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Increased revenue and job growth in 2010 for semiconductor industry, says KPMG study

Optimism matches pre-recession attitudes; more investing in energy renewable products for future growth; shape of recovery uncertain

With an eye on the huge market opportunities in the Asian region, semiconductor executives are expressing renewed confidence that their industry will see greater revenue during 2010, with some increase in profitability and with trailing job growth. This is according to KPMG's fifth Global Semiconductor survey titled *The Road to Recovery in the Global Semiconductor Industry*.

The executives who responded to the survey also anticipate moderate increases, less than revenue, in capital expenditures and research and development next year, particularly in the areas of energy efficient and renewable technology. Yet, the path forward seems to carry some uncertainty with no real consensus on the shape of the recovery.

Major increase in business confidence

The results of the survey also produced an increase in KPMG's *Semiconductor Industry Business Confidence Index*, a measure derived from specific survey responses. This year the Index registered a 61, the equivalent of two years ago. Last year, the Index dropped to 36.

"Our findings reflect a confidence not seen since 2007, and in line with the Semiconductor Industry Association's recent forecast, and the increasingly positive outlook in the tech industry as measured by KPMG's last Business Pulse survey in September," said Mr **David Leaver**, Audit Partner at KPMG in Singapore.

He added: "The Asian region continue to be viewed as most important for recovery and revenue growth in the next three years for the semiconductor industry. However, industry executives still see volatility in some markets."

There is also a note of caution in the executives' views of the fundamental business metrics as not all the key metrics are moving ahead uniformly.

"While there are positive signs for the industry, these are offset by the views that profitability, Research & Development (R&D), capital expenditure (capex) and employment are expected to grow less quickly than revenue, reflecting some lingering skepticism by semiconductor industry leadership," said Mr Leaver.

China seen as key to growth

By an almost two-to-one margin, semiconductor executives, again this year, identified China as the most important country market for revenue growth in three years, followed by the US and Taiwan.

With the China market in their sights, 87 percent of respondents said they expect their revenue growth in 2010 to increase by more than five percent. More than half (54 percent) say their revenue gains could exceed 10 percent next year.

Mr Leaver said, "One of the ongoing results of our survey is the continuing transformation of China from a key manufacturing center to the most important end market for semiconductors in the next three year period."

When asked to project profitability over the next 12 to 18 months, almost eight in 10 (76 percent) anticipate an increase of greater than five percent while more than one-third (38 percent) said profits would jump by more than 10 percent.

Job growth

Two-thirds of the semiconductor executives who responded to the survey anticipate their company's global workforce will grow one percent or more in the next 12 months. Only one-quarter of these executives think the growth could exceed five percent. Eighteen percent expect no change in the size of their global workforce, and 16 percent anticipate a reduction in their workforce.

Shape of recovery uncertain

Executives were split as to what shape they expect the global semiconductor industry recovery to resemble. While one-third anticipates a W-shaped recovery, nearly as many (29 percent) expect a U-shaped turnaround, with significantly fewer (15 percent) anticipating a V-shaped rebound and (13 percent) what is known as a square root sign recovery.

High interest in energy efficient, renewable products

The KPMG survey also found that a significantly higher percentage of executives are expecting increased spending on both R&D and capital expenditures during the next year. Half the respondents (five times as many as 2008) expect capex to grow by more than five percent and just under half - 45 percent - or twice as many as last year expect R&D to grow by more than five percent.

The KPMG study found strong interest in energy efficient or energy renewable technology, with 66 percent of the executives indicating a high or extremely high level of customer interest in those products.

Executives who responded to the survey see these products becoming a greater percentage of their revenue over time – 45 percent believe that in five years energy efficient or energy renewable products will drive more than half of the revenue from their current product line, as compared to only 18 percent of the executives who believe that these products will drive the majority of their revenue today.

These views are also reflected in research and development spending where 59 percent of the R&D funds will be spent on two areas among energy efficient or energy renewable product innovation -- lower power semiconductor manufacturing and integrated circuits, and improving conversion efficiency of power supplies and converters.

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Note to editors:

About *The Road to Recovery in the Global Semiconductor Industry*

The Global Semiconductor Survey, now in its fifth year, is developed in collaboration with the Semiconductor Industry Association to identify trends and issues in the global semiconductor industry and to gain critical insight into the forces shaping the semiconductor market.

Conducted in September and October 2009, it surveyed 113 senior level executives in the semiconductor industry including device, foundry and fabless manufacturers.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. The independent member firms of the KPMG network operate in 144 countries and have more than 137,000 professionals worldwide. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG's website is located at kpmg.com.sg

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For further information please contact:

Jeremy Kong,
Assistant Manager, Marketing & Communications, KPMG in Singapore
Tel: +65 6507 1541 / 8118 9962
e-Mail: jeremykong@kpmg.com.sg

Kelvin Lee,
Manager, Marketing & Communications, KPMG in Singapore
Tel: +65 6507 1534 / 8118 9400
e-Mail: kelvinlee1@kpmg.com.sg

Dawn Westerhout,
Director, Marketing & Communications, KPMG in Singapore
Tel: +65 6507 1538 / 8118 9920
e-Mail: dwesterhout@kpmg.com.sg

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