

FINAL TRANSCRIPT

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AMKR - Q1 2011 Amkor Technology Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Ken Joyce

Amkor Technology, Inc. - President & CEO

Joanne Solomon

Amkor Technology, Inc. - EVP & CFO

CONFERENCE CALL PARTICIPANTS

Wenge Yang

Citigroup - Analyst

Olga Levinson

Barclays Capital - Analyst

Frank Jarman

Goldman Sachs - Analyst

Sundar Varadarajan

Citadel Securities - Analyst

Ross Strehlow

RBC Wealth Management - Analyst

Raj David

Citigroup - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the first-quarter 2011 Amkor Technology, Inc. earnings conference call. My name is Jeremy and I will be your conference operator for today's call. At this time all participants will be in a listen-only mode. Following the presentation the conference will be open for questions. This conference call is being recorded today, Thursday, April 28, 2011 and will run for up to one hour.

Before we begin this call Amkor would like to remind you that there will be forward-looking statements made during the course of this conference call. These statements represent the current view of Amkor management. Actual results could vary materially from such statements. Prior to this conference call Amkor's first-quarter 2011 earnings release was filed with the SEC on Form 8-K.

The earnings release, together with Amkor's other SEC filings, contain information on risk factors, uncertainties and exceptions that could cause actual results to differ materially from Amkor's current expectations. I would now like to turn the conference over to Mr. Ken Joyce, Amkor's President and Chief Executive Officer. Please go ahead, sir.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Thank you, Jeremy, and good afternoon, everyone. With me today is Joanne Solomon, our Chief Financial Officer. Today I'll talk about our first-quarter performance, the situation in Japan and our expectations for the second quarter. Joanne will then discuss our first-quarter financial results in more detail and, finally, we'll open up the call for your questions.

To begin, our sales of \$665 million were consistent with our expectations even though sales were reduced by approximately \$6 million due to the impact of the Japan earthquake on our Kitakami operation. I'll talk about Japan in more detail shortly, but first let's focus on the trends and patterns we saw in the first quarter.



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Looking at our performance in the first quarter we saw typical seasonal softness. Our strong position in gaming amplified these seasonal patterns. We also saw weakness in networking and certain consumer electronics due to inventory adjustments by some of our customers. Our gross margin came in at 19% and was at the top of our anticipated range.

Now let's move on to the situation in Japan. First, we express our sympathies to the victims of the earthquake and tsunami as well as our Japanese colleagues and the nation as a whole. We are all very relieved that all of our employees are safe and unharmed.

Our factory in Kitakami is located more than 130 miles north of the Fukushima Daiichi nuclear power plant. The factory suffered some minor damage and I'm happy to say that substantially all repairs are complete and the facility is back in operation, although we are currently experiencing some wafer shortages.

Kitakami is our smallest factory in both units and revenue, generating around \$10 million of monthly sales prior to the earthquake. And as I mentioned, the closure impacted our first-quarter sales by about \$6 million.

Now looking at the broader supply chain, Japan is a major supplier to the semiconductor industry. Since the earthquake we have been working closely with our customers and suppliers to analyze the situation, identify the potential exposure and mitigate the risk where possible. Despite these efforts we currently expect that supply-chain disruptions, particularly relating to the availability of substrates and wafers, will negatively impact our second-quarter results.

As we look ahead to the second quarter, we anticipate that our sales will be in the range of \$650 million to \$700 million, or down 2% to up 5% sequentially. Because of the uncertainties in Japan we have reduced our sales outlook by \$50 million. Our demand forecast was also reduced by \$20 million due to the unexpected weakness for wireless baseband chips by a single OEM. We expect our gross margin to be in the range of 16% to 20%.

As we look at the second half of the year, we are anticipating a rebound in customer demand and solid growth driven primarily by strength in wireless communications and consumer electronics. In support of this growth and to meet the capacity requirements of our leading customers, we are currently planning capital additions of approximately \$450 million for 2011.

Consumers worldwide are seeking electronic devices that feature ever greater communication and computing capabilities and provide high-speed wireless access to data rich content. These devices increasingly require flip chip interconnect technology. Insatiable demand is driving the migration from wire bond flip chip packaging. We have been investing significant resources in our wafer bump and flip chip capability and these investments are paying off.

From 2005 to 2010 we grew our flip chip and wafer level business by a CAGR of more than 60%, three times faster than the overall industry growth rate. Flip chip and wafer level packages now account for over 30% of our packaging revenues and continue to grow.

One of the key drivers of our outlook for growth in flip chip is our fine pitch copper pillar flip chip packages. Fine pitch copper pillar enables reduced semiconductor chip size and cost while boosting performance. It is ideal for hand-held high-performance and low-power devices, precisely the kind of products most in demand with (inaudible) today's global consumers.

Last year we developed and commercialized this proprietary technology in partnership with Texas Instruments. It has really taken hold and we expect it to generate sales of over \$100 million this year. And we are fanning this out to other customers.

In summary, we remain encouraged by the underlying demand trends we see in our business and end markets. We certainly face near-term challenges associated with the Japan earthquake and its aftermath. However, we're optimistic that this impact will be [confined] to the near term and we're looking forward to a strong second half of the year. What that I'll now turn the call over to Joanne.



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Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

Thank you, Ken, and good afternoon, everyone. Again, our first-quarter net sales of \$665 million declined 11% sequentially and were in line with expectations. Our ball grid array packages were down 20% and chip scale packages down 15% due to the expected seasonal declines and inventory adjustments in networking and consumer electronics. Mainframe packages and test services were nearly flat.

The shutdown of our Kitakami factory and the \$6 million sales impact mostly affected chip scale and leadframe packages. Our sales to integrated device manufacturers, or IDM customers were 47% in Q1, essentially flat with the fourth quarter. We anticipate that the revenue split between our IDM and fabless customers will remain around 50-50 for the second quarter of 2011.

The pricing environment remains stable with very little price erosion this quarter. Gross margin for the first quarter was 19%, at the top end of our anticipated range and down from 21% in Q4. Given the sequential decline in business volume we kept tight focus on our costs across the enterprise. Our assembly utilization of 71% created some headwinds as utilization is one of the critical drivers of gross margin performance.

We also continue to face pressure from unfavorable foreign currency exchange rate movements and higher gold prices. Our operating expenses of \$77 million were slightly higher than the fourth quarter and our expectations. For the second quarter of 2011 we expect operating expenses to remain generally consistent with Q1. Income taxes were consistent with our expectations and we anticipate that our effective tax rate for the second quarter and full year 2011 will be around 11%.

Turning to the balance sheet, in January all \$100 million of our outstanding 6.25 convertible notes due 2013 were converted into 13.4 million shares of our common stock. We ended the quarter with a cash balance of \$393 million, total debt of \$1.2 billion and net debt of \$851 million. This includes \$250 million of convertible debt that we expect will be converted into equity rather than being paid at maturity. Additionally, we were free cash flow positive for the first quarter.

Moving on to our capital spending activity, we spent \$105 million on capital additions in the first quarter. Our spending was focused primarily on new capacity for flip chips, assembly and test services in support of communications. To meet the capacity requirements of our leading customers we are currently planning capital additions of around \$125 million for the second quarter.

In closing, we are anticipating some near-term impact from the Japan earthquake, but we expect the second half of the year to be strong. With that we will now open the call up for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Timothy Arcuri, Citigroup.

Wenge Yang - Citigroup - Analyst

Hi, this is Wenge Yang for Tim. Thank you for taking my questions. Two questions. First of all, the Japan impact in Q2, you mentioned about \$50 million. What do you see as the future impact in Q3 and Q4?



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Ken Joyce - Amkor Technology, Inc. - President & CEO

We're hopeful that this is going to clean itself up in Q2, but that's yet to be seen as how this situation unfolds and resolves itself in Japan.

Wenge Yang - Citigroup - Analyst

Okay, so Q2 right now is shaping up to be less than seasonal. And you mentioned about some of the demand delays that could make second-half stronger. So is there any visibility on Q3 right now? Is it going to be stronger than seasonal or it's hard to say at this point?

Ken Joyce - Amkor Technology, Inc. - President & CEO

It looks to us as we look at our current demand forecasts from our customers and our discussions with our customers that Q3 will be stronger than seasonal.

Wenge Yang - Citigroup - Analyst

That's encouraging. Okay, the second question is more focused on your investment in CapEx. You've been spending a lot of CapEx to expand your advanced packaging technologies, mostly flip chips and others. So if you look at some of your competitors, like ASE, they spend quite a bit on the copper wire, as a result they gain a lot of market share and also outperform compared to some of the leadframe players. So on the flip chip side, when can we actually see a major benefit of all those CapEx investments in terms of either gross margin or your market share?

Ken Joyce - Amkor Technology, Inc. - President & CEO

It's a good question. I mean with the price of gold over \$1500 an ounce the migration from gold to flip chip and copper wire bond is definitely accelerating. As of right now flip chip is over 30% of our assembly revenue, so you're seeing some of the benefits right now. We've invested substantial resources, as you say.

A good example would be our fine pitch copper pillar flip chip. This new technology platform is going to generate over \$100 million in revenue this year. We're in the process of fanning that out to other customers. And that's a very successful flip chip technology.

So the migration to copper wire bonding, well that's also accelerating. But we think we have the right focus of where we're at which is on the flip chip and that's where we've put the most of our resources. So to sum up again, this year we'll see over \$100 million just from the fine pitch copper pillar flip chip program, as well as our other flip chip. So we're going to see some of it this year.

Wenge Yang - Citigroup - Analyst

So do you expect to see a major uptick in either gross margin or market share? Because so far we haven't seen concrete results out of those investments -- beyond the industry average, I mean.

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

Yes, with respect to market share, when you look at it in the aggregate, Amkor maintained its share with respect to 2010. When you break it down by who has an industry-leading position with respect to flip chip, clearly Amkor has an industry-leading

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position with respect to flip chip assembly. With that flip chip assembly we do get strong attach to test turnkey services. There really are very strong returns and that also translates into industry leading return on invested capital which is more than twice our WAC.

With respect to gross margin and the premium that you would get on advanced package technology, as you're in a ramp phase for any of these advanced technologies, especially flip chip, when we're investing significant dollars in bump, it does take time to bring up those bump operations to a level of scale. As bump is in its start-up phases it operates with lower gross margins. But once it does reach economies of scale it has gross margins that are higher than at the corporate average.

So I would say 2010 was a strong ramp year for bump and flip chip and we'll start to reap some of those benefits in 2011. But that is one offering and, with respect to the slow start this first half of the year, gross margins will be challenged by the headwinds of our Q1 and Q2 results.

Wenge Yang - Citigroup - Analyst

Great, thank you.

Operator

CJ Muse, Barclays Capital.

Olga Levinson - Barclays Capital - Analyst

Hi, it's Olga calling in for CJ, thanks for taking my question. The first question is regarding the \$50 million number that you put out in terms of lowering your expectations due to uncertainty. Can you discuss the levers for that? To what extent is that driven by potential wafer or BT resin shortages or specific customer push outs or delays that you have seen or just you trying to be taking all of these uncertainties into account and just s putting a number around that?

Ken Joyce - Amkor Technology, Inc. - President & CEO

There are clearly a number of uncertainties, but the bulk of them rely around the substrate supply. The substrate supplies, as you know, are tied back to the availability of BT resin. There are of course other things such as copper foil, there's glass fabric, there's epoxy, there's a whole series of supplies that come out of Japan that are critical. And it's the timing of those and the timing of how fast the operations can be restored in Japan that will really dictate how this \$50 million comes out.

This \$50 million, there's a good deal of uncertainty in the sense that it's a snapshot at this point in time of the inventory that we have on hand, delivery dates that literally change on a daily basis from your suppliers and whether or not they're going to be able to fulfill those commitments.

We're optimistic from the standpoint that a number of these operations in Japan seem to be recovering a little quicker than people had anticipated. We are focused on this every day with both our customers and our suppliers to make sure. So we're hopeful that the \$50 million is the low side of the range on the impact and that we're going to be able to recover some of that in the quarter.

Olga Levinson - Barclays Capital - Analyst

Got you. And then within those component shortages which you discussed, can you talk about what sort of pricing trends you're seeing on those shortages and whether you're passing along any of that to your customers?

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Ken Joyce - *Amkor Technology, Inc. - President & CEO*

The pricing for the most part has been rational. We are seeing one or two where I think a supplier tends to try to be a little opportunistic. We're working with our customer and with the supplier coordinating back and forth. We would obviously have to try to pass that cost on to our customer. But we think overall -- the overall environment from the suppliers given the conditions has really been pretty rational.

Olga Levinson - *Barclays Capital - Analyst*

Got it, thank you.

Operator

Frank Jarman, Goldman Sachs.

Frank Jarman - *Goldman Sachs - Analyst*

Thanks, guys. My first question is just related to the weakness in demand on the wireless baseband side. Can you provide a little bit more color around what you guys are seeing there with that single customer? Thank you.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

We had a product that came to end-of-life actually in the second quarter; it came to end-of-life a little sooner than people anticipated. I think that's a one-time event. You saw it in this quarter and that's what it's a reflection of.

Frank Jarman - *Goldman Sachs - Analyst*

Okay, great. So we shouldn't really think about that as more of a function of the market, more so purely related to that one contract?

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Absolutely not. It's related to that one contract.

Frank Jarman - *Goldman Sachs - Analyst*

Got it, thanks. And then the second question I had was just about the capital structure. You had the \$100 million of converts convert to equity; I think you have the 9.25% call date coming up for those notes. And as I look at your cap structure you're what running with relatively low leverage today, around 1.5 times. So how are you thinking about your target capital structure down the road? What do you view as appropriate leverage for the business? And how are you guys thinking about taking steps towards achieving that?

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

Yes, when we look at our capital structure we certainly look at maturities and we feel very comfortable with how the maturities are laddered. From a public debt standpoint the first maturity we have out there beyond the convert that's coming up here in

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May is the 2016 convert. We do have some amortizing debt in our foreign jurisdictions which is a great way for us to continue down the path of delevering and reducing our debt further.

We also manage our debt from a net debt position. We talked about our net debt being at \$850 million. We also have a convert that has a strike price of just over \$3, we see that as that's very [equity-like] right now, so you can even take that \$250 million off and that puts us at \$600 million of net debt. We've historically talked about a net debt goal of \$500 million, so we're very close to that already.

So, people have different views on optimal capital structure. We feel very comfortable with our capital structure. Our debt to EBITDA ratio is below 2.0 which would even suggest being somewhat of an investment-grade, although we're not rated investment grade. So we're well positioned with our capital structure and we do believe it suits us, our maturities suit us. That said, we continue to monitor the capital markets and if there are transactions that make sense to further improve the capital structure we'll certainly be opportunistic.

Frank Jarman - *Goldman Sachs - Analyst*

Okay, great. Thanks very much, guys.

Operator

(Operator Instructions). Sundar Varadarajan, Citadel Securities.

Sundar Varadarajan - *Citadel Securities - Analyst*

Yes, hi, thanks for taking my question. Just wanted to talk a little bit about your CapEx plan for the remainder of the year, you still have a \$450 million budget. Can you talk about this being related to some of the demand you're seeing from customers? Would you characterize this demand as net incremental revenue to you or is part of it just stuff moving from an older technology to a different technology? How should we think about the incremental revenue impact from the CapEx that you're putting in place?

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

Sure, I can give you some color to that. We talk about -- about 60% of our investment goes to assembly, about 20% goes to tasks and about 20% goes to facilities and R&D, other infrastructure projects. There is some level of replacement that happens; there's a piece of aging assets that role off each year. And as you invest in new assets you get better utilizations and the like.

Where we're spending our money is in support of the flip chip technologies largely and there are great turnkey opportunities with respect to flip chip. And right now the investments are heavily focused in support of communications because that's where we see the growth for the year. A lot of our flip chip, chip scale packaging assets are operating at high levels of utilization given the ongoing demand on the communication side.

There is some seasonal softness with respect to communications in the first quarter/second quarter, but then it heats up 2Q into Q3. So that's where we're investing, we're investing heavily in flip chip, chip scale packages, tasks, some incremental bump investments just to keep up with the fine pitch copper pillar demand that Ken talked about in his prepared remarks. But there is some investment that just maintains the business.

Historically what we've said is just from a -- when we're investing about a capital intensity of 10% overall you don't see a lot of growth; when we invest to capital intensity of 14% is where you start to see growth. And then we have from time to time been

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above the 14% capital intensity and that's largely driven by infrastructures or heavier levels of capital investments for specific opportunities.

Sundar Varadarajan - *Citadel Securities - Analyst*

Great. That was a very detailed answer. Thank you. And then moving on to the baseband weakness that you saw or expect to see in Q2. Do you -- are you kind of -- you said that product has kind of reached end-of-life. Are you transitioning to the newer products or would we see some form of a bounce back in Q3 with respect to that customer/product group or is that kind of like a one-time permanent change and then that doesn't come back in Q3?

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

That was a one-time hit to Q2. That product, as you say, came to end-of-life. There is additional business with that customer, but that will be -- we're talking about an OEM here, so our (inaudible) will be driving business with them as we go forward.

Sundar Varadarajan - *Citadel Securities - Analyst*

Okay, great. Thank you.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Thanks, Sundar.

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

The only thing else I would add is to say there's significant demand with respect to communications that this (inaudible) impact won't have an impact overall for us for the year.

Operator

Satya Kumar, Credit Suisse.

Unidentified Participant

Hi, this is (inaudible) calling in for Satya, thanks for taking my question. I just had a question, in terms of your guidance we see like other companies like some of your competitors are guiding up next quarter and we see that the guidance from you is actually down. Are you losing share or what do you think is the reason that you are guiding the quarter down for the next quarter?

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

I think the guidance was minus 2 to up 5, so I think that's pretty much in line with what our competition is seeing. Although I have to admit, there's a great deal of uncertainty out there.

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Unidentified Participant

Okay. And just another question. In terms of your -- can you just elaborate a little bit on your share in smart phones versus feature phones? We have seen a lot of weakness recently on feature phones whereas smart phones are doing quite well. Can you talk about like how some of these transitions for 4G and some other transitions happening towards smart phone -- how does that affect your share?

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

Well, when you look at who our customers are, it includes the likes of Qualcomm and Texas Instruments, Infineon and others. So a lot of our customers compete very strongly and very significantly on the smart phones. So we do see ourselves as being more closely tied to the smart phones and the demand trends that are happening with smart phones than we do feature rich. That isn't to say that we don't support feature rich as well, but our sweet spot is more on the smart phone side.

Unidentified Participant

Thank you, that's all I had.

Operator

Ross Strehlow, RBC Wealth Management.

Ross Strehlow - *RBC Wealth Management - Analyst*

On your \$50 million shortfall, is that going to other competitors or are they in the same boat too?

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

No, that is going nowhere. That's one OEM that's --.

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

I'm sorry; it was \$50 million relating to Japan.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Oh, I'm sorry.

Ross Strehlow - *RBC Wealth Management - Analyst*

Right.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

No, Ross, that will be largely -- hopefully we're going to recover that. It's going to be delayed possibly, if we can get some in this quarter but then some will move into Q3 and 4.

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Ross Strehlow - RBC Wealth Management - Analyst

So that's not (multiple speakers).

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

We don't believe that it's an Amkor specific thing; we believe it's an industry thing. We can't obviously speak to our competitors. Only one of our competitors has had a call, they did talk about some substrate impact as well. But we don't see that we would somehow be more impacted by this than our competitors.

Ross Strehlow - RBC Wealth Management - Analyst

Okay. And then, Joanne, also did you mention something that the consumer electronics are still not quite back yet, but you expect to be fully back by Q3, is that what you said?

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

There are clear seasonal patterns with respect to consumer electronics. We did talk about some inventory adjustments in consumer electronics, a lot of that is relating to memory. So it's not broadly impacting consumer electronics. A lot of that memory is going to whether it's a phone or an iPad. That correction -- those inventory adjustments are really Q1.

Most acutely you would see it in our results in our chip scale packaging results was pressured by those inventory adjustments. So we see those trends correct in Q2 and beyond and then strong Q3 in support of the holiday season all over again.

Ross Strehlow - RBC Wealth Management - Analyst

Okay. So some of it has already -- because in your last quarterly report I know that was the big problem for this quarter. So has a lot of that excess inventory now worked its way through?

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

Yes, we're starting to see improvements of the utilization of our -- as an example, our chip scales -- our stack chip scale packaging line. So I would, based off of those increases in utilizations, I feel comfortable that the inventories are working through.

Ross Strehlow - RBC Wealth Management - Analyst

Okay, great. And then in regards to the cost of gold, do you guys do any hedging?

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

We don't hedge gold. Gold is a very significant impact for us. When you look at our gold spend as a percentage of revenues it's about 10%. Our position on gold is that it's a total part of the cost of the package and we look to recover from our customers either directly or indirectly on the incremental cost of gold.

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That said, even though we may be passing that through and staying neutral on a cash basis, that gold price increases do compress our gross margin. We were at the top end of our gross margin guidance for Q1 and it was in line with our forecasted expectations of gold. But there was about a -- close to half a point of gross margin that was relating to gold.

Ross Strehlow - *RBC Wealth Management - Analyst*

So with gold continuing to go up, what are you doing now going forward? Are you just -- is it involved in the pricing? Is it a variable price then with your customers going forward? Is that how you do it?

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

So with respect to mitigation of the gold exposure, you're seeing two very significant trends that Ken talked about. You're seeing the migration to flip chip packaging technology, which has a lot less gold impact. There is some gold but not to the extent of a gold wire bond. So that's one way.

The other way is with respect to the migration to copper wire. With gold trading at over \$1500 an ounce we're seeing the migration to copper accelerating. We continue to qualify more and more of our customers in support of that migration and we are investing capital expenditures to bring up our capacity. We do see that as a significant trend also for 2011.

Ross Strehlow - *RBC Wealth Management - Analyst*

Okay, great. Thank you very much. That's all for me.

Joanne Solomon - *Amkor Technology, Inc. - EVP & CFO*

Thank you, Ross.

Operator

[Raj Dave], Citigroup.

Raj David - *Citigroup - Analyst*

Hi, thanks this is [Raj David] in the principal strategies group. Could you on this -- I wanted to follow up on a question that one of the other callers asked about, the guidance relative to your competitors. I'm just trying to reconcile whether you're being a little bit more conservative. This still is looking at guidance of up 3% to 7%, in the second quarter its stats trip back at zero to mid-single-digits up.

So, if I take your low end clearly it's an outlier and your midpoint is -- your high end is in line. Could you maybe help us think through that? And then the second question was on the FX and currency. With the US dollar continuing to trade lower and your cost structure denominated in non-US dollars are you -- do you do anything on the hedging side or contemplating anything there?

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Well, I'll address the first question on the guidance. I think we're pretty much in line with where our competitors are with one exception. We have called out this \$50 million that did impact us or could impact us, I should say. It impacted our guidance but

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it could impact results. We're working that daily. And that could be an improvement over what's listed in that guidance of minus 2% to up 5%. So we continue to work that and we think that's a fair reflection of where we are.

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

On the FX side -- FX impacted our gross margins adversely by about \$4 million this quarter, so it is significant. We historically have relied on natural hedges. About 80% of our revenues are US dollar-based revenues with the -- and our costs are about 60% in US dollar. We do have some balance sheet exposures; we have the Korean severance plan and the Taiwan dollar that are local currency.

We do evaluate from time to time whether hedging makes sense to avoid some of the balance sheet risks. And we do also carry cash balances in local currencies to help defray some of the currency exposures. So that is kind of where we're at. And the one thing, I just want to correct myself, 90% of our sales are in US dollars, just to clarify that.

Raj David - Citigroup - Analyst

Okay and my last question is on the end market. There have been conflicting reports from many of -- Texas Instruments' report seemed to be more negative than someone like a Qualcomm. And so when you, as an investor, put all that together there isn't a clear picture on end demand.

And what I'm trying to figure out is are there any cracks in the end demand or is this just normal seasonal patterns that you have excess inventory channels that one company is involved in and less excess inventory in another? Can you help us maybe think through that?

Ken Joyce - Amkor Technology, Inc. - President & CEO

On the communications side, the demand continues to be strong for us. I know you mentioned TI and Qualcomm; they're obviously two of Amkor's large customers. TI was impacted obviously by some of the impacts in Japan in Q2. I don't see that as an ongoing issue for them based on the results of their conference call which I read.

So, I think in the communications sector the growth vector is still very strong. I think we're all very optimistic once again with some caveats around how Japan unfolds. In the other areas of gaming it's seasonal, very seasonal in fact, down for us in Q1; we see it coming back in Q2 but even stronger in Q3. So there's the gaming which is part of the consumer market.

On the networking we have seen -- we said we saw it in Q4. There was a buildup in some inventories. We see some of that being worked down through the die banks at our factories at this time. So that's kind of an overview for those markets.

Joanne Solomon - Amkor Technology, Inc. - EVP & CFO

The only thing I would add is when you look a little bit more granular at the diversification of the (inaudible) players, I think that may swing things within a quarter. But the overall demand trend is solid, so they're doing well.

Raj David - Citigroup - Analyst

Great. Thank you very much, guys.

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Operator

Thank you. And Mr. Joyce, there are no further questions at this time.

Ken Joyce - *Amkor Technology, Inc. - President & CEO*

Well, we thank everyone for their participation in the call today. And with that we'll end the call. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. If you'd like to listen to a replay of today's conference you can dial 1-800-406-7325, for international participants please dial 1-303-590-3030 and enter the access code 443-5872. That replay will be available until April 28, 2011. Thank you for your participation. You may now disconnect.

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