



Executive Summary

Taiwan Semiconductor Quarterly Report Third Quarter, 2011

INTRODUCTION

The US-Taiwan Business Council is committed to providing our members with tactical and strategic advice on how to succeed in the Taiwan market. As part of a suite of information products distributed to our members, the Council publishes several analysis reports each year. These reports are published each quarter, with an expanded report in the fourth quarter that covers the entire previous year.

The Taiwan Semiconductor Report focuses on the semiconductor industry as it relates to Taiwan, China, and the U.S., and provides up-to-date analysis of developments during each quarter. Each report also contains contact information valuable in initiating and maintaining a relationship with Taiwan private and government entities, as well as other useful information including trend charts and a glossary.

The US-Taiwan Business Council's Taiwan Semiconductor Report has been published since the first quarter of 2002. Although these reports are distributed exclusively to our member companies, interested U.S. and Taiwan government employees, and other close partner organizations, this executive summary provides some insight into the focus and contents of the report.

For more information, please contact us directly at the below address, or visit us online at www.us-taiwan.org.

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**TAIWAN QUARTERLY SEMICONDUCTOR ANALYSIS REPORT
PUBLISHED OCTOBER 1, 2011**

The weakening global economy has caused a downturn in Taiwan's semiconductor industry. What began in the second quarter accelerated into the third quarter, and third quarter sales in all sectors of Taiwan's semiconductor industry – including in the DRAM, assembly & test, chip design, and foundry segments - fell compared to the same period a year ago.

The end of a second round of quantitative easing in the U.S., no further stimulus announced from the U.S. Federal Reserve, rising inflation in emerging markets, and the European sovereign debt issues have led to weakening demand for the world's chip foundries. For the first time this year, the Taiwan foundry sector's sales fell during the third quarter, as the drop in revenues for September flipped overall gains for the previous two months into negative figures for the three-month period.

The weakness in the Taiwan semiconductor industry is symptomatic of the state of the world economy, but is even to some extent due to the tragic March earthquake in Japan. Following the earthquake, there appears to have been some overbooking of orders for semiconductors, and some buyers are apparently digesting excess inventory now that demand has softened.

With chip demand falling short of originally bullish expectations for the year, some Taiwan companies have been forced to cut capital expenditure (capex) plans, and suppliers of equipment and materials to Taiwan will need to monitor the situation carefully. There is already some speculation that a glut of chip production capacity is emerging, which might drag down profitability for several years.

This quarterly analysis report will examine the factors affecting Taiwan's semiconductor industry during the third quarter of 2011, including the political campaigns leading up to Taiwan's Presidential Election in January next year. The report will continue to examine in detail the outlook for foundries, the DRAM sector, assembly & test companies, and for the chip design sector in Taiwan going forward.

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