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## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Risk

Our exposure to interest rate risk relates primarily to our investment portfolio. Our primary aim with our investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. The portfolio includes tax-advantaged municipal bonds, tax-advantaged auction rate preferred municipal bonds, commercial paper, and U.S. Treasury securities. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 10% increase or decrease in interest rates would not materially affect the fair value of our available-for-sale securities and the impact on our investment portfolio would be less than \$5 million.

### Foreign Currency Risk

Sales to all direct OEMs and distributors are denominated in U.S. dollars. Sales to Japanese distributors were denominated in yen until July 1, 2001. Our purchases of processed silicon wafers from Japanese foundries were primarily denominated in U.S. dollars for all years presented. During the time our transactions with Japanese distributors were denominated in yen, we entered into forward currency exchange contracts to reduce financial market risks. Gains and losses on foreign currency forward contracts that are designated and effective as hedges of anticipated transactions, for which a firm commitment had been attained, were deferred and included in the basis of the transaction in the same period that the underlying transactions were settled. Gains and losses on any instruments not meeting the above criteria were recognized in income in the current period. Effective July 1, 2001, we converted all Japanese customers to U.S. dollar invoicing and therefore we expect to have minimal yen currency exposure in the future.

We are expanding our Ireland facility and we have two outstanding forward currency exchange contracts against the Euro. The total value of these contracts is approximately U.S. \$3.4 million. The two contracts expired between April and May 2002. We anticipate purchasing additional Euro forward contracts to reduce exposures as construction commitments increase.

Our investments in several subsidiaries and in the UMC securities are recorded in currencies other than the U.S. dollar. As these foreign currency denominated investments are translated at each quarter end during consolidation, fluctuations of exchange rates between the foreign currency and the U.S. dollar increase or decrease the value of those investments. If permanent changes, other than a temporary impairment, occur in exchange rates after an investment is made, the investment's value will increase or decrease accordingly. These fluctuations are recorded within stockholders' equity as a component of accumulated other comprehensive income. Also, as our subsidiaries maintain investments denominated in other than local currencies, exchange rate fluctuations will occur.

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