,901,463
2004		0.8	1,288,558,185	17,550,800,859
2005	0.1029	1.029	1,758,736,435	18,856,632,324

(1) We declare stock dividends in a NT dollar amount per share, but we pay the stock dividends to our shareholders in the form of shares. The amount of shares distributed to each shareholder is calculated by multiplying the dividend declared by the number of shares held by the given shareholder, divided by the par value of NT$10 per share. Fractional shares are not issued but are paid in cash.

B. Significant Changes

There has been no significant subsequent events following the close of the last financial year up to the date of this annual report on Form 20-F that are known to us and require disclosure in this annual report for which disclosure was not made in this annual report.

Our unconsolidated net operating revenues for the three months ended March 31, 2006 was NT$24,384 million (US$743 million). Our unconsolidated net operating revenues for the three months ended March 31, 2006 is not indicative of the results that may be expected for any subsequent period.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price Information for Our Shares

Our shares have been listed on the Taiwan Stock Exchange since July 1985. There is no public market outside Taiwan for our shares. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for our shares. The closing price for our shares on the Taiwan Stock Exchange on May 30, 2006 was NT$20.30 per share.

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	Closing Price Per Share(1)		Average Daily Trading Volume (in thousands of shares)
	High	Low	
	NT$	NT$	
2001	36.68	16.35	91,144.61
2002	39.82	16.07	94,456.18
2003	26.91	15.43	120,670.55
2004	28.50	17.51	100,979.28
First Quarter	28.50	23.32	122,317.34
Second Quarter	28.41	19.14	131,185.56
Third Quarter	21.57	18.50	82,109.21
Fourth Quarter	19.59	17.51	70,487.04
2005	22.80	16.11	89,028.88
First Quarter	18.95	16.79	86,429.31
Second Quarter	22.16	16.11	88,871.50
Third Quarter	22.80	19.60	63,243.66
Fourth Quarter	22.05	16.75	116,881.38
December	19.75	17.90	116,963.22
2006 (through May 30)	22.60	17.60	90,406.14
First Quarter	20.50	17.60	97,052.42
January	18.85	17.85	113,454.65
February	19.15	17.60	107,469.62
March	20.50	18.80	76,516.23
Second Quarter (through May 30)	22.60	19.75	80,769.03
April	22.50	20.25	97,486.26
May	22.60	19.75	65,643.91

Source: Bloomberg; Taiwan Stock Exchange.

(1) Information has been adjusted to give effect to 1,809,853,716 Shares and 78,689,291 Shares issued as stock dividend and employee bonus, respectively, in June 2000; 1,715,104,035 Shares and 149,139,481 Shares issued as stock dividend and employee bonus, respectively, in August 2001; 1,968,018,212 Shares and 171,132,018 Shares issued as stock dividend and employee bonus, respectively, in August 2002; 607,925,145 Shares and 57,972,672 Shares issued as stock dividend and employee bonus, respectively, in July 2003; 1,288,558,185 Shares and 111,127,354 Shares issued as stock dividend and employee bonus, respectively, in July 2004; and 1,758,736,435 Shares and 197,285,530 Shares issued as stock dividend and employee bonus, respectively, in August 2005.

Market Price Information for Our American Depositary Shares

Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000. The outstanding ADSs are identified by the CUSIP nu 10pt">67

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pawn Lending	Cash Advance	Check Cashing	Consolidated
Year Ended December 31, 2003:				
Revenue				
Finance and service charges	$ 100,699	$	$	$ 100,699
Proceeds from disposition of merchandise	236,032			236,032
Cash advance fees	27,017	19,938		46,955
Check cashing royalties and fees		1,381	3,568	4,949
Total revenue	363,748	21,319	3,568	388,635
Cost of revenue disposed merchandise	147,456			147,456
Net revenue	216,292	21,319	3,568	241,179
Expenses				
Operations	130,076	11,179	1,561	142,816
Cash advance loss provision	6,435	4,321		10,756
Administration	29,177	2,598	744	32,519
Depreciation and amortization	11,349	1,387	533	13,269
Total expenses	177,037	19,485	2,838	199,360
Income from operations	$ 39,255	$ 1,834	$ 730	$ 41,819
Expenditures for property and equipment	$ 11,530	$ 4,458	$ 75	$ 16,063
As of December 31, 2003:				
Total assets	$ 302,863	$ 66,971	$ 7,360	$ 377,194
Year Ended December 31, 2002:				
Revenue				
Finance and service charges	$ 94,458	$	$	$ 94,458
Proceeds from disposition of merchandise	233,396			233,396
Cash advance fees	19,084			19,084
Check cashing royalties and fees			3,563	3,563
Total revenue	346,938		3,563	350,501
Cost of revenue disposed merchandise	152,071			152,071
Net revenue	194,867		3,563	198,430
Expenses				
Operations	124,471		1,440	125,911
Cash advance loss provision	6,676			6,676

Administration	24,874		610	25,484
Depreciation and amortization	11,794		693	12,487
Total expenses	167,815		2,743	170,558
Income from operations	$ 27,052	$	$ 820	$ 27,872
Expenditures for property and equipment	$ 8,740	$	$ 363	$ 9,103
As of December 31, 2002:				
Total assets	$ 279,118	$ 150	$ 7,738	$ 287,006

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Related Party Transactions

In December 1999, the Company sold three pawnshops, including certain real estate, for $4,520,000 to Ace Pawn, Inc (Ace) whose sole stockholder, J.D. Credit, Inc. (J. D. Credit) is controlled by the Chairman of the Board of Directors of the Company. The purchase price was determined by independent appraisal and approved by the Board of Directors of the Company. A gain of $2,224,000 was recognized on the transaction. The Company received promissory notes from Ace that were collateralized by all of its assets. In addition, J.D. Credit pledged the common stock of Ace and the Chairman of the Board provided a personal guaranty for repayment of the notes. The notes required quarterly principal payments and interest payments at 10% per annum with a final balloon payment due in December 2002. Ace paid off the notes in full on January 13, 2003. The Company recorded interest income from the notes of $9,000 and $285,000 in 2003 and 2002, respectively.

Upon completion of the sale, the three pawnshops were converted to Company franchise units. Royalties recorded by the Company for these units were $54,000, $77,000 and $83,000 for 2004, 2003, and 2002, respectively. The Company has the right of first refusal in the event of a proposed resale of these pawnshops.

In October 2003, the Company purchased one of the pawnshops from Ace for $2,461,000 cash. The purchase price was determined by independent appraisal and approved by the Board of Directors of the Company.

In February 2004, pursuant to the amended Cashland asset purchase agreement, the Company made a final payment of additional consideration in the amount of $5,400,000 to the seller, who was a senior officer of the Company through January 31, 2005. The payment consisted of $2,900,000 in cash and a subordinated note for $2,500,000 (see Note 9). The Company recorded interest expense of $275,000 in 2004. At December 31, 2004, the accrued interest payable on this note was $125,000. The Company also paid rent of $122,000 and $51,000 during 2004 and 2003, respectively, for three Cashland administrative offices and facilities that are owned by the seller.

Under the Company s now discontinued officer stock loan program, the Company recorded interest income of $150,000 and $299,000, respectively, in 2004 and 2003. During 2003, the Company s Chief Executive Officer and other officers made total principal and interest payment of $3,544,000 on these notes. At December 31, 2004 and 2003, the outstanding notes balance was $2,488,000, and accrued interest on these notes was $435,000 and $286,000, respectively.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments at December 31, 2004 and 2003, were as follows (in thousands):

	2004		2003	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	**$ 15,103**	**$ 15,103**	$ 11,959	$ 11,959
Pawn loans	**109,353**	**109,353**	81,154	81,154
Cash advances, net	**36,490**	**36,490**	28,401	28,401
Subordinated notes receivable	**9,136**	**9,243**		
Interest rate cap	**9**	**9**		
Financial liabilities:				
Bank lines of credit	**$ 92,483**	**$ 92,483**	$ 68,111	$ 68,111
Senior unsecured notes	**71,643**	**73,963**	79,929	84,480
Subordinated note	**2,500**	**2,683**		

Cash and cash equivalents bear interest at market rates and have maturities of less than 90 days. Pawn loans have relatively short maturity periods depending on local regulations, generally 90 days or less. Cash advances have maturity periods of 45 days or less. Finance and service charge rates are determined by regulations and bear no valuation relationship to the capital markets interest rate movements. Generally, pawn loans may only be resold to a licensed pawnbroker.

The fair value of the subordinated notes receivables are estimated by taking the present value of the expected cash flow over the life of the notes discounted at a rate prevalent to financial instruments with similar credit profiles and like terms.

The Company s bank credit facility bears interest at a rate that is frequently adjusted on the basis of market rate changes. The fair values of the remaining long-term debt instruments are estimated based on market values for debt issues with similar characteristics or rates currently available for debt with similar terms.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Quarterly Financial Data (Unaudited)

The Company s operations are subject to seasonal fluctuations. Revenue tends to be highest during the first and fourth calendar quarters, when the average amount of pawn loans and cash advance balances are the highest and consistent with heavier disposition of merchandise activities compared to the other two quarters. The following is a summary of the quarterly results of operations for the years ended December 31, 2004 and 2003 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004 [1]				
Total revenue	**$ 117,018**	**$ 101,143**	**$ 110,536**	**$ 140,781**
Cost of revenue	**40,829**	**31,338**	**33,588**	**48,111**
Net revenue	**76,189**	**69,805**	**76,948**	**92,670**
Income from continuing operations	**9,142**	**4,926**	**7,181**	**13,716**
Income from discontinued operations [2]	**2,248**	**2,413**	**16,483**	**726**
Net income	**11,390**	**7,339**	**23,664**	**14,442**
Diluted income per share				
Income from continuing operations	**$ 0.31**	**$ 0.17**	**$ 0.24**	**$ 0.46**
Income from discontinued operations	**0.08**	**0.08**	**0.56**	**0.02**
Net income	**0.39**	**0.25**	**0.80**	**0.48**
Diluted weighted average common shares	**29,453**	**29,443**	**29,522**	**29,884**
2003 [1]				
Total revenue	$ 95,320	$ 82,305	$ 95,038	$ 115,972
Cost of revenue	39,503	31,984	33,599	42,370
Net revenue	55,817	50,321	61,439	73,602
Income from continuing operations	4,999	3,743	4,085	9,203
Income from discontinued operations	1,770	1,908	1,957	2,371
Net income	6,769	5,651	6,042	11,574
Diluted income per share				
Income from continuing operations	$ 0.20	$ 0.15	$ 0.15	$ 0.32
Income from discontinued operations	0.07	0.08	0.07	0.08
Net income	0.27	0.22	0.22	0.40
Diluted weighted average common shares	24,784	25,128	27,197	28,921

(1) On September 7, 2004, the Company sold its foreign pawn lending operations; all prior periods presented have been restated to reflect that business as discontinued operations.

(2) Income from discontinued operations includes a gain on sale of $15,415 (after related taxes of $3,608) for the quarter end September 30, 2004.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2004 (Evaluation Date). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company required to be included in its periodic filings with the Securities and Exchange Commission.

The Report of Management on Internal Control Over Financial Reporting is included in Item 8 of this annual report on Form 10-K. There have been no significant changes during the fourth quarter of the year ended December 31, 2004 in the Company s internal control over financial reporting that was identified in connection with management s evaluation described in Item 9A above and has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting. Management s assessment of the Company s internal control over financial reporting excluded the pawn operating assets acquired from Camco, Inc., which operated under the trade name SuperPawn, because they were acquired by the Company in a purchase transaction during 2004.

The Company s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls and procedures or internal controls will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item 10 with respect to directors, the Audit Committee of the Board of Directors and Audit Committee financial experts is incorporated into this report by reference to the Company s Proxy Statement for the 2005 Annual Meeting of Shareholders (Proxy Statement), and in particular to the information in the Proxy Statement under the captions Election of Directors and Meetings and Committees of the Board of Directors. Information concerning executive officers is contained in Item 1 of this report under the caption Executive Officers of the Registrant. Information regarding Section 16(a) compliance is incorporated into this report by reference to the information contained under the caption Compliance With Section 16(a) of the Securities Exchange Act of 1934 in the Proxy Statement.

The Company has adopted a Code of Business Conduct and Ethics that applies to all of its directors, officers, and employees. This Code is publicly available on the Company s website at www.cashamerica.com. Amendments to this Code and any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on the Company s website. These materials may also be requested in print and without charge by writing to the Company s Secretary at Cash America International, Inc., 1600 West 7th Street, Fort Worth, Texas 76102.

ITEM 11. EXECUTIVE COMPENSATION

Information contained under the caption Executive Compensation in the Proxy Statement is incorporated by reference into this report in response to this Item 11.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information contained under the captions Security Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in the Proxy Statement is incorporated into this report by reference in response to this Item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information contained under the caption Executive Compensation in the Proxy Statement is incorporated into this report by reference in response to this Item 13.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information contained under the caption Independent Registered Public Accounting Firm in the Proxy Statement is incorporated into this report by reference in response to this Item 14.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements: See Item 8, Financial Statements and Supplementary Data, on pages 38 through 71 hereof, for a list of the Company s consolidated financial statements and report of independent registered accounting firm.

(2) Financial Statement Schedule: The following financial statement schedule of the Company is included herein on pages 75 through 76.

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule (page 75)

Schedule II Valuation Accounts (page 76)

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information is included elsewhere in the financial statements.

(3) Exhibits required by Item 601 of Regulation S-K: The exhibits filed in response to this item are listed in the Exhibit Index on pages 77 through 79.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 25, 2005.

CASH AMERICA
INTERNATIONAL, INC.

By: /s/ DANIEL R. FEEHAN

Daniel R. Feehan
Chief Executive Officer
and President

Pursuant to the requirements of the Securities and Exchange Act of 1934, the report has been signed by the following persons on February 25, 2004 on behalf of the registrant and in the capacities indicated.

Signature	Title	Date
/s/ JACK R. DAUGHERTY Jack R. Daugherty	Chairman of the Board of Directors	February 25, 2005
/s/ DANIEL R. FEEHAN Daniel R. Feehan	Chief Executive Officer, President and Director (Principal Executive Officer)	February 25, 2005
/s/ THOMAS A. BESSANT, JR. Thomas A. Bessant, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2005
/s/ A. R. DIKE A. R. Dike	Director	February 25, 2005
/s/ JAMES H. GRAVES James H. Graves	Director	February 25, 2005
/s/ B. D. HUNTER B. D. Hunter	Director	February 25, 2005
/s/ TIMOTHY J. McKIBBEN	Director	February 25, 2005

Timothy J. McKibben

/s/ ALFRED M. MICALLEF	Director	February 25, 2005

Alfred M. Micallef

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
Cash America International, Inc.

Our audits of the consolidated financial statements, of management s assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 24, 2005 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Fort Worth, Texas
February 24, 2005

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SCHEDULE II

CASH AMERICA INTERNATIONAL, INC.
VALUATION ACCOUNTS
For the Three Years Ended December 31, 2004
(dollars in thousands)

Description	Balance at Beginning of Period	Additions: Charged To Expense	Additions: Charged to Other	Deductions	Balance at End of Period
Allowance for losses on cash advances					
Year Ended:					
December 31, 2004	**$ 3,393**	**$ 23,242**	**$ 7,556**(a)	**$ 29,833**	**$ 4,358**
December 31, 2003	$ 1,319	$ 11,130	$ 3,397(a)	$ 12,453	$ 3,393
December 31, 2002	$ 711	$ 6,247	$ 2,052(a)	$ 7,691	$ 1,319
Accrual for losses on bank-owned cash advances					
Year Ended:					
December 31, 2004	**$ 55**	**$ 287**	**$**	**$**	**$ 342**
December 31, 2003	$ 429	$ (374)	**$**	$	$ 55
December 31, 2002	$	$ 429	**$**	$	$ 429
Allowance for valuation of inventory					
Year Ended:					
December 31, 2004	**$ 1,410**	**$ 542**	**$**	**$ 507**(b)	**$ 1,445**
December 31, 2003	$ 1,435	$ 552	$	$ 577(b)	$ 1,410
December 31, 2002	$ 1,585	$ 696	$	$ 846(b)	$ 1,435
Allowance for valuation of deferred tax assets					
Year Ended:					
December 31, 2004	**$ 7,204**	**$**	**$**	**$ 6,979**(c)	**$ 225**

December 31, 2003	$ 7,691	$ (487)	$	$	$ 7,204
December 31, 2002	$ 7,628	$ 63	$	$	$ 7,691
Allowance for valuation of discontinued operations [d]					
Year Ended:					
December 31, 2004	**$ 389**	**$ 30**	$	$ 94	**$ 325**
December 31, 2003	$ 623	$ 36	$	$ 270	$ 389
December 31, 2002	$ 8,093	$ (1,214)	$	$ 6,256	$ 623

[a] Recoveries.

[b] Deducted from allowance for write-off or other disposition of merchandise.

[c] Includes $6,813 attributable to gains recognized on disposal of discontinued foreign operations.

[d] Represents amounts related to business discontinued in 2001.

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EXHIBIT INDEX

The following documents are filed as a part of this report. Those exhibits previously filed and incorporated herein by reference are identified by reference to the list of prior filings after the list of exhibits. Exhibits not required for this report have been omitted.

Exhibit	Description
3.1	Articles of Incorporation of Cash America Investments, Inc. filed in the office of the Secretary of State of Texas on October 4, 1984. (a) (Exhibit 3.1)
3.2	Articles of Amendment to the Articles of Incorporation of Cash America Investments, Inc. filed in the office of the Secretary of State of Texas on October 26, 1984. (a) (Exhibit 3.2)
3.3	Articles of Amendment to the Articles of Incorporation of Cash America Investments, Inc. filed in the office of the Secretary of State of Texas on September 24, 1986. (a) (Exhibit 3.3)
3.4	Articles of Amendment to the Articles of Incorporation of Cash America Investments, Inc. filed in the office of the Secretary of State of Texas on September 30, 1987. (b) (Exhibit 3.4)
3.5	Articles of Amendment to the Articles of Incorporation of Cash America Investments, Inc. filed in the office of the Secretary of State of Texas on April 23, 1992 to change the Company s name to Cash America International, Inc. (c) (Exhibit 3.5)
3.6	Articles of Amendment to the Articles of Incorporation of Cash America International, Inc. filed in Office of the Secretary of State of Texas on May 21, 1993. (d) (Exhibit 3.6)
3.7	Bylaws of Cash America International, Inc. (e) (Exhibit 3.5)
3.8	Amendment to Bylaws of Cash America International, Inc. dated effective September 26, 1990. (f) (Exhibit 3.6)
3.9	Amendment to Bylaws of Cash America International, Inc. dated effective April 22, 1992. (c) (Exhibit 3.8)
4.1	Form of Stock Certificate. (c) (Exhibit 4.1)
10.1	Note Agreement between the Company and Teachers Insurance and Annuity Association of America dated as of July 7, 1995. (g) (Exhibit 10.1)
10.2	First Supplement (November 10, 1995) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (h) (Exhibit 10.2)
10.3	Second Supplement (December 30, 1996) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (i) (Exhibit 10.16)
10.4	Third Supplement (December 30, 1997) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (j) (Exhibit 10.20)

10.5	Fourth Supplement (December 31, 1998) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (k) (Exhibit 10.23)
10.6	Fifth Supplement (September 29, 1999) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (l) (Exhibit 10.2)
10.7	Sixth Supplement (June 30, 2000) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (m) (Exhibit 10.2)
10.8	Seventh Supplement (September 30, 2001) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (n) (Exhibit 10.26)
10.9	Eighth Supplement (September 7, 2004) to 1995 Note Agreement between the Company and Teachers Insurance and Annuity Association of America. (o) (Exhibit 10.1)
10.10	Note Agreement dated as of December 1, 1997 among the Company and the Purchasers named therein for the issuance of the Company s 7.10% Senior Notes due January 2, 2008 in the aggregate principal amount of $30,000,000. (j) (Exhibit 10.23)
10.11	First Supplement (December 31, 1998) to Note Agreement dated as of December 1, 1997 among the Company and the purchasers named therein. (k) (Exhibit 10.29)

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Exhibit	Description
10.12	Second Supplement (September 29, 1999) to Note Agreement dated as of December 1, 1997 among the Company and the purchasers named therein. (l) (Exhibit 10.1)
10.13	Third Supplement (June 30, 2000) to Note Agreement dated as of December 1, 1997 among the Company and the purchasers named therein. (m) (Exhibit 10.1)
10.14	Fourth Supplement (September 30, 2000) to Note Agreement dated as of December 1, 1997 among the Company and the purchasers named therein. (n) (Exhibit 10.38)
10.15	Fifth Supplement (September 7, 2004) to Note Agreement dated as of December 1, 1997 among the Company and the purchasers named therein. (o) (Exhibit 10.1)
10.16	Note Agreement dated as of August 12, 2002 among the Company and the Purchasers named therein for the issuance of the Company s 7.20% Senior Notes due August 12, 2009 in the aggregate principal amount of $42,500,000. (p) (Exhibit 10.1)
10.17	Amendment No. 1 (September 7, 2004) to Note Agreement dated as of August 12, 2002 among the Company and the purchasers named therein. (o) (Exhibit 10.1)
10.18	Supplemental Executive Retirement Plan dated effective January 1, 2003. (q) (Exhibit 10.32)
10.19	Executive Change-in-Control Severance Agreement dated December 22, 2003 between the Company and each of its Executive Vice Presidents (Thomas A. Bessant, Jr., Robert D. Brockman, Jerry D. Finn, Michael D. Gaston, William R. Horne, James H. Kauffman, Hugh A. Simpson) (q) (Exhibit 10.31)
10.20	Amended and Restated Executive Employment Agreement between the Company and Mr. Feehan dated as of January 21, 2004. (q) (Exhibit 10.30)
10.21	2004 Long-Term Incentive Plan.
10.22	First Amended and Restated Credit Agreement among the Company, certain lenders named therein, and Wells Fargo Bank, National Association, as Administrative Agent dated as of February 24, 2005.
14	Code of Ethics. The Company s Code of Business Conduct and Ethics may be accessed via the Company s website at www.cashamerica.com.
21	Subsidiaries of Cash America International, Inc.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certain Exhibits are incorporated by reference to the Exhibits shown in parenthesis contained in the Company s following filings with the Securities and Exchange Commission:

(a) Registration Statement Form S-1, File No. 33-10752.

(b) Amendment No. 1 to its Registration Statement on Form S-4, File No. 33-17275.

(c) Annual Report on Form 10-K for the year ended December 31, 1992.

(d) Annual Report on Form 10-K for the year ended December 31, 1993.

(e) Post-Effective Amendment No. 1 to its Registration Statement on Form S-4, File No. 33-17275.

(f) Annual Report on Form 10-K for the year ended December 31, 1990.

(g) Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.

(h) Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

(i) Annual Report on Form 10-K for the year ended December 31, 1996.

(j) Annual Report on Form 10-K for the year ended December 31, 1997.

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Exhibit	Description
(k)	Annual Report on Form 10-K for the year ended December 31, 1998.
(l)	Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
(m)	Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
(n)	Annual Report on Form 10-K for the year ended December 31, 2001.
(o)	Current Report on Form 8-K dated September 7, 2004.
(p)	Current Report on Form 8-K dated August 15, 2002.
(q)	Annual Report on Form 10-K for the year ended December 31, 2003.