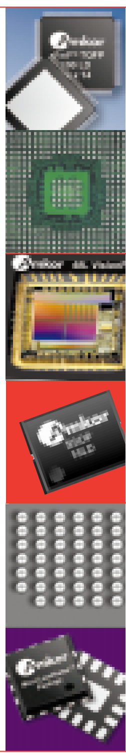
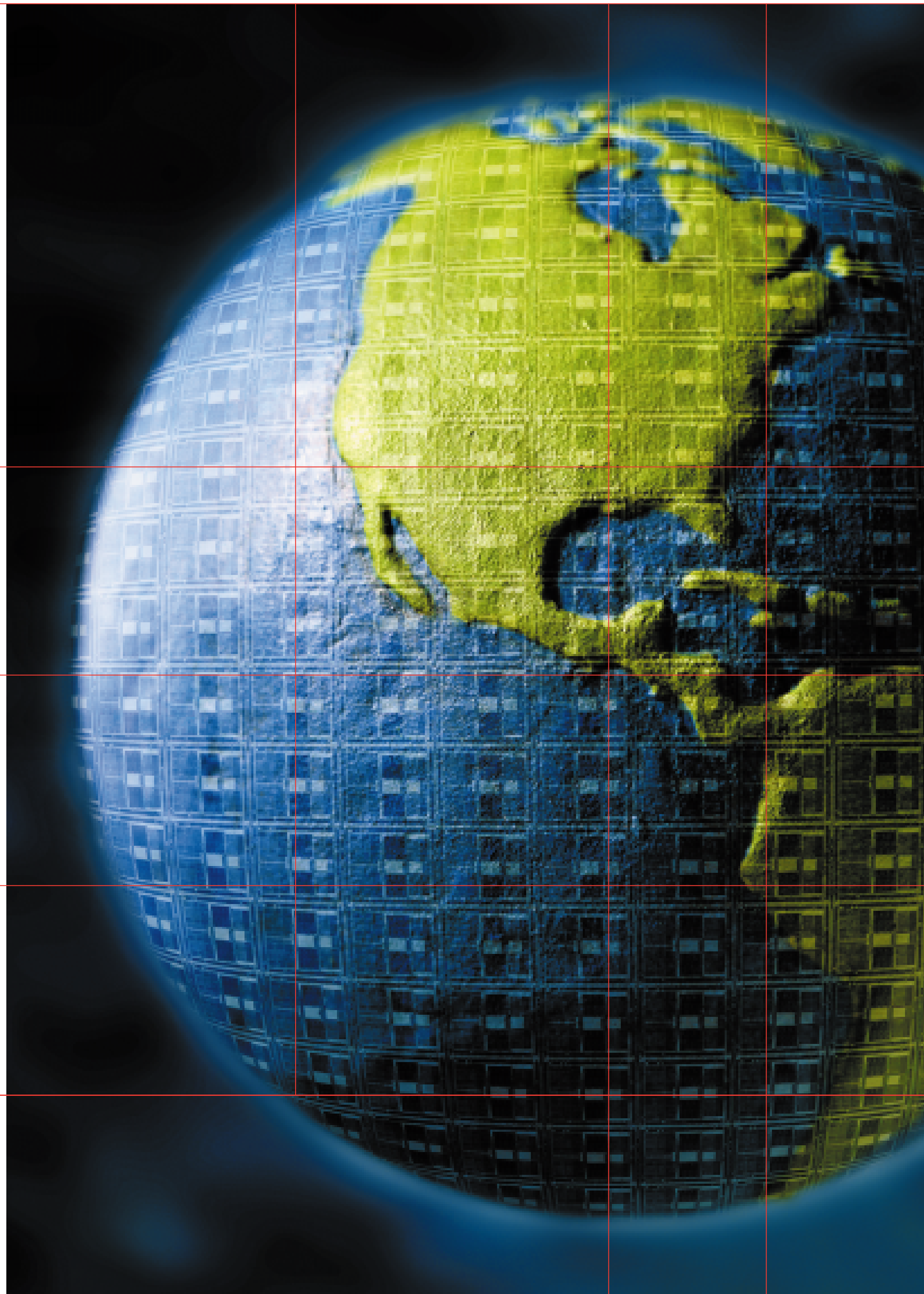
Amkor

Technology, Inc.

1998
Annual
Report





The World Leader in Semiconductor Packaging Technology

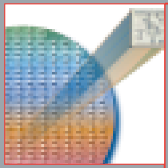
Amkor Technology™

Corporate Profile

Amkor Technology, Inc. is the world's largest independent provider of semiconductor packaging design, assembly and test services. Celebrating its 30th year of operations, Amkor offers one of the industry's broadest and most integrated set of advanced packaging services to more than 150 of the world's leading semiconductor companies. Amkor has over 3 million square feet of manufacturing floor space available in three wholly owned factories in the Philippines and Anam Semiconductor, Inc.'s four factories in South Korea.

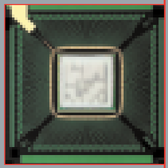
In 1998 Amkor began offering wafer fabrication services through a state-of-the-art wafer fab owned by Anam Semiconductor, Inc. utilizing advanced CMOS technology from Texas Instruments. As a result, Amkor is now able to function as a turnkey provider of fabrication, packaging and test services.

Amkor's industry-leading technical capabilities, customer service, product management and design support, combined with high quality and fast cycle times, represent critical operational requirements for many of the world's leading semiconductor companies.

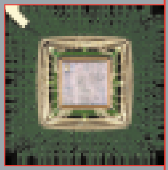


A Primer on Semiconductor Packaging and Testing

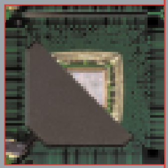
Packaging and testing play a critical role in ensuring that semiconductor chips achieve maximum functionality and performance.



Semiconductors start as a circular silicon wafer housing millions of transistors and complex electronic circuitry interconnected in layers. Each wafer may contain hundreds or even thousands of individual chips.



In the packaging process, the semiconductor wafer is first cut into individual die, which are then separated from the wafer and attached to a substrate. Electronic leads on the substrate are connected to terminals on the chips by extremely fine gold wires. These electronic leads serve to increase the functionality and complexity of the semiconductor.



Each die is then encapsulated in a plastic molding compound, forming the 'package'. The package provides the delicate chips with physical protection and also incorporates thermal properties that enable the IC to dissipate the heat that is generated from the large number of transistors.

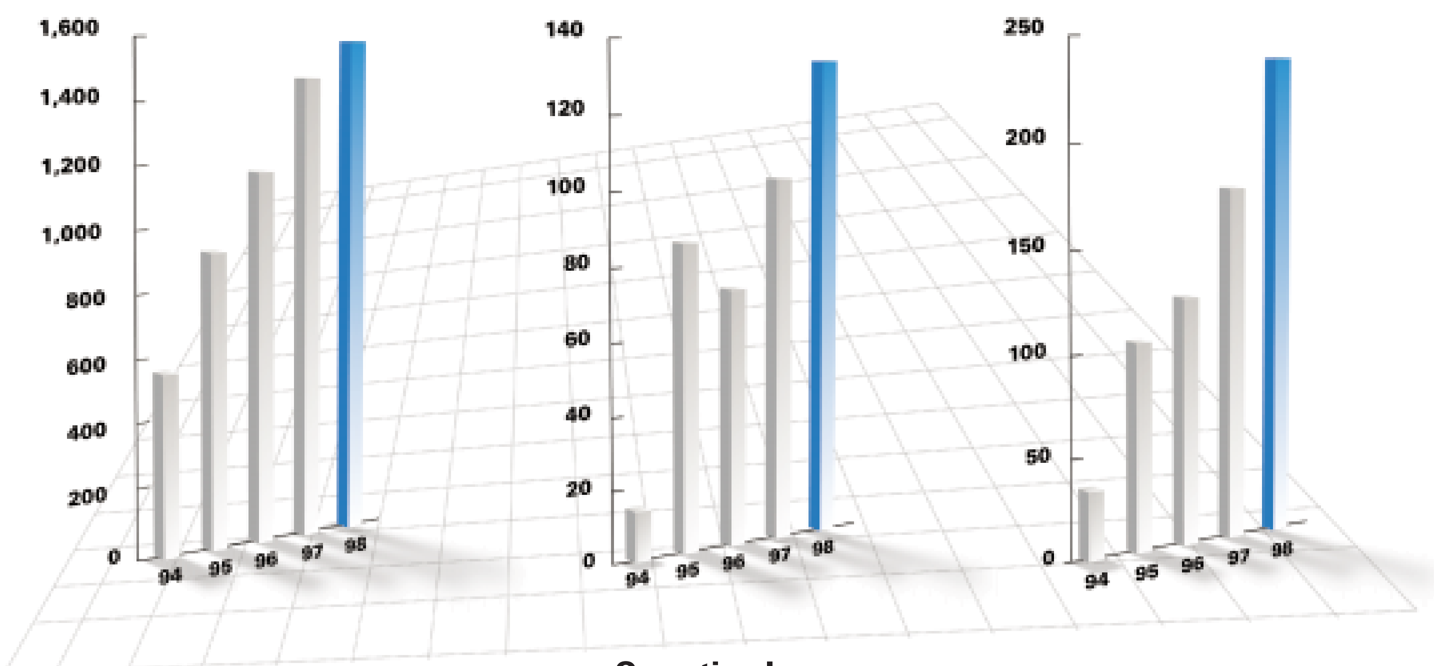
Once encapsulated, the package then goes through several additional finishing steps to prepare it for final testing, where sophisticated equipment performs a series of diagnostics to verify that the IC is functioning in the way it was designed.

(in thousands, except per share data)

	1998	1997	1996	1995	1994
Net revenues	$ 1,567,983	$ 1,455,761	$ 1,171,001	$ 932,382	$ 572,918
Operating income	132,736	100,841	71,368	84,855	13,843
Pro forma net income	70,960	39,668	30,022	51,532	11,374
Diluted pro forma net income per share	0.66	0.48	0.36	0.62	0.14
EBITDA (a)	242,472	174,276	126,043	104,946	29,332
Shareholder's equity	490,361	90,875	45,812	45,289	9,617
Cash and cash equivalents	227,587	90,917	49,664	91,151	114,930
Working capital (deficit)	191,383	(38,219)	36,785	111,192	134,798

(a) Earnings before interest, taxes, depreciation and amortization, non-recurring charges and foreign currency translation (EBITDA)

Financial Highlights



Revenues
$ in millions

Operating Income
$ in millions

EBITDA
$ in millions

Letter to Shareholders

A Year of Challenge and Accomplishment

The past year was one of unprecedented challenge and extraordinary accomplishment for Amkor. We celebrated our 30th year in business in 1998 and issued stock to the public for the first time. We achieved these benchmarks amid one of the most extended downturns in the history of the semiconductor industry, when over-capacity and price erosion reached unprecedented levels.

It is gratifying to note that Amkor has weathered this downturn extremely well. Indeed, we emerged from the downturn with a greater market share and a stronger financial condition. With most industry analysts projecting the semiconductor industry to rebound in 1999 and beyond, Amkor is well positioned to benefit as this recovery materializes.

"We emerged from one of the most extended downturns in the history of the semiconductor industry with a greater market share and in stronger financial condition."

Strong Financial Performance in a Difficult Environment

Our financial results for 1998 were particularly gratifying considering the performance of the semiconductor industry as a whole. Our packaging and test business was essentially flat, with increases in units offset by sharp erosion in average selling prices. In early 1998 our wafer fabrication business commenced production of digital signal processors and other logic devices, and by the fourth quarter, the wafer fab reached full capacity due to strong demand from Texas Instruments.

For 1998, total revenues were $1.57 billion, a 7.7% increase over 1997. Pro forma net income rose 79% to $71.0 million, or $0.66 per diluted share, from $39.7 million, or $0.48 per diluted share in 1997. During 1998 we generated EBITDA (a commonly used measure of cash flow) of $242 million.

We enter 1999 with a strong balance sheet. Our initial public offering in May 1998 raised approximately $560 million through common equity and convertible subordinated notes. Proceeds from the offering were used to pay off about $350 million in short and long term debt and give us a strong working capital base to continue taking advantage of growth opportunities. At December 31, 1998 we had more than $227 million in cash and cash equivalents.

Providing Turnkey Support

During 1998 we commenced wafer fabrication services through Anam Semiconductor Inc.'s state-of-the-art foundry in South Korea. The wafer fab, which was developed through a strategic relationship with Texas Instruments, provides .25 micron and .18 micron CMOS process technology. By leveraging our leadership in packaging and test services with this advanced wafer fab, Amkor is positioned to offer customers a fully integrated, turnkey semiconductor fabrication, packaging and test services solution.

The wafer fab is currently capable of producing 15,000 8" wafers per month. We expect that during 1999, capacity will be increased to approximately 25,000 wafers per month.

We embraced an opportunity to participate directly in the growing Taiwan packaging market by entering into a joint venture with several leading semiconductor companies in Taiwan. The Taiwan joint venture company, Taiwan Semiconductor Technology Corporation (TSTC), will provide independent advanced IC packaging and test services primarily for the Taiwan market and Taiwan wafer foundry output. The other partners in TSTC are Taiwan Semiconductor Manufacturing Company, the world's largest independent provider of wafer foundry services; Acer, one of the world's leading manufacturers of personal

"We continue to benefit from the realization among semiconductor companies that it makes excellent business sense to outsource their package design, operations management and production to companies like Amkor."

computers; United Test Center, Taiwan's second largest testing company; and Chinfon, a provider of leadframes and other material products to the Taiwan market.

A Commitment to Quality

A fundamental principle at Amkor is that we exist to serve and satisfy our customers. During the past year, this philosophy was exemplified when Amkor received the Philippine Quality Award, which is the highest form of national recognition given for quality performance. In addition, Amkor was chosen to receive the prestigious Preferred Quality Supplier Award from Intel Corporation, the world's largest producer of semiconductor devices.

Outstanding Market Opportunity

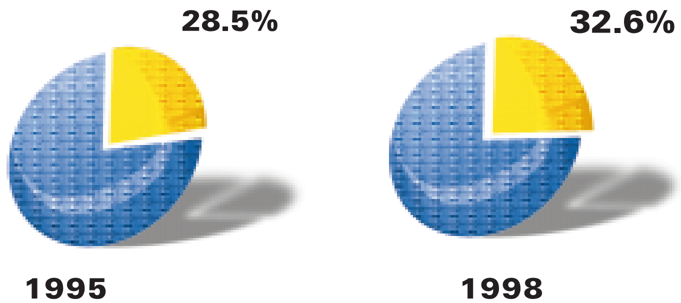
We continue to benefit from the realization among semiconductor companies that it makes excellent business sense to outsource their package design, operations management and production to companies like Amkor.

According to leading industry analysts, worldwide semiconductor unit sales are expected to grow at an annual rate of approximately 20% through 2001. The assembly and test segment of this market is projected to grow at a comparable rate. What is exciting for Amkor is that the proportion of assembly and test business that is outsourced is projected to grow even faster.

Our first year as a public company has been an exciting one, and we are thankful for your support. This is truly a partnership business, rewarding the participants and society as a whole through the exciting accomplishments that are taking place. We extend our appreciation to Amkor's customers and suppliers, and particularly our 10,000 employees on three continents, whose collective, dedicated efforts are responsible for our success.

James J. Kim
Chairman and
Chief Executive Officer

John N. Boruch
President and
Chief Operating Officer

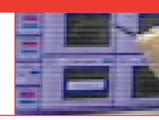


Amkor's share of Outsourced packaging market

Source: Company estimates

"With a market share estimated to exceed 30%, Amkor has attained clear leadership status, and we are committed to enhancing our leadership position."

Because we work with nearly all of the world's leading semiconductor companies, we have developed an extraordinarily broad range of packaging solutions covering virtually every package design technology.



What does it mean to be an industry leader? At Amkor, we consider leadership in several ways. Founded more than 30 years ago, Amkor pioneered the concept of having a highly focused third party provide independent packaging and test services to semiconductor manufacturers. In the process, Amkor helped create the independent packaging and test industry, which today is involved in the production of approximately 20% of the world's semiconductor chips.

Over the past three decades, Amkor has seen its growth mirror that of the semiconductor industry. With a customer base that includes many of the world's leading semiconductor companies, and a market share estimated to exceed 30%, Amkor has attained clear leadership status. This is a position we are committed to maintaining.

We measure leadership by considering the role we play in developing our core competencies and in setting design, production and quality standards for our industry. Amkor works closely with industry partners to accelerate technology development and promote the adoption of technology standards. Our leadership is evidenced by the trust that our customers place in Amkor by either coming to us at the start of their design stage or by relying on Amkor to provide for their entire packaging, assembly and test needs.

We create leadership in the way we use our intellectual resources in concert with those of our customers, while working in an environment driven by technological change. By listening carefully to the customer, our highly talented engineering and sales teams can develop custom packaging solutions that meet specific IC performance requirements.

We also create leadership in the way we leverage our physical resources to help our customers develop products that either advance the state of technology or support new applications. The scale of our design and manufacturing operations allows Amkor to develop and support an extraordinarily broad range of packaging solutions. Today, Amkor offers over 600 different packages with a variety of processing and material options.

We maintain leadership by keeping a sharp focus on the needs of our customers – not just their present needs, but their future requirements, as well. Our expansion into wafer fabrication services during 1998 was based on the belief that wafer foundries will play an increasingly important role. Why? Integrated semiconductor companies should continue to outsource, and fabless semiconductor companies have no choice but to outsource. Our TSTC joint venture with leading Taiwan-based semiconductor companies is based on the same logic. Together, these initiatives help position Amkor as a true provider of turnkey solutions for the semiconductor industry.

Industry Leadership

Amkor offers semiconductor companies an unmatched combination of design, engineering and manufacturing scale, together with a high degree of operating flexibility and ISO standard quality assurance.

Driving the Growth of Outsourcing

Exploding market for electronic appliances is creating a vast array of products.

Increasing complexity of ICs requires smaller and more sophisticated packaging.

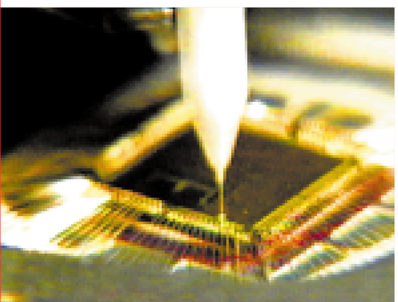
Integrated semiconductor companies want:

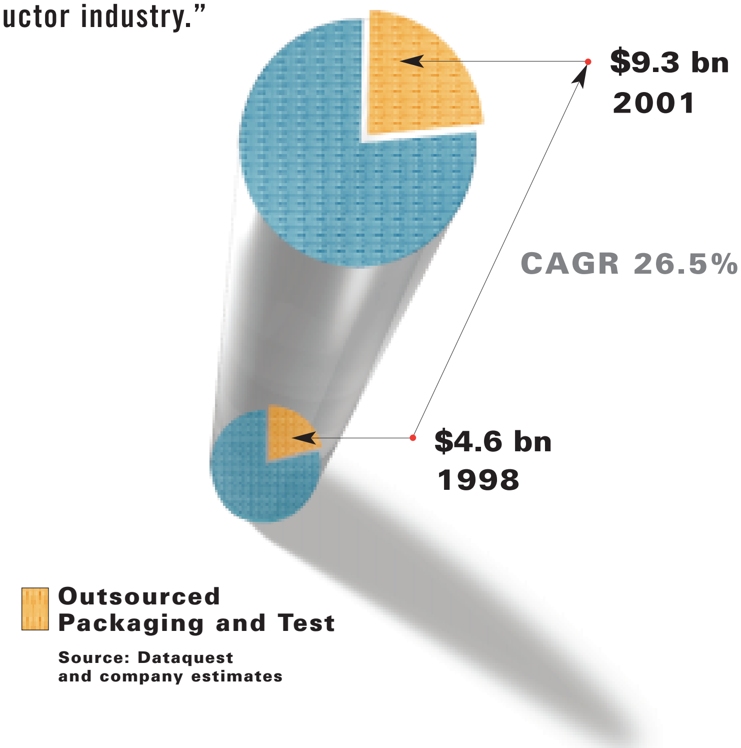
- faster access to technologies
- reduced investment in ‘back-end’ processing

Fabless semiconductor companies are:

- fastest growing segment of the industry
- key driver of product innovation

"The outsourcing of packaging and test is projected by industry analysts to increase at a faster rate than the overall growth of the semiconductor industry."





Outsourcing

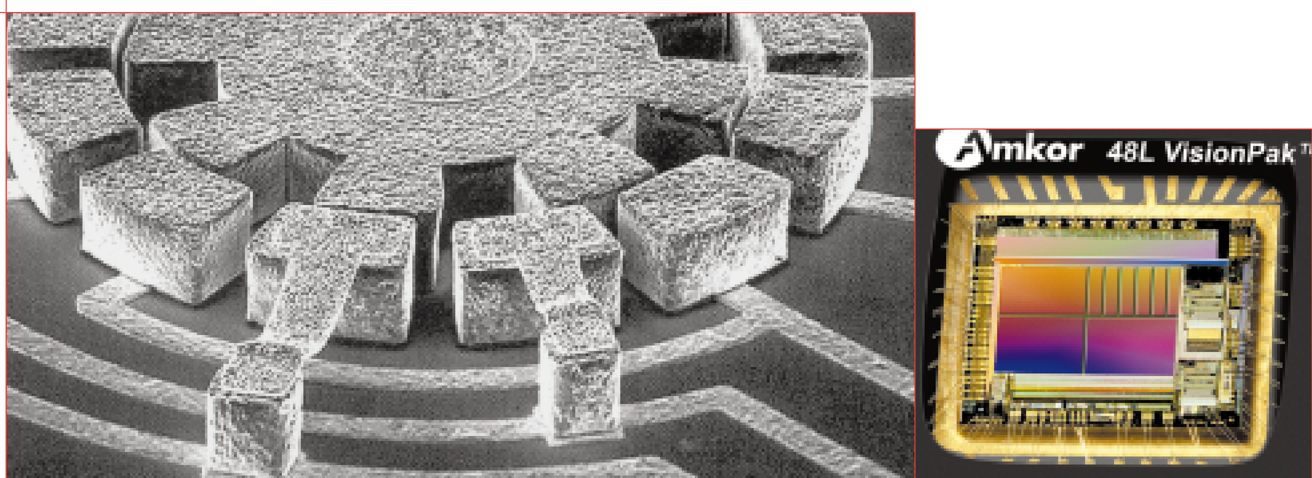
Semiconductor manufacturers are beginning to recognize the benefits of outsourcing their packaging and test processes to companies such as Amkor, which are focused on these critical functions. This trend is accelerating for several reasons. New applications are driving changes in integrated circuit designs. These changes are increasing the complexity of IC processes and are in turn requiring advances in chip packaging, manufacturing and testing capabilities. In addition, the industry has seen the advent and growth of 'fabless' semiconductor companies, whose focus is entirely on the process of designing integrated circuits.

With wafer fabs requiring a capital investment that can readily exceed $1 billion, integrated semiconductor companies are increasingly focusing on their core competencies of product design and marketing. At the same time, they are carefully evaluating the economics of maintaining a growing investment in fabrication and back-end processing. By outsourcing some or all of these functions, semiconductor companies reduce their capital requirements, gain faster access to new technologies and can improve their financial returns.

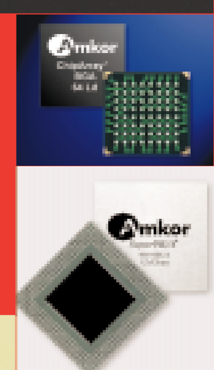
The outsourcing of packaging and test, in which Amkor specializes, has become big business. Industry analysts estimate that more than 20% of worldwide semiconductor packaging and test operations are now in the hands of independent companies like Amkor. Moreover, Dataquest estimates the use of outsourcing for the back-end will grow at a faster rate than the overall growth of the semiconductor industry.

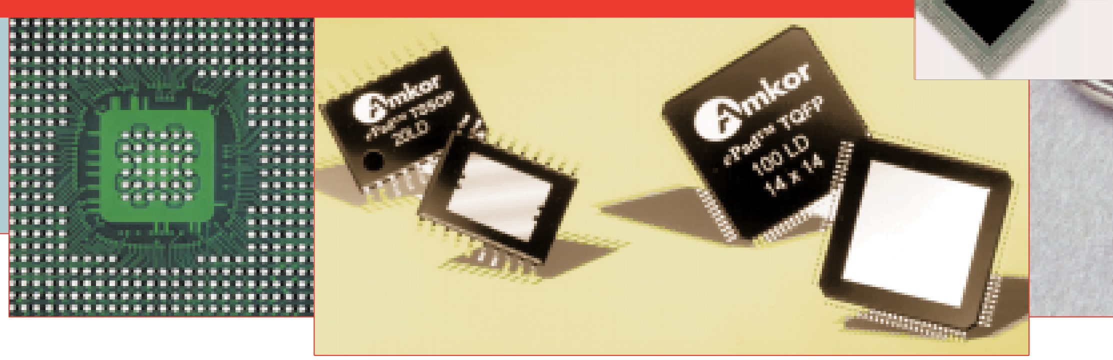
Amkor offers semiconductor companies an unmatched combination of design, engineering and manufacturing scale, together with a high degree of operating flexibility and ISO standard quality assurance. We work closely with our customers at an early stage, and employ the most advanced design and production resources. In this way, we provide our customers with faster access to new technologies, helping them create better products with shorter time-to-market cycles.

Innovative Technology



Today, Amkor's family of PlasticBGA, *Super*BGA®, *fle*XBGA® and µBGA® packages are now used in a growing number of applications where (small) size does matter, including notebook computers, cell phones, digital cameras, disk drives and PDAs.





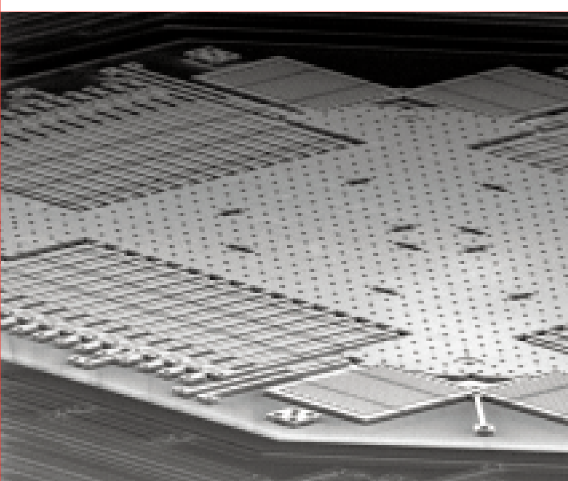
One of the principle roadmaps of semiconductor technology is Moore's Law, which states that the number of transistors on a microchip will double every 18 months. What this really means is that semiconductor technology is changing - and changing fast.

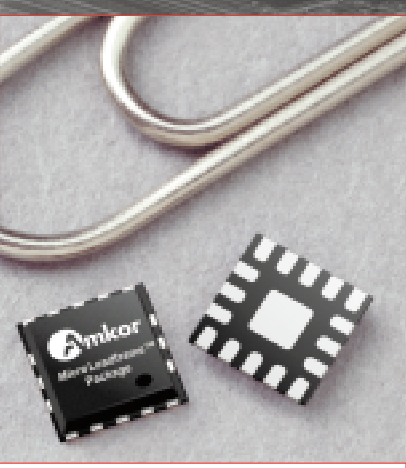
Since packaging and test are an integral part of semiconductor production, the technology that must be developed to properly support these critical functions is also changing rapidly. The combination of shrinking die sizes, increasing lead counts and higher power output requires highly sophisticated packaging designs. As the world's leading independent semiconductor packaging company, Amkor is at the forefront in employing state-of-the-art technology to provide our customers with solutions that satisfy their critical needs.

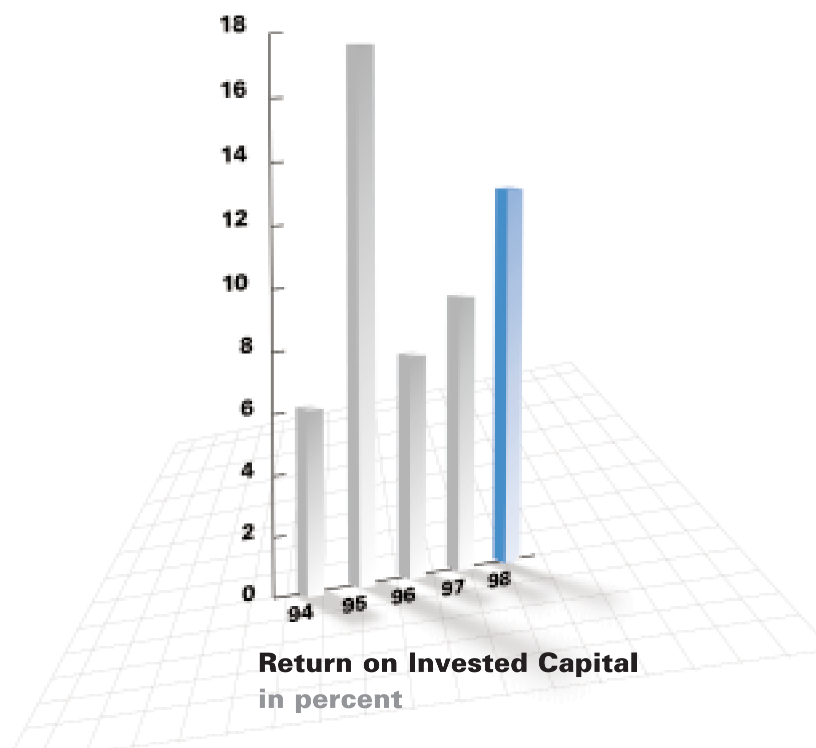
In order to keep pace with shrinking die sizes and increasing demand for miniaturization, Amkor introduced advanced leadframe products, which are far thinner and smaller than traditional leadframe packages. Despite being thinner, these advanced products have exceptional heat dissipation properties. These ultra-thin packages are found in a variety of applications, including notebook computers, high speed communications boards, PC cards, logic and memory devices.

In response to electrical shorting problems associated with the increasingly high lead counts in more advanced semiconductors, Amkor facilitated BGA (ball grid array) technology, which creates an even distribution of electric leads across the surface of the IC. Today, Amkor's family of PlasticBGA, *Super*BGA®, *fle*XBGA® and µBGA® packages are now used in a growing number of applications where (small) size does matter, including notebook computers, cell phones, digital cameras, disk drives and personal digital assistants (PDAs). Industry sources estimate that the market for BGA-related packaging will grow at an annual rate of around 50% for several years.

As semiconductor technology continues to advance the trend towards smaller and smaller devices, packaging technology is following suit. Amkor's ChipArray® package is barely larger than the chip it is packaging. Amkor's use of revolutionary Flip Chip interconnect technology extends the electrical performance of IC's and allows further package miniaturization.







Return on Invested Capital
in percent

In 1998 Amkor was involved in the packaging or testing of approximately 3.2 billion semiconductor devices, representing an estimated 6% of the world's production of ICs. Being a leader means working with others, and Amkor has adopted a three-part strategy for collaborating with its constituents in the semiconductor industry.

Customers

Amkor has close working relationships with more than 150 semiconductor companies, including large, fully integrated device manufacturers, and the new breed of 'fabless' companies. Partnering with IC designers enables Amkor to develop appropriate package solutions in concert with design of the wafer. This is even more important when complex design features require a high degree of packaging customization.

Amkor's design centers work directly with semiconductor companies to provide customized package solutions that accommodate specific electrical and thermal requirements. Our design and engineering teams really get to know our clients' needs, and this allows us to develop high quality solutions that reduce our customers' time to market.

End Users (OEMs)

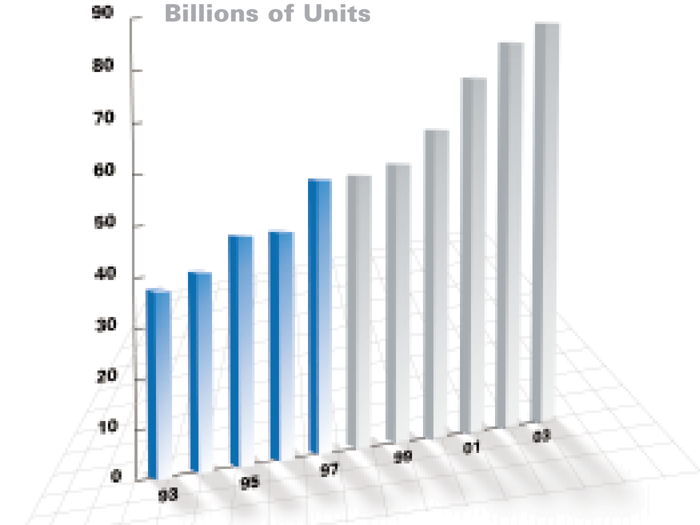
With more semiconductor devices finding their way into consumer products, the linkages between design capability, operating functionality and user-friendliness becomes increasingly important. Collaborating with major OEMs throughout the electronics industry gives Amkor a window on the future needs of consumers around the world. It also provides an opportunity to ensure that semiconductor performance and packaging work together to satisfy the needs of the ultimate consumer.

Technology Partners

Since the pace of technology change is so rapid, Amkor has adopted a strategy of working with companies who are also advancing the state-of-the-art in packaging and test. We are engaged with a variety of leading technology providers on several fronts, including design software, materials technology and process automation. In order to ensure timely introduction of new packaging technology, Amkor has teamed with several leading companies to develop advanced BGA, Flip Chip, chip scale and wafer scale packages.

Collaborating with our customers and major OEMs throughout the electronics industry gives Amkor a window on the future needs of consumers around the world. This also provides an opportunity to ensure that IC packages are designed in a way that satisfies the needs of the ultimate consumer.

Worldwide IC Market
Billions of Units



1993 -1997 Actuals / 1998-2003 Forecast

Source: IC Insights

“Amkor’s design and engineering teams really get to know our clients’ needs, and this allows us to develop high quality solutions that can reduce our customers’ time to market”

Collaboration

For example, we partnered with Tessera, Inc. to develop μBGA® technology that allows us to create chip scale packages that are 80% smaller than traditional IC packages. In 1997 we joined forces with Flip Chip Technologies LLC, to develop a cost-effective platform that would allow Amkor customers to accelerate their adoption of flip chip solutions.

In late 1998 we teamed with LSI Logic to license LSI’s organic laminate Flip Chip technology, a key enabler for system-on-a-chip integration. This alliance will help us accelerate our internal Flip Chip development efforts in order to provide customers the system-on-a-chip packaging capability they require. We’ve also partnered with Sharp Electronics Corporation to collaborate on new flexible tape BGA packaging that can increase the performance and shrink the size of the footprint on the mounting board. In the emerging technology of wafer scale, Amkor is forging alliances with several companies who are at the leading edge of developing this next generation packaging technology.

Selected Consolidated Financial Data

(dollars in thousands, except per share data)	Year Ended December 31, 1994	1995	1996	1997	1998
INCOME STATEMENT DATA:					
Net revenues	$572,918	$932,382	$1,171,001	$1,455,761	$1,567,983
Cost of revenues — including purchases from ASI	514,648	783,335	1,022,078	1,242,669	1,307,150
Gross profit	58,270	149,047	148,923	213,092	260,833
Operating expenses:					
Selling, general and administrative	41,337	55,459	66,625	103,726	119,846
Research and development	3,090	8,733	10,930	8,525	8,251
Total operating expenses	44,427	64,192	77,555	112,251	128,097
Operating income	13,843	84,855	71,368	100,841	132,736
Other (income) expense:					
Interest expense, net	5,752	9,797	22,245	32,241	18,005
Foreign currency (gain) loss	(4,865)	1,512	2,961	(835)	4,493
Other (income) expense, net	(877)	6,523	3,150	8,429	9,503
Total other (income) expense	10	17,832	28,356	39,835	32,001
Income before income taxes, equity in income (loss) of ASI and minority interest	13,833	67,023	43,012	61,006	100,735
Provision for income taxes	2,977	6,384	7,876	7,078	24,716
Equity in income (loss) of ASI(a)	1,762	2,808	(1,266)	(17,291)	—
Minority interest(b)	1,044	1,515	948	(6,644)	559
Net income	$ 11,574	$ 61,932	$ 32,922	$ 43,281	$ 75,460
PRO FORMA DATA (UNAUDITED):					
Historical income before income taxes, equity in income (loss) of ASI and minority interest	$ 13,833	$ 67,023	$ 43,012	$ 61,006	$ 100,735
Pro forma provision for income taxes(d)	3,177	16,784	10,776	10,691	29,216
Pro forma income before equity in income (loss) of ASI and minority interest(d)	10,656	50,239	32,236	50,315	71,519
Historical equity in income (loss) of ASI	1,762	2,808	(1,266)	(17,291)	—
Historical minority interest	1,044	1,515	948	(6,644)	559
Pro forma net income(d)	$ 11,374	$ 51,532	$ 30,022	$ 39,668	$ 70,960
PER SHARE DATA:					
Basic net income per common share(c)	$ .14	$ .75	$ .40	$ .52	$ .71
Diluted net income per common share(c)	$ .14	$ .75	$ .40	$ .52	$ .70
Basic pro forma net income per common share (unaudited)(c)(d)	$ .14	$ .62	$ .36	$ .48	$ .67
Diluted pro forma net income per common share (unaudited)(c)(d)	$ .14	$ .62	$ .36	$ .48	$ .66
OTHER FINANCIAL DATA:					
Depreciation and amortization	$ 14,612	$ 26,614	$ 57,825	$ 81,864	$ 119,239
Capital expenditures	$ 68,926	$123,645	$ 185,112	$ 178,990	$ 107,889
BALANCE SHEET DATA (AT END OF PERIOD):					
Cash and cash equivalents	$114,930	$ 91,151	$ 49,664	$ 90,917	$ 227,587
Working capital (deficit)	$134,798	$111,192	$ 36,785	$ (38,219)	$ 191,383
Total assets	$426,522	$626,379	$ 804,864	$ 855,592	$1,003,597
Total debt, including short-term borrowings and current portion of long-term debt	$326,434	$411,542	$ 594,151	$ 514,027	$ 260,503
Total long-term debt	$273,908	$326,422	$ 402,338	$ 346,710	$ 221,846
Stockholders' equity	$ 9,617	$ 45,289	$ 45,812	$ 90,875	$ 490,361

(a) In 1997, we recognized a loss of $17,291 resulting principally from the impairment of value of our investment in ASI, which we sold in February 1998.

(b) Represented ASI's 40% interest in the earnings of Amkor/Anam Pilipinas, Inc. ("AAP"), one of our subsidiaries in the Philippines. We purchased ASI's interest in AAP with a portion of the proceeds from our initial public offering in May 1998.

(c) We used 82,610,000 shares of common stock and common stock equivalents to compute both basic and diluted net income per common share for the years ended December 31, 1994, 1995, 1996 and 1997. We used 106,221,000 shares of common stock and 116,596,000 shares of common stock and common stock equivalents to compute basic and diluted net income per common share, respectively, for the year ended December 31, 1998.

(d) Prior to our reorganization in April 1998, our predecessor, AEI, elected to be taxed as an S Corporation under the Internal Revenue Code of 1986 and comparable state tax laws. Accordingly, AEI did not recognize any provision for federal income tax expense during the periods presented. The pro forma provision for income taxes reflects the U.S. federal income taxes which would have been recorded if AEI had been a C Corporation during these periods.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements within the meaning of the federal securities laws, including: (1) statements regarding the anticipated growth in the market for our products, (2) our anticipated capital expenditures and financing needs, (3) our expected capacity utilization rates, (4) our belief as to our future operating performance (5) our anticipated results of the ASI Workout, (6) statements regarding future won /dollar exchange rates, (7) statements regarding the future of our relationship with ASI, (8) our anticipated equity investments in ASI, (9) our plan to implement a year 2000 compliance plan, and (10) other statements that are not historical facts. Because such statements include risks and uncertainties, actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors. The following discussion provides information and analysis of our results of operations for the three years ended December 31, 1998 and our liquidity and capital resources. In addition the information contained herein is provided as of March 31, 1999 and is subject to change. You should read the following discussion in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto, included elsewhere in this annual report as well as the periodic reports we file with the Securities and Exchange Commission. Copies of these reports are available upon request by contacting our Investor Relations department at Amkor Technology, Inc., 1345 Enterprise Drive, West Chester, PA 19380 (610-431-9600). In addition, copies of reports we file electronically are available from the Securities and Exchange Commission's website at http://www.sec.gov.

OVERVIEW

From 1995 to 1998, our net revenues increased from $932.4 million to $1,568.0 million. We generate revenues from packaging and test services performed by our three factories in the Philippines. In addition, we subcontract with ASI for packaging and test and wafer fabrication services performed by their five factories in Korea. We derived approximately 72%, 68% and 69% of our net revenues in 1996, 1997 and 1998, respectively, from sales of services performed by ASI pursuant to our supply agreements.

Beginning in 1997, a worldwide slowdown in demand for semiconductor devices led to excess capacity and increased competition. As a result, price declines resulted in recent periods. From 1996 to 1998, we were able to partially offset the effect of price declines by successfully developing and marketing new packages with higher prices, such as advanced leadframe and laminate packages. We cannot assure you that we will be able to offset any such price declines in the future.

We depend on a small group of customers for a substantial portion of our revenues. In 1996, 1997 and 1998, we derived 39.2%, 40.1% and 35.3%, respectively, of our net revenues from sales to five packaging and test customers, with 23.5%, 23.4% and 20.6% of our net revenues, respectively, derived from sales to Intel Corporation. In addition, during 1998, we derived 7.4% of our net revenues from wafer fabrication services, and we derived all of these revenues from TI.

Our cost of revenues consists principally of: (1) service charges paid to ASI for packaging and test services performed for us, (2) costs of direct material and (3) labor and other costs at our factories in the Philippines. Service charges paid to ASI are set in accordance with our supply agreements with ASI as described below. Our gross margins on sales of services performed by ASI are lower than our gross margins on sales of services performed by our factories in the Philippines, but we do not bear any of ASI's fixed costs. We incur costs of direct materials used in packages that we and ASI produce for our customers. Because a portion of our costs at our factories in the Philippines is fixed, increases or decreases in capacity utilization rates can have a significant effect on our gross profit. The unit cost of packaging and test services generally decreases as fixed charges, such as depreciation expense on our equipment, are allocated over a larger number of units produced. If our investment in ASI occurs, ASI's financial results will affect our financial results because we will be required to record our proportionate ownership interest in ASI's earnings or losses, through equity accounting.

In order to meet customer demand for our laminate packages, we have made significant investments to expand our capacity in the Philippines. In 1996 and the first six months of 1997, we incurred and expensed $15.5 million and $16.6 million, respectively, of pre-operating and start-up costs and initial operating losses in connection with our newest factory in the Philippines, P3. This factory operated at substantially less than full capacity during these periods while our customers were completing qualification procedures for the production of laminate packages at this factory. During the last six months of 1997 and in 1998, we significantly increased utilization of P3 due to continued growth in demand for laminate packages. As a result, P3 contributed positive gross margins throughout 1998.

Relationship with ASI. Our gross margins are significantly affected by fluctuations in service charges paid pursuant to our supply agreements with ASI. During 1996, 1997 and 1998, we derived approximately 51%, 42% and 49%, respectively, of our gross profit from sales of services performed for us by ASI. In addition, ASI derives nearly all of its revenues from services sold by us. Historically, ASI has directly sold packaging and test services in Japan and Korea. In January 1998, we assumed the marketing rights for packaging and test services in Japan from ASI. In January 1998, we also began marketing wafer fabrication services provided by ASI's new semiconductor wafer foundry.

Through our supply agreements with ASI, we have a first right to substantially all of the packaging and test service capacity of ASI and the exclusive right to all of the wafer output of ASI's new wafer foundry. We expect to continue to purchase substantially all of ASI's packaging and test services and to purchase all of ASI's wafer fabrication services.

Our company and ASI review and, if applicable, adjust within a pre-determined range the pricing arrangements for packaging and test services and wafer fabrication services. Our company and ASI review the arrangements for packaging and test services quarterly and wafer fabrication services annually. In each case, the prices can be adjusted based on changes in forecasted demand, product mix, capacity utilization and fluctuations in exchange rates, as well as our mutual long-term strategic interests. Based on these factors, in the second quarter of 1998, our company and ASI agreed to reduce the prices paid by us for packaging and test services.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Historically, ASI has undertaken capacity expansion programs and other capital expenditures primarily on the basis of forecasts and operational plans which our company and ASI jointly prepare. The supply agreements generally provide for continued capital investment by ASI based on our forecasts and on operating plans we jointly prepare reflecting such forecasts. If the Workout (described in Item 1 of our form 10-K) is not agreed upon by ASI and its creditor banks or if it is not successful, ASI's ability to meet the capital expenditure requirements for expansion may be limited.

We cannot assure you that ASI will not terminate the supply agreements when the initial term expires or that ASI will not become insolvent and cause the supply agreement to terminate. If ASI does terminate the supply agreements, we may not be able to enter into a new agreement with ASI on terms favorable to us or at all.

We expect ASI to continue to be important to our business, financial condition and results of operations as we will continue to be significantly dependent on ASI's ability to effectively provide the contracted services on a cost-efficient and timely basis. ASI's ability to continue to provide services to us will depend on ASI's financial condition and performance. ASI is currently in a weak financial condition. ASI's creditors recently agreed on a Workout, pursuant to which a portion of ASI's outstanding debt will be converted to equity and payment of certain loans will be deferred for a number of years. The Workout may be modified or terminated by ASI's creditors if ASI fails to meet the conditions of the workout. Even if the Workout is completed, we cannot be certain that it will be sufficient to allow ASI to substantially improve its financial condition.

Our company and ASI will continue to have close ties due to our overlapping ownership and management. The Kim family beneficially owns approximately 65.8% of our outstanding common stock. As a result of the Workout as currently contemplated, the Kim family's ownership of ASI will be substantially diluted. As of February 1, 1999, the Kim family owned 40.7% of ASI's outstanding common stock. Under the proposed terms of the Workout, this interest could be diluted to approximately 21% in 1999 and less than 10% by 2003 assuming an exchange rate of ₩1,200 to $1.00 and without any future sales of ASI stock by the Kim family. Nevertheless, we believe that the Kim family will continue to exercise significant influence over ASI and its affiliates, as well as our company. We expect that Mr. James Kim will continue to serve as acting Chairman of ASI and as our Chairman and Chief Executive Officer. If we complete our proposed investment of $150 million over the next four years in ASI in connection with the Workout, our company would own approximately 43% of the outstanding common stock (assuming an exchange rate of ₩1,200 t0 $1.00, without any future sales of ASI stock and before conversion of outstanding convertible notes to equity) of ASI by the year 2002, which would increase the interrelationship of our two companies.

We may agree to certain changes in our contractual and other business relationships with ASI, including pricing, manufacturing allocation, capacity utilization and capacity expansion, among others, which in the judgment of our management could result in reduced short-term profitability for us in favor of potential long-term benefits to our company and ASI. We cannot assure you that our business, financial condition or results of operations may not be adversely affected by any such decision.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net revenues for the periods indicated:

	Year Ended December 31,		
	1996	1997	1998
Net revenues	100.0%	100.0%	100.0%
Cost of revenues — including purchases from ASI	87.3	85.4	83.4
Gross profit	12.7	14.6	16.6
Operating expenses:			
Selling, general and administrative	5.7	7.1	7.6
Research and development	0.9	0.6	0.5
Total operating expenses	6.6	7.7	8.1
Operating income	6.1%	6.9%	8.5%

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net Revenues

Net revenues increased $112.2 million, or 7.7%, to $1,568.0 million in 1998 from $1,455.8 million in 1997. Packaging and test net revenues were relatively unchanged in 1998 compared to 1997. However, net revenues from wafer fabrication services have ramped up since operations began in January 1998 and accounted for substantially all of the increase in net revenues. In addition, beginning in January 1998, we assumed marketing rights for packaging and test services in Japan from ASI.

Total unit volumes increased during 1998 compared to 1997. This increase was primarily due to increases in volumes of laminate packages, which more than doubled compared to 1997. Our advanced leadframe packages also increased in volume, but unit volumes for traditional packages declined. Although traditional packages still account for more than 65% of our total unit volume, the shift to laminate packages has more significantly impacted revenues because each laminate package has an average selling price significantly higher than the average selling price of a traditional package. Laminate and advanced leadframe packages accounted for 53.8% of packaging and test net revenues in 1998 compared to 38.7% in 1997. This trend was consistent throughout 1998. We do not expect any near term changes to this trend because we expect demand for smaller and thinner packages to continue to increase and believe laminate and advanced leadframe packages will best satisfy this demand.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Gross Profit

Gross profit increased $47.7 million, or 22.4%, to $260.8 million in 1998 from $213.1 million in 1997. Gross margin improved to 16.6% in 1998 from 14.6% in 1997. The following factors contributed to higher gross margins in 1998:

- Gross margins on packaging and test services provided by ASI improved as a result of the supply agreements entered into in January 1998;
- Gross margins at P3, which incurred significant pre-operating and start-up costs and initial operating losses in the first half of 1997, improved primarily as a result of increased volumes and better absorption of fixed costs; and
- Gross margins improved as a result of the positive impact from wafer fabrication revenues during 1998 compared to no revenue from wafer fabrication in 1997.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $16.1 million, or 15.5%, to $119.8 million in 1998 from $103.7 million in 1997. Selling, general and administrative expenses as a percentage of net revenues increased to 7.6% in 1998 from 7.1% in 1997. The increase was primarily due to: (1) higher administrative expenses at P3 as unit volumes continued to increase and (2) costs related to wafer fabrication services, which began in January 1998.

Research and Development Expenses

Research and development expenses decreased $0.3 million, or 3.2%, to $8.3 million in 1998 from $8.5 million in 1997. Research and development expenses as a percentage of net revenues decreased to 0.5% in 1998 from 0.6% in 1997.

Other (Income) Expense

Other (income) expense decreased $7.8 million to $32.0 million in 1998 from $39.8 million in 1997. The decline was primarily due to a reduction in net interest expense of $14.2 million to $18.0 million in 1998 from $32.2 million in 1997. We used a portion of the proceeds from our initial public offering in May 1998 to repay much of our outstanding debt. Additionally, we accumulated a significant cash balance. An increase in foreign exchange losses, due to fluctuations in the Philippine peso, partly offset lower interest expense.

Income Taxes

Our effective tax rate, after giving effect to the pro forma adjustment for income taxes, was 29.0% in 1998 compared to an effective tax rate of 17.5% in 1997. The lower effective tax rate in 1997 was due to the recognition of deferred tax assets on currency losses for Philippine tax reporting purposes, which are not recognized for financial reporting purposes. This decrease was offset by increases in the effective rate resulting from non-deductible losses at P3 where we have a tax holiday until the end of 2002.

We have structured our global operations to take advantage of lower tax rates in certain countries and tax incentives extended to encourage investment. The tax returns for open years are subject to changes upon final examination. Changes in the mix of income from our foreign subsidiaries, expiration of tax holidays and changes in tax laws and regulations could result in increased effective tax rates for us.

Minority Interest

Minority interest represented ASI's ownership in the consolidated net income of AAP, one of our subsidiaries in the Philippines. Accordingly, we recorded a minority interest expense in our consolidated financial statements relating to the minority interest in the net income of AAP.

In the second quarter of 1998, we purchased ASI's 40% interest in AAP, and, as a result, we now own substantially all of the common stock of AAP. The purchase of the minority interest resulted in the elimination of the minority interest liability and goodwill amortization of approximately $2.5 million per year.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net Revenues

Net revenues increased $284.8 million, or 24.3%, to $1,455.8 million in 1997 from $1,171.0 million in 1996. This growth was primarily due to an increase in units sold and a continued shift in our mix of packages from traditional leadframe packages to advanced leadframe and laminate packages. In addition, the opening of both our P3 factory and ASI's K4 factory in late 1996 enabled us to begin to expand revenues from laminate packages. This growth was offset in part by declines in average selling prices for many of our packages.

Gross Profit

Gross profit increased $64.2 million, or 43.1%, to $213.1 million in 1997 from $148.9 million in 1996. Gross margin improved to 14.6% in 1997 from 12.7% in 1996. Gross profit and gross margin increased primarily due to improved operating results at our P1 and P2 factories during the second half of 1997, which more than offset pre-operating losses and start-up costs and initial operating losses incurred in connection with P3 during the first half of 1997. Gross margins at our P1 and P2 factories improved as a result of a shift to more profitable packages and a decrease in labor costs due to the devaluation of the Philippine peso.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $37.1 million, or 55.7%, to $103.7 million in 1997 from $66.6 million in 1996. Selling, general and administrative expenses as a percentage of net revenues increased to 7.1% in 1997 from 5.7% in 1996. The increase was primarily due to the addition of marketing and support personnel in connection with our growth. The number of employees in our marketing and sales support groups increased approximately 21% during 1997 over 1996, which resulted in: (1) an overall increase in personnel-related costs including salaries, benefits and payroll taxes and (2) higher office rental, depreciation and other occupancy-related expenses. In addition, during 1997, we incurred general and administrative expenses of approximately $8.0 million to

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

expand P3's operations and $3.6 million to support our wafer fabrication services. We did not incur similar costs in 1996 as these groups were start-up operations in 1997.

Research and Development Expenses

Research and development expenses decreased $2.4 million, or 22.0%, to $8.5 million in 1997 from $10.9 million in 1996. Research and development expenses as a percentage of net revenues decreased to 0.6% in 1997 from 0.9% in 1996. The decrease in research and development expenses principally reflected the termination in late 1996 of our efforts to develop our own laminate substrate manufacturing capability.

Other (Income) Expense

Other (income) expense increased $11.4 million, to $39.8 million in 1997 from $28.4 million in 1996. This increase was primarily due to higher interest expense, net and other expense, net. Interest expense, net increased $10.0 million to $32.2 million in 1997 from $22.2 million in 1996 as we increased our borrowings to finance capacity expansion. Other expenses, net increased primarily due to $2.4 million of costs related to our trade receivables securitization transactions.

Income Taxes

Our effective tax rate, after giving effect to the pro forma adjustment for income taxes, was 18% in 1997 as compared to 25% in 1996. This decrease was attributable to income not taxed due to a tax holiday and foreign exchange effects described below.

This decrease was also attributable to certain foreign exchange effects. To the extent P3 is profitable, our effective tax rate related to our operations in the Philippines during this tax holiday will be less than the statutory rate of 35% in the Philippines. In 1997 we recognized deferred tax benefits from unrealized foreign exchange losses which are recognized in the Philippines for tax reporting purposes and relate to unrecognized net foreign exchange losses on U.S. dollar denominated monetary assets and liabilities. These losses are not recognized for financial reporting purposes because the U.S. dollar is our functional currency. These losses will be realized for tax reporting purposes in the Philippines upon settlement of the related asset or liability. The benefit derived from unrealized foreign exchange losses was partially offset by an increase in the valuation allowance. We concluded that it was more likely than not that we could realize a portion of these tax benefits in the Philippines within the three year loss carryforward period. We recorded a valuation allowance for the remaining tax benefits where we could not reach such a conclusion.

Equity in Income (Loss) of ASI

In 1997, we recognized a loss of $17.3 million resulting principally from the impairment of value in our investment in ASI. In February 1998, we disposed of our investment in ASI's common stock.

Minority Interest

Minority interest represented ASI's ownership interest in the consolidated net income of AAP, one of our subsidiaries in the Philippines. During 1997, as a result of a settlement of an intercompany loan, which otherwise had no effect on our combined pretax income, AAP reported a net loss as a separate entity. Accordingly, we recorded a minority interest benefit in our consolidated financial statements related to the minority interest in the net loss. We purchased ASI's ownership interest in AAP during 1998.

QUARTERLY RESULTS

The table below sets forth unaudited consolidated financial data, including as a percentage of net revenues, for the last eight fiscal quarters ended December 31, 1998. Our results of operations have varied and may continue to vary from quarter to quarter and are not necessarily indicative of the results of any future period. In addition, in light of our recent growth, we believe that you should not rely on period-to-period comparisons as an indication of our future performance.

Prior to our reorganization in April 1998, our predecessor, AEI, elected to be taxed as an S Corporation under the Code. As a result, AEI did not recognize any provision for federal income tax expense prior to April 28, 1998. In accordance with applicable SEC regulations, we have presented pro forma adjustments (unaudited) to net income to reflect the additional U.S. federal income taxes which we would have recorded if AEI had been a C Corporation during these periods.

We believe that we have included in the amounts stated below all necessary adjustments, consisting only of normal recurring adjustments, to present fairly our selected quarterly data. You should read our selected quarterly data in conjunction with our consolidated financial statements and the notes thereto, included elsewhere in this annual report.

Our net revenues, gross profit and operating income are generally lower in the first quarter of the year as compared to the fourth quarter of the preceding year primarily due to the combined effect of holidays in the U.S., the Philippines and Korea. Semiconductor companies in the U.S. generally reduce their production during the holidays at the end of December which results in a significant decrease in orders for packaging and test services during the first two weeks of January. In addition, we typically close our factories in the Philippines for holidays in January, and ASI closes its factories in Korea for holidays in February.

The semiconductor industry experienced a general slowdown during 1998. As a result, our packaging and test net revenues decreased by 3.5% from the first quarter of 1998 to the fourth quarter of 1998. The decrease in packaging and test net revenue was offset by significant growth in net revenues from wafer fabrication services. Net revenues from wafer fabrication services, which represented less than 1% of net revenues in the first quarter of 1998, increased to 16.4% of net revenues in the fourth quarter of 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(in thousands, except per share data)	Quarter Ended March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Net revenues	$313,019	$350,471	$380,130	$412,141	$371,733	$384,724	$386,718	$424,808
Cost of revenues — including purchases from ASI	287,449	299,093	314,246	341,881	310,056	317,106	321,758	358,230
Gross profit	25,570	51,378	65,884	70,260	61,677	67,618	64,960	66,578
Operating expenses:								
Selling, general and administrative	20,608	26,657	26,829	29,632	28,715	28,939	30,017	32,175
Research and development	1,485	2,030	2,236	2,774	2,057	1,938	2,109	2,147
Total operating expenses	22,093	28,687	29,065	32,406	30,772	30,877	32,126	34,322
Operating income	3,477	22,691	36,819	37,854	30,905	36,741	32,834	32,256
Net income (loss)	**$ (4,829)**	**8,707**	**19,025**	**20,378**	**8,812**	**26,119**	**20,874**	**19,655**
Pro forma net income (loss)	(6,388)	7,566	18,098	20,392	9,640	20,791	20,874	19,655
Basic net income (loss) per common share	$ (.06)	$ .11	$ .23	$ .25	$ .11	$ .25	$ .18	$ .17
Diluted net income (loss) per common share	$ (.06)	$ .11	$ .23	$ .25	$ .11	$ .24	$ .17	$ .16
Basic pro forma net income (loss) per common share	$ (.08)	$ .09	$ .22	$ .25	$ .12	$ .20	$ .18	$ .17
Diluted pro forma net income (loss) per common share	$ (.08)	$ .09	$ .22	$ .25	$ .12	$ .19	$ .17	$ .16

	Quarter Ended March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues — including purchases from ASI	91.8	85.3	82.7	83.0	83.4	82.4	83.2	84.3
Gross profit	8.2	14.7	17.3	17.0	16.6	17.6	16.8	15.7
Operating expenses:								
Selling, general and administrative	6.6	7.6	7.1	7.2	7.7	7.5	7.8	7.6
Research and development	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.5
Total operating expenses	7.1	8.2	7.6	7.8	8.3	8.0	8.3	8.1
Operating income	1.1	6.5	9.7	9.2	8.3	9.6	8.5	7.6
Net income (loss)	(1.5)%	2.5%	5.0%	4.9%	2.4%	6.8%	5.4%	4.6%
Pro forma net income (loss)	(2.0)%	2.2%	4.8%	4.9%	2.6%	5.4%	5.4%	4.6%

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LIQUIDITY AND CAPITAL RESOURCES

Our ongoing primary cash needs are for equipment purchases, factory expansion and working capital. In addition, we have funded and will continue to fund our interest in our Taiwan packaging and test joint venture out of available cash.

In May, 1998, we consummated our initial public offering of 35,250,000 shares of common stock and $207 million principal amount of convertible subordinated notes due May 1, 2003. We used the net proceeds of approximately $558 million primarily to repay approximately $264 million of short-term and long-term debt and approximately $86 million of amounts due to AUSA, and to purchase for $34 million ASI's 40% interest in AAP. The remaining amount of net proceeds was available for capital expenditures and working capital.

Prior to our initial public offering, we met a significant portion of our cash requirements from a combination of: (1) cash from operating activities, (2) short-term and long-term bank loans, (3) financing obtained for our benefit by AUSA, a wholly-owned financing subsidiary of ASI, and (4) financing from a trade receivables securitization agreement. Because of the short-term nature of certain of the AUSA loans, the flows of cash to and from AUSA under this arrangement have been significant. At December 31, 1998, we had no outstanding balances with AUSA. Net cash provided by operating activities in 1996, 1997 and 1998 was $8.6 million, $250.1 million and $238.0 million, respectively. Net cash provided by (used in) financing activities in 1996, 1997 and 1998 was $148.0 million, $(16.0) million and $62.0 million, respectively.

Under the terms of our trade receivables securitization agreement, a commercial financial institution is committed to purchase, with limited recourse, all right, title and interest in up to $100 million in eligible receivables, as defined in the agreement.

We have invested significant amounts of capital to increase our packaging and test services capacity. During the last three years we have constructed our P3 factory, added capacity in our other factories in the Philippines and constructed a new research and development facility in the U.S. In 1996, 1997 and 1998, we made capital expenditures of $185.1 million, $179.0 million and $107.9 million, respectively. We expect that we will need to increase capital expenditures in 1999 to meet the anticipated growth in demand for our products. We intend to spend approximately $160 million in capital expenditures in 1999, primarily for the expansion of our factories.

On a monthly basis, we incur processing charges for packaging and test and wafer fabrication services performed for us by ASI. Historically, we paid ASI for these services on net 30-day terms. On July 21, 1998 we entered into a prepayment agreement with ASI related to packaging and test services. Under this agreement, we made a $50 million non-interest bearing advance to ASI. This advance represented approximately one month's processing charges for packaging and test services. We completely offset this advance against billings by ASI for packaging and test services provided in the fourth quarter of 1998.

In connection with our wafer foundry agreement with Texas Instruments ("TI"), our company and TI agreed to revise certain payment and other terms contained in the Texas Instruments Manufacturing and Purchase Agreement. As part of the revision, TI agreed to advance our company $20 million in June 1998 and another $20 million in December 1998. These advances represented prepayments of wafer foundry services to be provided in the fourth quarter of 1998 and first quarter of 1999, respectively. We recorded these amounts as accrued expenses. In turn, we advanced these funds to ASI as prepayment for foundry service charges. We completely offset the first $20 million advance to ASI against billings for wafer fabrication services performed for us by ASI in the fourth quarter of 1998 and intend to offset the second $20 million advance to ASI against billings for wafer fabrication services performed for us by ASI in the first quarter of 1999. The current portion due from an affiliate reflects the prepayment to ASI. Under the terms of the revision to the Texas Instruments Manufacturing and Purchase Agreement, we remain ultimately responsible for reimbursing TI if ASI fails to comply with the terms of the agreement.

We have entered into an asset purchase agreement with ASI to purchase the assets of ASI's newest and largest packaging and test factory, K4, excluding cash and cash equivalents, notes and accounts receivables, intercompany accounts and existing claims against third parties. The purchase price for K4 is $607 million, including the assumption of up to $7 million of employee benefit liabilities. This purchase price would be reduced to $582 million if we sign an agreement to make an equity investment of $150 million in ASI over a four year period, pursuant to the proposed financial restructuring of ASI with its creditor banks, called "Workout". The Company has sent ASI's creditor banks, a letter committing to make an equity investment in ASI. The commitment is subject to certain conditions and the terms on which we are willing to make this investment have not yet been accepted by ASI's creditor banks. In addition to other conditions, including the satisfactory completion of due diligence, the receipt of a fairness opinion and final board approval, our acquisition of K4 is subject to our ability to obtain financing of the entire amount of the purchase price on reasonable terms. We cannot be certain that we will be able to obtain this financing on reasonable terms. If we do not make the equity investment, the Workout may be terminated. We expect to use cash flow from operations to fund this equity investment in ASI over four years.

At December 31, 1998, our debt consisted of $38.7 million of borrowings classified as current liabilities, $14.8 million of long-term debt and capital lease obligations and $207.0 million of 5 3/4% convertible subordinated notes due 2003. We had $90.5 million in borrowing facilities with a number of domestic and foreign banks, of which $54.1 million remained unused. Certain of the agreements with our banks require compliance with certain financial covenants, contain other restrictions and are collateralized by our assets. These facilities are typically revolving lines of credit and working capital facilities that are renewable annually and bear interest at rates ranging from 11.25% to 16.0%. We intend to pay a substantial portion of the amounts outstanding under these facilities in the first half of 1999.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Long-term debt and capital lease obligations outstanding have various expiration dates through April 2004 and bear interest at rates ranging from 5.8% to 13.8%. During the third quarter of 1998, we were released from our obligations under guarantees of affiliate bank debts and vendor obligations.

We believe that our existing cash balances, cash flow from operations, and available equipment lease financing will be sufficient to meet our projected capital expenditures, working capital and other cash requirements for at least the next twelve months, exclusive of our proposed acquisition of K4. Our acquisition of K4 is contingent upon obtaining satisfactory financing for the acquisition. In addition to the financing of K4, we may require other capital sooner than currently expected. We cannot assure you that additional financing will be available when we need it or, if available, that it will be available on satisfactory terms. Failure to obtain any such financing could have a material adverse effect on our company.

SUBCHAPTER S TAXES AND DISTRIBUTIONS

Prior to our reorganization in April 1998, our predecessor, AEI, elected to be taxed as an S Corporation under the Internal Revenue Code and comparable state laws. As a result, AEI did not recognize any provision for federal income tax expense prior to April 28, 1998. Instead, up until the date the S Corporation status of AEI terminated, Mr. and Mrs. James Kim and the Kim Family Trusts had been obligated to pay U.S. federal and certain state income taxes on their allocable portion of the income of AEI. Under certain tax indemnification agreements, we are indemnified by such stockholders with respect to their proportionate share of any U.S. federal or state corporate income taxes attributable to the failure of AEI to qualify as an S Corporation for any period or in any jurisdiction for which S Corporation status was claimed through April 28, 1998. The agreements in turn provide that, under certain circumstances, we will indemnify such stockholders if they are required to pay additional taxes or other amounts attributable to taxable years for which AEI filed tax returns claiming status as an S Corporation. AEI has made various distributions to Mr. and Mrs. Kim and the Kim Family Trusts which have enabled them to pay their income taxes on their allocable portions of the income of AEI. Such distributions totaled approximately $13.0 million, $5.0 million and $33.1 million in 1996, 1997 and 1998, respectively. As a result of the termination of the S Corporation election and the finalization of the AEI tax returns, approximately $3.0 million of the 1998 distributions will be refunded to our company.

FOREIGN CURRENCY TRANSLATION GAINS AND LOSSES

Our subsidiaries in the Philippines maintain their accounting records in U.S. dollars. All sales, the majority of all bank debt and all significant material and fixed asset purchases of such subsidiaries are denominated in U.S. dollars. As a result, the exposure of our subsidiaries in the Philippines to changes in the Philippine peso/U.S. dollar exchange rate relates primarily to certain receivables and advances and other assets offset by payroll, pension and local liabilities. To minimize our foreign exchange risk in the Philippines, we selectively hedge our net foreign currency exposure through short-term forward exchange contracts. To date, our hedging activity has been immaterial.

YEAR 2000 ISSUES

We have been actively engaged in addressing Year 2000 ("Y2K") issues. These issues occur because many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. As a result, software that records only the last two digits of the calendar year may not be able to distinguish whether "00" means 1900 or 2000. This may result in software failures or the creation of erroneous results.

State of Readiness: To manage our Y2K compliance program, we have divided our efforts into five program areas:

- Computing systems, including computer hardware and software;
- Manufacturing equipment;
- Facilities;
- External utilities; and
- Supply chain, including equipment/inventory vendors, freight forwarders and other vendors.

For each of these program areas, we are using a five-step approach:

- Ownership: creating awareness, assigning tasks, providing structured feedback and updates;
- Inventory: listing items to be assessed for Y2K readiness;
- Initial Assessment: prioritizing the inventoried items and assessing their Y2K readiness, including validation with vendors, and testing where appropriate;
- Risk Assessment: evaluating initial assessments and developing action and contingency plans; and
- Corrective Action Deployment: implementing corrective actions, verifying implementation, finalizing and executing contingency plans.

We have implemented a process to monitor and maintain our Y2K compliance. As of December 31, 1998, we had completed the Ownership and Inventory steps for all program areas. We provide structured feedback and progress updates to our senior management on an ongoing basis.

To date, we are on target to complete the Initial Assessment and Risk Assessment step during the first quarter of 1999 and the Corrective Action Deployment step during the second quarter of 1999. The status for each program area is as follows:

- ***Computing Systems:*** With a few exceptions, we believe that our technical infrastructure, including servers, communications equipment, personal computers, operating systems and standard software are Y2K compliant. We will replace our older personal computers through the end of 1999 as part of our normal upgrade and expansion plans. We are in the process of physically testing our technical infrastructure, and we will complete this process during the first quarter of 1999. We have completed the

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Inventory and Assessment steps regarding software applications, and we have put in place plans to either upgrade or replace certain applications.

- *Manufacturing Equipment:* We have inventoried all manufacturing equipment and have contacted vendors to ascertain the status of their Y2K compliance. We plan to implement vendor recommended actions for every piece of equipment. Our packaging operations have completed the Risk Assessment and Corrective Action Deployment steps. Our test operations have completed the Initial Assessment and Risk Assessment steps for all equipment and related systems. We have determined that certain test equipment is not Y2K compliant and will require upgrades which are scheduled for the second quarter of 1999. ASI expects to conduct the Initial Assessment and Risk Assessment steps during the first quarter of 1999.
- *Facilities:* We have completed the Initial and Risk Assessments for all of our packaging and test factories. We expect to complete Corrective Action Deployment during the first quarter of 1999. We are scheduled to complete the Initial Assessment and Risk Assessment steps for all of our other facilities during the first quarter of 1999.
- *External Utilities:* We are currently assessing the Y2K readiness of both public and private utilities in Korea and the Philippines. These utilities include electricity, telecommunications, water, sewer, gas and key airports used to transport products and supplies. We are developing contingency plans for all utilities, regardless of their Y2K readiness. We are scheduled to complete the first version of such plans during the first quarter of 1999.
- *Supply Chain:* We have completed supply chain inventories and vendor surveys. During the fourth quarter of 1998, we began Y2K compliance audits of our key equipment and material suppliers and freight forwarders. In addition, we are continuing to review external providers of software and information technology and to verify our banks' Y2K readiness. We are also developing contingency plans for all key suppliers regardless of their readiness. We will continue to monitor and assess the risks of our supply chain to Y2K issues throughout 1999.

In addition, because ASI is our most significant vendor, we have conducted regular reviews as to the status of their Y2K compliance program. We believe that ASI has a similar Y2K program. Unless discussed otherwise above, we believe that ASI has achieved a similar level of completion and believe that ASI is on target to meet our timing deadlines.

Costs to Address Y2K Issues: We have highly-automated manufacturing equipment and systems. Such equipment incorporates personal computers, embedded processors and related software to control activity scheduling, inventory tracking, statistical analysis and automated manufacturing. We have devoted a significant portion of our Y2K efforts on internal systems to prevent disruption to manufacturing operations.

We are evaluating the estimated costs to address Y2K issues using our actual experience. Based on available information, we believe that we will be able to manage our Y2K transition without any material long term adverse effect on our business or results of operations. We have executed our Y2K compliance effort within the normal operating budgets of our internal engineering, information technology, purchasing and other departments. We attribute a small number of projects directly to Y2K issues, and most software upgrades have been covered within our software maintenance contacts. We attribute the majority of our historical and projected costs to resolve Y2K issues to the upgrade of equipment in our test operations. We will capitalize such costs. We have incurred $1 million of expenses related to Y2K issues through 1998 and are projecting $2 million of expenses in 1999.

Risks of Y2K Issues and Contingency Plans: We continue to assess the Y2K issues relating to our computing systems, manufacturing equipment, facilities, external utilities and supply chain. Currently, we believe that our largest Y2K risk is that entities beyond our control upon which we are dependent, including external utilities and our supply chain, fail to adequately address their Y2K issues.
We have designed our Y2K planning process to mitigate worst-case disruptions which could delay product delivery. We are scheduled to complete our Risk Assessment step during the first quarter of 1999 and will continue to update our contingency plans throughout 1999 as circumstances dictate.

Based on currently available information, we do not believe that the Y2K issues discussed above will have a material long- term adverse impact on our financial condition or results of operations. However, we cannot assure you that we will not be affected by such issues. In addition, we cannot assure you that the failure of any material supplier, utility provider, customer or other third party with whom we deal to ensure Y2K compliance will not have a material adverse effect on our financial condition or results of operations.

Consolidated Statements of Income

(in thousands, except per share data)	For the Year Ended December 31, 1996	1997	1998
NET REVENUES	$1,171,001	$1,455,761	$1,567,983
COST OF REVENUES — including purchases from ASI (Note 14)	1,022,078	1,242,669	1,307,150
GROSS PROFIT	148,923	213,092	260,833
OPERATING EXPENSES:			
Selling, general and administrative	66,625	103,726	119,846
Research and development	10,930	8,525	8,251
Total operating expenses	77,555	112,251	128,097
OPERATING INCOME	71,368	100,841	132,736
OTHER (INCOME) EXPENSE:			
Interest expense, net	22,245	32,241	18,005
Foreign currency (gain) loss	2,961	(835)	4,493
Other expense, net	3,150	8,429	9,503
Total other expense	28,356	39,835	32,001
INCOME BEFORE INCOME TAXES, EQUITY IN LOSS OF ASI AND MINORITY INTEREST	43,012	61,006	100,735
PROVISION FOR INCOME TAXES	7,876	7,078	24,716
EQUITY IN LOSS OF ASI	(1,266)	(17,291)	—
MINORITY INTEREST	948	(6,644)	559
NET INCOME	$ 32,922	$ 43,281	$ 75,460
PRO FORMA DATA (UNAUDITED):			
Historical income before income taxes, equity in loss of ASI and minority interest	$ 43,012	$ 61,006	$ 100,735
Pro forma provision for income taxes	10,776	10,691	29,216
Pro forma income before equity in loss of ASI and minority interest	32,236	50,315	71,519
Historical equity in loss of ASI	(1,266)	(17,291)	—
Historical minority interest	948	(6,644)	559
Pro forma net income	$ 30,022	$ 39,668	$ 70,960
PER SHARE DATA:			
Basic net income per common share	$ .40	$ .52	$ .71
Diluted net income per common share	$ .40	$ .52	$ .70
Basic pro forma net income per common share (unaudited)	$ .36	$ .48	$ .67
Diluted pro forma net income per common share (unaudited)	$ .36	$ .48	$ .66
Shares used in computing basic net income per common share	82,610	82,610	106,221
Shares used in computing diluted net income per common share	82,610	82,610	116,596

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

(in thousands)	December 31, 1997	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 90,917	$ 227,587
Short-term investments	2,524	1,000
Accounts receivable —		
Trade, net of allowance for doubtful accounts of $4,234 and $5,952	102,804	109,243
Due from affiliates	14,431	25,990
Other	4,879	5,900
Inventories	115,870	85,628
Other current assets	26,997	16,687
Total current assets	358,422	472,035
PROPERTY, PLANT AND EQUIPMENT, NET	427,061	416,111
INVESTMENTS:		
ASI at equity	13,863	—
Other	5,958	25,476
Total investments	19,821	25,476
OTHER ASSETS:		
Due from affiliates	29,186	28,885
Other	21,102	61,090
	50,288	89,975
Total assets	$855,592	$1,003,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank overdraft	$ 29,765	$ 13,429
Short-term borrowings and current portion of long-term debt	167,317	38,657
Trade accounts payable	113,037	96,948
Due to affiliates	15,581	15,722
Accrued expenses	43,973	77,004
Accrued income taxes	26,968	38,892
Total current liabilities	396,641	280,652
LONG-TERM DEBT	196,934	14,846
CONVERTIBLE SUBORDINATED NOTES	—	207,000
DUE TO ANAM USA, INC. (NOTE 14)	149,776	—
OTHER NONCURRENT LIABILITIES	12,084	10,738
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
MINORITY INTEREST	9,282	—
STOCKHOLDERS' EQUITY:		
Amkor Technology, Inc. — common stock	45	118
AK Industries, Inc. — common stock	1	—
Additional paid-in capital	20,871	381,061
Retained earnings	70,621	109,738
Accumulated other comprehensive income:		
Unrealized losses on investments	—	(556)
Cumulative translation adjustment	(663)	—
	(663)	(556)
Total stockholders' equity	90,875	490,361
Total liabilities and stockholders' equity	$855,592	$1,003,597

The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(in thousands)	Amkor Technology, Inc. Common Stock	AK Industries Inc. Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	Comprehensive Income
BALANCE AT JANUARY 1, 1996	$ 45	$ 1	$ 16,494	$ 31,146	$(2,397)	$ 45,289	
Net income	—	—	—	32,922	—	32,922	$ 32,922
Unrealized gains on investments	—	—	—	—	464	464	464
Currency translation adjustments	—	—	—	—	(1,411)	(1,411)	(1,411)
Comprehensive income (Note 11)							31,975
Distributions	—	—	—	(15,123)	—	(15,123)	
Change in division equity account	—	—	—	(16,605)	—	(16,605)	
Acquisition of AATS (Note 14)	—	—	276	—	—	276	
BALANCE AT DECEMBER 31, 1996	45	1	16,770	32,340	(3,344)	45,812	
Net income	—	—	—	43,281	—	43,281	43,281
Unrealized gains on investments	—	—	—	—	1,586	1,586	1,586
Currency translation adjustments	—	—	—	—	1,095	1,095	1,095
Comprehensive income (Note 11)							45,962
Distributions	—	—	—	(5,000)	—	(5,000)	
Change in division equity account	—	—	4,101	—	—	4,101	
BALANCE AT DECEMBER 31, 1997	45	1	20,871	70,621	(663)	90,875	
Net income	—	—	—	75,460	—	75,460	75,460
Unrealized (losses) on investments, net of tax	—	—	—	—	(556)	(556)	(556)
Currency translation adjustments, reclassification for loss included in net income	—	—	—	—	663	663	663
Comprehensive income (Note 11)							$ 75,567
Distributions	—	—	—	(33,100)	—	(33,100)	
Issuance of 35,250,000 common shares in public offering, net	35	—	360,228	—	—	360,263	
Acquisition of AKI	—	(1)	—	(3,243)	—	(3,244)	
Change in par value of stock in connection with Company Reorganization	38	—	(38)	—	—	—	
BALANCE AT DECEMBER 31, 1998	$118	$ —	$381,061	$109,738	$ (556)	$490,361	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 32,922	$ 43,281	$ 75,460
Adjustments to reconcile net income to net cash provided by operating activities —			
Depreciation and amortization	57,825	81,864	119,239
Provision for accounts receivable	1,271	3,490	1,719
Provision for excess and obsolete inventory	500	12,659	7,200
Deferred income taxes	(324)	(11,715)	1,250
Equity loss of investees	605	16,779	—
(Gain) loss on sale of fixed assets and investments	(139)	(239)	2,500
Minority interest	948	(6,644)	559
Changes in assets and liabilities excluding effects of acquisitions —			
Accounts receivable	(36,695)	(19,802)	4,742
Proceeds from sale/(repurchase of) accounts receivable	—	90,700	(16,500)
Other receivables	(925)	1,547	(1,021)
Inventories	(16,380)	(26,609)	23,042
Due to/from affiliates, net	(8,203)	(19,138)	(11,117)
Other current assets	1,694	(7,239)	6,709
Other non-current assets	(6,108)	3,322	(8,061)
Accounts payable	(16,852)	60,939	(12,489)
Accrued expenses	(12,658)	13,817	33,489
Accrued taxes	7,433	14,130	11,924
Other long-term liabilities	(108)	(1,089)	(685)
Other, net	3,750	—	—
Net cash provided by operating activities	8,556	250,053	237,960
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment, including purchase of AATS	(185,112)	(178,990)	(107,889)
Acquisition of minority interest in AAP	—	—	(33,750)
Acquisition of AKI	—	—	(3,244)
Sale of property, plant and equipment	2,228	1,413	121
Purchases of investments and issuances of notes receivable	(15,633)	(15,187)	(20,571)
Proceeds from sale of investments	520	—	2,021
Net cash used in investing activities	(197,997)	(192,764)	(163,312)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in bank overdrafts and short-term borrowings	64,852	52,393	(173,565)
Net proceeds from issuance of 35,250,000 common shares in public offering	—	—	360,263
Proceeds from issuance of Anam USA, Inc. debt	1,205,174	1,408,086	522,116
Payments of Anam USA, Inc. debt	(1,189,317)	(1,443,464)	(658,029)
Net proceeds from issuance of long-term debt	102,193	11,389	203,170
Payments of long-term debt	(3,138)	(43,541)	(158,833)
Distributions to stockholders	(15,205)	(5,000)	(33,100)
Change in division equity account	(16,605)	4,101	—
Net cash provided by (used in) financing activities	147,954	(16,036)	62,022
Net increase (decrease) in cash and cash equivalents	(41,487)	41,253	136,670
Cash and cash equivalents, beginning of period	91,151	49,664	90,917
Cash and cash equivalents, end of period	$ 49,664	$ 90,917	$ 227,587
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 24,125	$ 37,070	$ 27,730
Income taxes	$ 2,256	$ 3,022	$ 12,908

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

(U.S. dollar amounts in thousands, except share and dollar per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Amkor Technology, Inc. and its subsidiaries (the "Company"). All of the Company's subsidiaries are wholly owned except for a small number of shares of each of the Company's Philippine subsidiaries which are required to be owned by directors of these companies pursuant to Philippine law.

The consolidated financial statements reflect the elimination of all significant intercompany accounts and transactions.

The investments in, and the operating results of, 20% to 50% owned companies are included in the consolidated financial statements using the equity method of accounting.

Prior to the Reorganization (as defined below), the Company's financial statements were presented on a combined basis as a result of common ownership and business operations of all the Amkor Companies (as defined below), including AK Industries, Inc. ("AKI"). The Reorganization was treated similar to a pooling of interests as it represented an exchange of equity interests among companies under common control, except for the acquisition of AKI which was accounted for as a purchase transaction. The purchase price for the AKI stock, which represented the fair value of those shares, approximated the book value of AKI.

REORGANIZATION

Prior to the Reorganization (as defined herein) the combined financial statements of Amkor Technology, Inc. ("ATI") and its subsidiaries and AKI and its subsidiary included the accounts of the following based on the ownership structure prior to the Reorganization (these companies are referred to as the "Amkor Companies"):

- Amkor Electronics, Inc. ("AEI"), (a U.S. S Corporation) and its wholly owned subsidiaries Amkor Receivables Corp (a U.S. Corporation) and Amkor Wafer Fabrication Services SARL (a French Limited Company) ("AWFS");
- T.L. Limited ("TLL") (a British Cayman Island Corporation) and its Philippine subsidiaries, Amkor Anam Advanced Packaging, Inc. ("AAAP") (wholly owned) and Amkor/Anam Pilipinas, Inc. ("AAP"), which was owned 60% by TLL and 40% by Anam Semiconductor Inc. ("ASI")(which changed its name in 1998 from Anam Industrial Co., Ltd.) (— see Notes 6 and 14), and its wholly-owned subsidiary Automated MicroElectronics, Inc. ("AMI");
- C.I.L., Limited ("CIL") (a British Cayman Islands Corporation) and its wholly-owned subsidiary Amkor/Anam Euroservices S.A.R.L. ("AAES") (a French Corporation);
- Amkor Anam Test Services, Inc. (a U.S. Corporation) (see Note 17);
- The semiconductor packaging and test business unit of Chamterry Enterprises, Ltd. ("Chamterry"). During the third quarter of 1997 Chamterry transferred its customers to AEI and CIL and ceased operations of its semiconductor and test business unit; and
- AKI (a U.S. Corporation) and its wholly-owned subsidiary, Amkor-Anam, Inc. (a U.S. Corporation).

Prior to the Reorganization, all of the Amkor Companies were substantially wholly owned by Mr. and Mrs. James Kim or entities controlled by members of Mr. James Kim's immediate family (the "Founding Stockholders"), except for AAP which was 40% owned by ASI and one third of AEI and all of AKI which were owned by trusts established for the benefit of other members of Mr. James Kim's family ("Kim Family Trusts"). The Amkor Companies were an interdependent group of companies involved in the same business under the direction of common management. ATI was formed in September 1997 to facilitate the Reorganization and consolidate the ownership of the Amkor Companies. In connection with the Reorganization, AEI was merged into ATI. Amkor International Holdings ("AIH"), a Cayman Islands holding company, became a wholly owned subsidiary of ATI. AIH was formed to hold the following entities: First Amkor Caymans, Inc. ("FACI"), which was formed to hold AAAP, AAP and its subsidiary AMI, TLL and its subsidiary CIL and CIL's subsidiary AAES. The relative number of shares of common stock issued by the Company in connection with each of the transactions comprising the Reorganization was based upon the relative amounts of stockholders' equity at December 31, 1997. On April 14, 1998, Mr. and Mrs. James Kim and the Kim Family Trusts received two-thirds (9,746,760 shares) and one-third (4,873,380 shares) of the ATI common stock then outstanding, respectively. On April 29, 1998, ATI issued 67,989,851 shares of common stock, representing approximately 82% of its shares immediately after the Reorganization, in exchange for all of the outstanding shares of AIH and its subsidiaries. Of such shares, 27,528,234 shares and 36,376,617 shares were gifted to Mr. and Mrs. James Kim and the Kim Family Trusts, respectively, such that Mr. and Mrs. James Kim and the Kim Family Trusts owned 45.1% and 49.9%, respectively, of the ATI common shares outstanding after the Reorganization. Following such transactions the Founding Stockholders beneficially owned a majority of the outstanding shares of ATI common stock. In addition, ATI acquired all of the stock of AKI from the Kim Family Trusts for approximately $3,000. The merger of AEI and ATI, the creation of AIH and FACI, the issuance of ATI common stock for AIH and the acquisition of AKI are collectively referred to as the Reorganization. (See "— Income Taxes" regarding change in AEI tax status.)

NATURE OF OPERATIONS

The Company provides semiconductor packaging and test services as well as wafer fabrication services to semiconductor and computer manufacturers located in strategic markets throughout the world. Such services are provided by the Company and by ASI under a long-standing arrangement (see Note 14). Approximately 72%, 68% and 67% of the Company's packaging and test revenues in 1996, 1997 and 1998 respectively, relate to the packaging and test services provided by ASI. In addition, 100% of the Company's wafer fabrication revenues relate to the wafer fabrication services provided by ASI under a long-term agreement (see Note 14).

CONCENTRATIONS OF CREDIT RISK

Financial instruments, for which the Company is subject to credit risk, consist principally of accounts receivable and cash and cash equivalents. With respect to accounts receivable, the Company has mitigated its credit risk by selling primarily to well established companies, performing ongoing credit evaluations and making frequent contact with customers.

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

The Company has mitigated its credit risk with respect to cash and cash equivalents through diversification of its portfolio of cash holdings into various money market accounts, U.S. treasury bonds, federal mortgage backed securities, and high grade municipal and commercial loans. At December 31, 1998, the Company maintained approximately $35,000 in six high grade municipal and commercial loans, with the largest individual loan balance of approximately $10,000. However, at December 31, 1996, 1997 and 1998, the Company maintained approximately $14,649, $34,622 and $29,303, respectively, in deposits and certificates of deposits at foreign owned banks and $1,861, $2,548 and $4,406, respectively, in deposits at U.S. banks which exceeded federally insured limits.

SIGNIFICANT CUSTOMERS

The Company has a number of major customers in North America, Asia and Europe. The Company's largest customer, Intel Corporation, accounted for approximately 23.5%, 23.4% and 20.6% of net revenues in 1996, 1997 and 1998, respectively. The Company's five largest customers collectively accounted for 39.2%, 40.1% and 41.6% of net revenues in 1996, 1997 and 1998, respectively. The Company anticipates that significant customer concentration will continue for the foreseeable future, although the companies which constitute the Company's largest customers may change.

RISKS AND UNCERTAINTIES

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from historical results include, but are not limited to, dependence on the highly cyclical nature of both the semiconductor and the personal computer industries, competitive pricing and declines in average selling prices, dependence on the Company's relationship with ASI (see Note 14), reliance on a small group of principal customers, timing and volume of orders relative to the Company's production capacity, availability of manufacturing capacity and fluctuations in manufacturing yields, availability of financing, competition, dependence on international operations and sales, dependence on raw material and equipment suppliers, exchange rate fluctuations, dependence on key personnel, difficulties in managing growth, enforcement of intellectual property rights, environmental regulations and results of ASI on an equity accounting basis assuming we make the $ 150,000 investment in ASI (because we will be required to record our proportionate ownership interest in ASI's earnings or losses).

FOREIGN CURRENCY TRANSLATION

Substantially all of the Company's foreign subsidiaries use the U.S. dollar as their functional currency. Accordingly, monetary assets and liabilities which were originally denominated in a foreign currency are translated into U.S. dollars at month-end exchange rates. Non-monetary items which were originally denominated in foreign currencies are translated at historical rates. Gains and losses from such remeasurement and from transactions denominated in foreign currencies are included in other (income) expense, net. The cumulative translation adjustment reflected in accumulated other comprehensive income in stockholders' equity in the consolidated balance sheets related primarily to investments in unconsolidated companies which used the local currency as the functional currency (see Note 6).

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ACCOUNTS RECEIVABLE

At December 31, 1997 and 1998, trade accounts receivable represent the Company's interest in receivables in excess of amounts purchased by banks under an accounts receivable sale agreement (see Note 3). Of the total net trade accounts receivable amount at December 31, 1997 and 1998, $19,905 and $22,488, respectively relates to the trade accounts receivable of CIL which were not sold under the Agreement.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined principally by using a moving average method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful lives of depreciable assets. Accelerated methods are used for tax purposes. Depreciable lives follow:

Buildings and improvements	10 to 30 years
Machinery and equipment	3 to 5 years
Furniture, fixtures and other equipment	3 to 10 years

Cost and accumulated depreciation for property retired or disposed of are removed from the accounts and any resulting gain or loss is included in earnings. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense was $58,497, $81,159 and $116,424 for 1996, 1997 and 1998, respectively.

OTHER NONCURRENT ASSETS

Other noncurrent assets consist principally of goodwill, deferred debt issuance costs, security deposits, deferred income taxes and the cash surrender value of life insurance policies.

The Company recorded goodwill representing the excess of cost over the book value of minority interest in AAP (see Note 17). Goodwill is amortized on a straight-line basis over a period of ten years which is the estimated future period to be benefited by the acquisition.

In connection with the $207,000 offering of Convertible Notes (see Note 2) the Company incurred approximately $9,100 of debt issuance costs which have been deferred and are amortized and reflected as interest expense over the life of the Convertible Notes.

OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist primarily of pension obligations and noncurrent income taxes payable.

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

STOCK COMPENSATION PLANS

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation cost for stock based plans is generally measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Disclosures required by Statement of Financial Accounting Standards ("SFAS") No. 123 are presented in Note 13.

INCOME TAXES

The Company accounts for income taxes following the provisions of SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is provided.

The Company reports certain income and expense items for income tax purposes on a basis different from that reflected in the accompanying consolidated financial statements. The principal differences relate to the timing of the recognition of accrued expenses which are not deductible for federal income tax purposes until paid, the use of accelerated methods of depreciation for income tax purposes and unrecognized foreign exchange gains and losses.

AEI elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code of 1986 and comparable state tax provisions. As a result, AEI did not recognize U.S. federal corporate income taxes. Instead, the stockholders of AEI were taxed on their proportionate share of AEI's taxable income. Accordingly, no provision for U.S. federal income taxes was recorded for AEI. The accompanying consolidated statements of income include an unaudited pro forma adjustment to reflect income taxes which would have been recorded if AEI had not been an S Corporation, based on the tax laws in effect during the respective periods (see "— Reorganization").

Just prior to the Offerings (see Note 2), AEI terminated its S Corporation status at which point the profits of AEI became subject to federal and state income taxes at the corporate level.

REVENUE RECOGNITION AND RISK OF LOSS

The Company records revenues upon shipment of packaged semiconductors to its customers. The Company does not take ownership of customer-supplied semiconductors. Title and risk of loss remains with the customer for these materials at all times. Accordingly, the cost of the customer-supplied materials is not included in the consolidated financial statements. Risk of loss for the Company's packaging costs passes upon completion of the packaging process and shipment to the customer. In regards to wafer fabrication services, the Company records revenues upon shipment of completed wafers to its customers.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to expense as incurred.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. Early adoption at the beginning of any quarter after issuance is permitted, but cannot be applied retroactively. The provisions of the statement must be applied to derivative instruments and certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997.

The Company believes that the impact of adopting SFAS No. 133 on its financial statements will not be material and has not determined the timing of adoption.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform with the current presentation.

2. INITIAL PUBLIC OFFERING

On May 6, 1998, the Company completed its Initial Public Offering of 30,000,000 shares of its common stock at a price to the public of $11.00 per share and $180,000 aggregate principal amount of Convertible Notes ("Initial Public Offering" or "Offerings"). Also on May 8, 1998, the Company sold 5,250,000 additional shares of its common stock and $27,000 additional principal amounts of Convertible Notes in conjunction with the underwriters' over-allotment options. The net proceeds were approximately $558,121, after deducting the underwriter discounts and offering expenses. The convertible notes 1) are convertible into the Company's common stock at $13.50 per share; 2) are callable in certain circumstances after three years; 3) are unsecured and subordinate to senior debt; 4) carry a coupon rate of 5¾%; and 5) mature at the end of five years. Approximately $264,000 of the proceeds were used to reduce short-term and long-term borrowings. Approximately $86,000 of the proceeds were used to reduce amounts due to Anam USA, Inc., ASI's wholly owned financing subsidiary ("AUSA"). Approximately $34,000 of the proceeds was used to purchase ASI's 40% interest in AAP. (see Note 17.) In connection with the Offerings, one existing stockholder sold approximately 5,000,000 of his shares.

(U.S. dollar amounts in thousands, except share and dollar per share data)

3. ACCOUNTS RECEIVABLE SALE AGREEMENT

Effective July 7, 1997, the Company entered into an agreement to sell receivables (the "Agreement") with certain banks (the "Purchasers"). The transaction qualifies as a sale under the provisions of SFAS No. 125 "Accounting For Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Under the Agreement, the Purchasers have committed to purchase, with limited recourse, all right, title and interest in selected accounts receivable of the Company, up to a maximum of $100,000. In connection with the Agreement, the Company established a wholly owned, bankruptcy remote subsidiary, Amkor Receivables Corp., to purchase accounts receivable at a discount from the Company on a continuous basis, subject to certain limitations as described in the Agreement. Amkor Receivables Corp. simultaneously sells the accounts receivable at the same discount to the Purchasers. The Agreement is structured as a three year facility subject to annual renewals based upon the mutual consent of the Company and purchasers. Prior to December 31, 1997, the Company applied approximately $83,400 of the Receivables Sale proceeds together with approximately $17,000 of working capital to reduce the Company's indebtedness to AUSA which amounts were advanced by AUSA to entities controlled by members of James Kim's family.

The first annual renewal under the Agreement was effective December 30, 1998 and the next renewal date is December 29, 1999. ASI had guaranteed the Company's obligations under the agreement (see Note 14), however, ASI was released from its obligations as guarantor effective December 30, 1998.

Proceeds, net of reduction in selected accounts receivable from the sale of receivables were $84,400 in 1997 which has decreased by $12,900 during 1998 due to a further reduction in selected accounts receivable. Losses on receivables sold under the Agreement were approximately $2,414 and $4,693 in 1997 and 1998, respectively and are included in other expense, net. As of December 31, 1997 and 1998, approximately $6,300 and $2,700, respectively, is included in current liabilities for amounts to be refunded to the Purchasers as a result of a reduction in selected accounts receivable.

4. INVENTORIES

Inventories consist of raw materials and purchased components which are used in the semiconductor packaging process. The Company's inventories are located at its facilities in the Philippines or at ASI on a consignment basis. Components of inventories follow:

	December 31,	
	1997	1998
Raw materials and purchased components	$105,748	$77,351
Work-in-process	10,122	8,277
	$115,870	$85,628

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	1997	1998
Land	$ 2,346	$ 2,346
Buildings and improvements	109,528	142,252
Machinery and equipment	448,032	534,314
Furniture, fixtures and other equipment	33,050	40,502
Construction in progress	31,964	8,282
	624,920	727,696
Less — Accumulated depreciation and amortization	197,859	311,585
	$427,061	$416,111

6. INVESTMENTS

The Company's investments include investments in affiliated companies which provide services to the Company (see Note 14) and certain other technology based companies. Investments are summarized as follows:

	December 31,	
	1997	1998
Equity Investment in ASI (8.1% at December 31, 1997	$13,863	$ —
Other Equity Investments (20%-50% owned)		
Taiwan Semiconductor Technology Corporation	—	20,052
Other	738	738
Total other equity investments	738	20,790
Available for Sale	5,220	4,686
	$19,821	$25,476

On October 21, 1998, the Company announced that it entered into a joint venture, Taiwan Semiconductor Technology Corporation ("TSTC"), with Taiwan Semiconductor Manufacturing Corporation, Acer Inc., United Test Center and Chinfon Semiconductor & Technology Company. TSTC, which is expected to commence operations during the first quarter of 1999, will provide independent advanced integrated circuit ("IC") packaging services primarily for the Taiwan market and Taiwan foundry output. The Company plans to invest an estimated total of $40,000 in TSTC. In October 1998, the Company invested $10,000 as part of the second round of joint venture financing. In December, 1998, the Company purchased additional TSTC shares from ASI for $10,000 which represented ASI's investment as part of the joint venture's initial round of financing in which ATI did not participate. ASI did not participate in the joint venture's second round of financing. As of December 31, 1998 the Company owns approximately a 25% interest in TSTC and accordingly, the Company's investment in TSTC is accounted for using the equity method of accounting.

The Company's investment in ASI was accounted for using the equity method of accounting. Although the Company did not own in excess of 20% of the outstanding common stock of ASI, the Company, through its common ownership with the Kim family and entities controlled by the Kim family, owned 40.7% of the outstanding common stock of ASI at December 31, 1997 and could have exercised a significant influence over ASI. Accordingly the Company applied the equity method based on its ownership interest.

In 1997, the Company recognized a loss of $17,291 resulting principally from the impairment of value of its investment in ASI as well as the Company's equity in loss of ASI for the year ended December 31, 1997. The amount of the impairment loss was determined based upon the market value of the ASI shares on the Korean Stock Exchange on February 16, 1998, the date that the Company sold its investment in ASI common stock to AK Investments, Inc., an entity owned by James J. Kim. In exchange for the shares, AK Investments, Inc. assumed $13,863 of the Company's long-term borrowings from Anam USA, Inc.

ASI's independent auditors' report indicates that the financial statements of ASI have been prepared assuming that ASI will continue as a going concern. ASI's business has been severely affected by the economic crisis in Korea. ASI has traditionally operated with a significant amount of debt relative to its equity, had a significant working capital deficit at December 31, 1997 and has contractually guaranteed the debt obligations of certain affiliates and subsidiaries. These significant uncertainties may affect ASI's future operations and its ability to maintain or refinance certain debt obligations as they mature, which raise substantial doubt regarding ASI's ability to continue as a going concern. ASI's plans to address these matters, which are disclosed in ASI's financial statements, include entering into the Korean financial restructuring program known as "Workout" in October 1998. The Workout program is the result of an accord among Korean financial institutions to assist in the restructuring of Korean business enterprises and does not involve the judicial system. The ultimate outcome of these uncertainties cannot be determined presently and ASI's financial statements do not include any adjustments that might result from these uncertainties. See Note 14 for more information regarding the Workout.

ASI's financial statements are prepared on the basis of Korean GAAP, which differs from U.S. GAAP in certain significant respects. The Company's equity in loss of ASI is based upon the Korean GAAP information noted above and the Company's estimate of significant U.S. GAAP adjustments. These adjustments were not significant in 1996. In 1997, ASI recognized a ₩349 billion loss principally as a result of foreign exchange losses on U.S. dollar denominated liabilities due to the significant depreciation of the won relative to the U.S. dollar. For purposes of determining the Company's equity in loss of ASI under U.S. GAAP, losses on remeasuring U.S. dollar denominated liabilities are not recognized as the U.S. dollar is the functional currency for ASI. Such U.S. dollar denominated liabilities were ₩2,144 billion at December 31, 1997. Also, at December 31, 1997, the carrying value of the investment in ASI, adjusted for the loss on the 1998 disposition discussed above, is less than the Company's portion of ASI's net assets after consideration of the estimated U.S. GAAP adjustments. The most significant such adjustment affecting net assets is the remeasurement of property, plant and equipment to historical costs as required as the U.S. dollar is the functional currency.

The following summary of consolidated financial information pertaining to ASI for 1996 and 1997 was derived from the consolidated financial statements referred to above. No amounts are presented for 1998 as the investment was sold in February 1998. All amounts are in millions of Korean Won:

	1996	1997
SUMMARY INCOME STATEMENT INFORMATION:		
Sales	₩1,338,718	₩1,786,457
Net income (loss)	₩ (9,385)	₩ (348,729)
SUMMARY BALANCE SHEET INFORMATION:		
Total assets	₩2,225,288	₩3,936,030
Total liabilities	₩1,975,431	₩3,834,096

7. SHORT-TERM CREDIT FACILITIES

At December 31, 1997 and 1998, short-term borrowings consisted of various operating lines of credit and working capital facilities maintained by the Company. These borrowings are secured by receivables, inventories or property. These facilities, which are typically for one-year renewable terms, generally bear interest at current market rates appropriate for the country in which the borrowing is made (ranging from 11.25% to 16.0% at December 31, 1998). For 1997 and 1998, the weighted average interest rate on these borrowings was 8.6% and 11.9%, respectively. Included in cash and cash equivalents is $11,200 of certificates of deposit pledged as collateral for certain of these lines. The unused portion of lines of credit total $54,077 at December 31, 1998.

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

8. DEBT

Following is a summary of the Company's short-term borrowings and long-term debt excluding the $207,000 of Convertible Notes discussed in Note 2.:

	December 31, 1997	December 31, 1998
Short-term borrowings (see Note 7)	$ 187,659	$ 30,430
Bank loan, interest at LIBOR plus annual spread (6.78% at December 31, 1997), due October, 2000	50,000	—
Bank loan, interest at LIBOR plus annual spread (6.68% at December 31, 1997), due in installments beginning March, 1998 through April, 2001	71,250	—
Bank debt, interest at LIBOR plus annual spread (9.37% at December 31, 1997), due December, 2001	20,000	—
Bank debt, interest at LIBOR plus annual spread (12.22% at December 31, 1997,) due October, 1998	5,000	—
Bank debt, interest at LIBOR plus annual spread (9.09% at December 31, 1997), due in installments with balance due September, 1999	3,500	—
Bank debt, interest at LIBOR plus annual spread (11.88% at December 31, 1997), due in equal installments through January, 2001	5,502	—
Note payable, interest at bank's prime (12.25% at December 31, 1998), balance due in installments with balance due April, 2004	9,530	12,747
Note payable, interest at LIBOR plus annual spread (10.25% at December 31, 1998), due in installments with balance due November, 1999	9,000	7,000
Other, primarily capital lease obligations and other debt	2,810	3,326
	364,251	53,503
Less — Short-term borrowings and current portion of long-term debt	(167,317)	(38,657)
	$ 196,934	$ 14,846

The Bank loans were obtained to finance the expansion of the Company's factories in the Philippines. The Company had the option to prepay all or part of the loans on any interest payment date. These Bank loans were unconditionally and irrevocably guaranteed by ASI. The Bank loans contained provisions pertaining to the maintenance of specified debt-to-equity ratios, restrictions with respect to corporate reorganization, acquisition of capital stock or substantially all of the assets of any other corporations and advances and dispositions of all or a substantial portion of the borrower's assets, except in the ordinary course of business. AAP was not in compliance with covenants regarding the maintenance of certain debt-to-equity ratios and advances to affiliates at December 31, 1997. As a result of the receipt of the net proceeds from the Initial Public Offering (see Note 2), amounts due under these agreements, certain other agreements with cross-default clauses and $42,500 of short-term borrowings which were refinanced were classified as non-current liabilities at December 31, 1997 in the accompanying consolidated balance sheet.

Other bank debt instruments have interest rates based on Singapore interbank rates and LIBOR plus an annual spread. The loans are secured by assets of the Company including assets acquired through proceeds from the loans.

Interest expense related to short-term borrowings and long-term debt, including the Convertible Notes, is presented net of interest income of $5,471, $5,752 and $9,072 in 1996, 1997 and 1998, respectively, in the Company's Consolidated Statements of Income.

The $207,000 of Convertible Notes mature in May, 2003. The principal payments required under other long-term debt borrowings at December 31, 1998 are as follows:

	Amount
1999	$ 8,227
2000	3,731
2001	3,215
2002	2,802
2003	2,549
Thereafter	2,549
Total	$23,073

9. EMPLOYEE BENEFIT PLANS

U.S. DEFINED CONTRIBUTION PLAN

ATI has a defined contribution benefit plan covering substantially all U.S. employees under which employees can contribute up to 13% of salary to the plan and ATI matches 75% of the employee's contributions up to a defined maximum on an annual basis. The expense for this plan was $776, $959 and $1,394 in 1996, 1997 and 1998, respectively.

PHILIPPINE PENSION PLAN

AAAP, AAP and AMI sponsor a defined benefit plan that covers substantially all employees who are not covered by statutory plans. Charges to expense are based upon costs computed by independent actuaries.

During 1998, the Company adopted SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revise employers' disclosures about pensions and other postretirement benefit plans. It does not change the measurement or recognition of this plan.

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

The components of net periodic pension cost for the defined benefit plan are as follows:

	Year Ended December 31,		
	1996	1997	1998
Service cost of current period	$1,542	$1,274	$1,618
Interest cost on projected benefit obligation	1,228	957	1,209
Expected return on plan assets	(672)	(534)	(879)
Amortization of transition obligation	93	81	79
Total pension expense	$2,191	$1,778	$2,027

It is the Company's policy to make contributions sufficient to meet the minimum contributions required by law and regulation.

The following table sets forth the funded status of the Company's defined benefit pension plan and the related changes in the projected benefit obligation and plan assets:

	1997	1998
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$12,699	$10,428
Service cost	1,274	1,618
Interest cost	957	1,209
Actuarial loss/(gain)	94	194
Foreign exchange (gain)/loss	(4,483)	348
Benefits paid	(113)	(230)
Projected benefit obligation at end of year	$10,428	$13,567
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 6,077	$ 6,614
Actual return on plan assets	585	(461)
Employer contribution	2,322	2,137
Foreign exchange (loss)/gain	(2,257)	144
Benefits paid	(113)	(230)
Fair value of plan assets at end of year	$ 6,614	$ 8,204
Funded status:		
Projected benefit obligation in excess of plan assets	$ 3,814	$ 5,363
Unrecognized actuarial loss	(953)	(2,546)
Unrecognized transition obligation	(967)	(906)
Accrued pension costs	$ 1,894	$ 1,911

The discount rate used in determining the projected benefit obligation was 12% as of December 31, 1997 and 1998. The rates of increase in future compensation levels was 11% as of December 31, 1997 and 1998. The expected long-term rate of return on plan assets was 12% as of December 31, 1997 and 1998. These rates reflect economic and market conditions in the Philippines.

The fair value of plan assets include an investment in our Company's common stock of approximately $1,100 at December 31, 1998.

10. INCOME TAXES

The provision for income taxes includes federal, state and foreign taxes currently payable and those deferred because of temporary differences between the financial statement and the tax bases of assets and liabilities. The components of the provision for income taxes follow:

	For the Year Ended December 31,		
	1996	1997	1998
Current:			
Federal	$5,880	$16,126	$18,316
State	60	2,639	4,426
Foreign	2,260	28	724
	8,200	18,793	23,466
Deferred:			
Federal	(226)	(4,991)	282
Foreign	(98)	(6,724)	968
	(324)	(11,715)	1,250
Total provision	$7,876	$ 7,078	$24,716

The reconciliation between the tax payable based upon the U.S. federal statutory income tax rate and the recorded provision follows:

	For the Year Ended December 31,		
	1996	1997	1998
Federal statutory rate	$15,054	$21,352	$35,257
State taxes, net of federal benefit	60	1,285	2,877
S Corp. status of AEI through April 28, 1998	(2,900)	(3,613)	(4,500)
Deferred taxes established at termination of S Corp status of AEI	—	—	(1,954)
(Income) losses of foreign subsidiaries subject to tax holiday	4,957	(5,106)	(9,129)
Foreign exchange (losses)/gains recognized only for income taxes	—	(21,147)	12,602
Change in valuation allowance	—	22,000	(8,079)
Difference in rates on foreign subsidiaries	(9,295)	(7,693)	(3,377)
Goodwill and other permanent differences	—	—	1,019
Total	$ 7,876	$ 7,078	$24,716

The Company has structured its global operations to take advantage of lower tax rates in certain countries and tax incentives extended to encourage investment. AAAP has a tax holiday in the Philippines which expires at the end of 2002. Foreign exchange (losses)/gains recognized for income taxes relate to unrecognized net foreign exchange (losses)/gains on U.S. dollar denominated monetary assets and liabilities. These (losses)/gains, which are not recognized for financial reporting purposes as the U.S. dollar is the functional currency (see Note 1), result in deferred tax assets that will be realized, for Philippine tax reporting purposes, upon settlement of the related asset or liability. The net deferred tax asset related to these losses increased in 1997 as a result of the dramatic devaluation of the Philippine peso relative to the U.S. dollar. These assets decreased in 1998 as they were realized for Philippine tax reporting purposes. The Company's ability to utilize these assets depends on the timing of the settlement of the related assets or liabilities and the amount of taxable income recognized within the Philippine statutory carryforward limit of three years. Accordingly, a valuation allowance was established for a portion of the related deferred tax assets. As of December 31, 1998, foreign net operating loss carryforwards of $11,050 are available to offset future foreign income through 2001. In addition, minimum corporate income tax credits of $1,182 are available to offset future foreign tax obligations through 2001.

(U.S. dollar amounts in thousands, except share and dollar per share data)

The following is a summary of the significant components of the Company's deferred tax assets and liabilities:

	December 31,	
	1997	1998
Deferred tax assets (liabilities):		
Retirement benefits	$ 816	$ 1,038
Other accrued liabilities	100	4,571
Receivables	227	1,717
Inventories	6,509	2,583
Property, plant and equipment	—	(2,139)
Unrealized foreign exchange losses	37,447	15,805
Unrealized foreign exchange gains	(9,084)	(3,530)
Loss on sale of investment in ASI	—	1,620
Net foreign operating loss carry forward	—	3,646
Minimum corporate income tax	—	1,182
Other	(2)	191
Net deferred tax asset	36,013	26,684
Valuation allowance	(22,000)	(13,921)
Net deferred tax asset	$ 14,013	$ 12,763

Non-U.S. income before taxes and minority interest of the Company was $20,420, $32,920 and $53,937 in 1996, 1997 and 1998, respectively.

The company does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries as long as those earnings are permanently reinvested in the companies that produced them. These cumulative undistributed earnings are included in consolidated retained earnings on the balance sheet and amounted to approximately $37,000 as of December 31, 1998. An estimated $12,000 in U.S. income and foreign withholdings taxes would be due if these earnings were remitted as dividends.

At December 31, 1997 and 1998 current deferred tax assets of $13,439 and $9,838, respectively, are included in other current assets and noncurrent deferred tax assets of $574 and $2,925, respectively, are included in other assets in the consolidated balance sheet. The Company's net deferred tax assets include amounts which, in the opinion of management, are more likely than not to be realizable through future taxable income.

The Company's tax returns have been examined through 1993 in the Philippines and through 1994 in the U.S. The tax returns for open years are subject to changes upon final examination of these. Changes in the mix of income from the Company's foreign subsidiaries, expiration of tax holidays and changes in tax laws or regulations could result in increased effective tax rates for the Company.

In connection with the Initial Public Offering, the Company and the stockholders of AEI entered into a Tax Indemnification Agreement providing that the Company and AEI will be indemnified by such stockholders, with respect to their proportionate share of any federal or state corporate income taxes attributable to the failure of AEI to qualify as an S Corporation for any period or in any jurisdiction for which S Corporation status was claimed through the date AEI terminated its S Corporation status. The Tax Indemnification Agreement provides that the Company and AEI will indemnify the stockholders if such stockholders are required to include in income additional amounts attributable to taxable years on or before the date AEI terminated its S Corporation status as to which AEI filed or files tax returns claiming status as an S Corporation.

Prior to AEI's termination of its S Corporation status, Mr. and Mrs. James Kim and the Kim Family Trusts had been obligated to pay U.S. federal and certain state income taxes on their allocable portion of AEI's income. AEI has made various distributions to Mr. and Mrs. James Kim and the Kim Family Trusts which have enabled them to pay these income taxes. Upon finalization of the AEI tax returns, approximately $3,000 of these distributions will be refunded to the company.

11. STOCKHOLDERS' EQUITY

The common stock and additional paid-in-capital of the Company are reflected at the original cost of the Amkor Companies. In connection with the Reorganization (see Note 1), the Company authorized 500,000,000 shares of $.001 par value common stock, of which 82,610,000 shares were issued to the stockholders of the Amkor Companies in exchange for their interests in these Companies.

At the date of the Reorganization consolidated retained earnings included $3,243 related to AKI. This amount is reflected as a reduction in retained earnings in 1998 as a result of the purchase of AKI by the Company.

In addition, the Company authorized 10,000,000 shares of $.001 par value preferred stock, designated as Series A.

Changes in the division equity account reflected in the consolidated statement of stockholders' equity represent the net cash flows resulting from the operations of the Chamterry semiconductor packaging and test business for the periods indicated. Such cash flows have been presented as distributions or capital contributions since these amounts were retained in Chamterry Enterprises, Ltd. for the benefit of the owners.

The line items included in Other Comprehensive Income, as presented in the Consolidated Statements of Stockholders' Equity, relate to S corporation activity prior to 1998. Accordingly, the related amounts reflected in Other Comprehensive Income and Accumulated Other Comprehensive Income in the Consolidated Statements of Stockholders' Equity and the Consolidated Balance Sheets are net of taxes at an effective tax rate of 0%.

12. EARNINGS PER SHARE

Net income per common share was calculated by dividing net income and pro forma net income by the weighted average number of shares outstanding for the respective periods, adjusted for the effect of the Reorganization (see Note 1) and the Initial Public Offering (see Note 2).

In 1997, the Company adopted SFAS No. 128, "Earnings Per Share," which requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic EPS is computed using only the weighted average number of common shares outstanding for the period while diluted EPS is computed assuming conversion of all dilutive securities, such as options. In accordance with the statement, all prior period per share amounts were revised to reflect this presentation. Both the Company's basic and diluted as well as the Company's basic pro forma and diluted pro forma per share amounts are the same for all periods presented except for the year ended December 31, 1998 which are calculated as follows:

(U.S. dollar amounts in thousands, except share and dollar per share data)

	Earnings (Numerator)	Weighted Avg. Shares (Denominator)	Per Share Amount
Earnings per Share — Year Ended December 31, 1998			
Basic earnings per share	$75,460	106,221,000	$0.71
Impact of Convertible Notes	5,672	10,334,000	
Dilutive effect of options	—	41,000	
Diluted earnings per share	$81,132	116,596,000	$0.70
Pro Forma Earnings per Share — Year Ended December 31, 1998 (unaudited)			
Basic pro forma earnings per share	$70,960	106,221,000	$0.67
Impact of Convertible Notes	5,672	10,334,000	
Dilutive effect of options	—	41,000	
Diluted pro forma earnings per share	$76,632	116,596,000	$0.66

13. STOCK COMPENSATION PLANS

1998 Director Option Plan. The Company's 1998 Director Option Plan (the "Director Plan") was adopted by the Board of Directors in January 1998 and was approved by the Company's stockholders in April 1998. A total of 300,000 shares of Common Stock have been reserved for issuance under the Director Plan. The option grants under the Director Plan are automatic and non-discretionary. Generally, the Director Plan provides for an initial grant of options to purchase 15,000 shares of Common Stock to each new non-employee director of the Company (an "Outside Director") when such individual first becomes an Outside Director. In addition, each Outside Director will automatically be granted subsequent options to purchase 5,000 shares of Common Stock on each date on which such Outside Director is re-elected by the stockholders of the Company, provided that as of such date such Outside Director has served on the Board of Directors for at least six months. The exercise price of the options is 100% of the fair market value of the Common Stock on the grant date, except that with respect to initial grants to directors on the effective date of the Director Plan the exercise price was 94% of the Initial Public Offering price per share of Common Stock in the Initial Public Offering. The term of each option is ten years and each option granted to an Outside Director vests over a three year period. The Director Plan will terminate in January 2008 unless sooner terminated by the Board of Directors. As of December 31, 1998, there were 60,000 options outstanding under the Director Plan.

1998 Stock Plan. The Company's 1998 Stock Plan (the "1998 Plan") generally provides for the grant to employees, directors and consultants of stock options and stock purchase rights. The 1998 Plan was adopted by the Board of Directors in January 1998 and was approved by the Company's stockholders in April 1998. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. The maximum aggregate number of shares which may be optioned and sold under the 1998 Plan is 5,000,000 plus an annual increase to be added on each anniversary date of the adoption of the 1998 Plan.

Unless determined otherwise by the Board of Directors or a committee appointed by the Board of Directors, options and stock purchase rights granted under the 1998 Plan are not transferable by the optionee. Generally, the exercise price of all stock options granted under the 1998 Plan must be at least equal to the fair market value of the shares on the date of grant. In general, the options granted will vest over a four year period and the term of the options granted under the 1998 Plan may not exceed ten years. As of December 31, 1998, there were 3,695,300 options outstanding under the 1998 Plan.

1998 Stock Option Plan for French Employees. The 1998 Stock Option Plan for French Employees (the "French Plan") was approved by the Board of Directors in April 1998. Unless terminated sooner, the French Plan will continue in existence for 5 years. The French Plan provides for the granting of options to employees for AAES and AWFS, the Company's French subsidiaries (the "French Subsidiaries"). A total of 250,000 shares of Common Stock have been reserved for issuance under the French Plan plus an annual increase to be added on each anniversary date of the adoption of the French Plan. In general, stock options granted under the French Plan vest over a four year period, the exercise price for each option granted under the French Plan shall be 100% of the fair market value of the shares of Common Stock on the date the option is granted and the maximum term of the option must not exceed ten years. Shares subject to the options granted under the French Plan may not be transferred, assigned or hypothecated in any manner other than by will or the laws of descent or distribution before the date which is five years after the date of grant. As of December 31, 1998, there were 68,600 options outstanding under the French Plan.

A summary of the status of the Company's stock option plans follows:

	Number Of Shares	Weighted Average Exercise Price Per Share
Balance at January 1, 1998	—	$ —
Granted	3,974,200	$ 10.01
Exercised	—	$ —
Cancelled	150,300	$ 11.00
Balance at December 31, 1998	3,823,900	$ 9.97
Exercisable at December 31, 1998	—	$ —

Significant option groups outstanding at December 31, 1998 and the related weighted average exercise price and remaining contractual life information are as follows:

	Outstanding		Exercisable		Weighted Average Remaining
	Shares	Price	Shares	Price	Life (Years)
Options with Exercise Price of:					
$11.00	3,038,200	$11.00	—	$11.00	9.3
$10.34	30,000	$10.34	—	$10.34	9.3
$ 9.14	30,000	$9.14	—	$ 9.14	9.5
$ 5.66	725,700	$5.66	—	$ 5.66	9.9
Options outstanding at December 31, 1998	3,823,900		—		

(U.S. dollar amounts in thousands, except share and dollar per share data)

A summary of the weighted average fair value of options at grant date granted during the year ended December 31, 1998 follows:

	Number Of Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Values
Options whose exercise price is greater than the market price on grant date	42,600	$11.00	$2.22
Options whose exercise price equals market price on grant date	3,901,600	$ 9.99	$4.31
Options whose exercise price is less than the market price on grant date	30,000	$10.34	$4.97

In order to calculate the fair value of stock options at date of grant, the Company used the Black-Scholes option pricing model. The following assumptions were used: expected option term — 4 years, stock price volatility factor — 47%, dividend yield — 0%, and riskfree interest rate — 5.38%.

1998 Employee Stock Purchase Plan. The Company's 1998 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in January 1998 and was approved by the stockholders in April 1998. A total of 1,000,000 shares of common stock have been made available for sale under the Purchase Plan and an annual increase is to be added on each anniversary date of the adoption of the Purchase Plan. Employees (including officers and employee directors of the Company but excluding 5% or greater stockholders) are eligible to participate if they are customarily employed for at least 20 hours per week and for more than five months in any calendar year. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of the compensation an employee receives on each payday. The initial offering period began on October 1, 1998 with a seven-month offering period. All subsequent offering periods will be consecutive six-month periods beginning on May 1, 1999, subject to change by the Board of Directors. Each participant will be granted an option on the first day of an offering period, and shares of Common Stock will be automatically purchased on the last date of each offering period. The purchase price of the Common Stock under the Purchase Plan will be equal to 85% of the lesser of the fair market value per share of Common Stock on the start date of the offering period or on the purchase date. Employees may end their participation in an offering period at any time, and participation ends automatically on termination of employment with the Company. The Purchase Plan will terminate in January 2008, unless sooner terminated by the Board of Directors.

Under the Purchase Plan, the Company has withheld approximately $600 through payroll deductions as of December 31, 1998. The fair market value per share of the Company's common stock was $4.56 on October 1, 1998, the start date of the first offering period. The fair value of the purchase rights granted during 1998 was $1.29 which was estimated using the Black Scholes option pricing model with the following assumptions: expected option term — 7 months, stock price volatility factor — 47%, dividend yield — 0% and risk free interest rate — 4.31%.

The Company accounts for its stock compensation plans as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, no compensation cost has been recognized in the Consolidated Statements of Income. Had the Company recorded compensation expense for its stock compensation plans, as provided by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's reported net income and basic and diluted earnings per share, which reflects proforma adjustments for income taxes (see Note 19), would have been reduced to the pro forma amounts indicated below:

		For the Year Ended December 31,		
		1996	1997 (unaudited)	1998
Net Income:	As reported	$30,022	$39,668	$70,960
	Pro forma	$30,022	$39,668	$69,313
Earnings per share:				
Basic:	As reported	$ 0.36	$ 0.48	$ 0.67
	Pro forma	$ 0.36	$ 0.48	$ 0.65
Diluted:	As reported	$ 0.36	$ 0.48	$ 0.66
	Pro forma	$ 0.36	$ 0.48	$ 0.64

14. RELATED-PARTY TRANSACTIONS

At December 31, 1997, the Company owned 8.1% of the outstanding stock of ASI (see Note 6), and ASI owned 40% of AAP. On February 16, 1998, the Company sold its investment in ASI common stock for $13,863 to AK Investments, Inc. based on the market value of ASI shares on the Korean Stock Exchange. On June 1, 1998 the Company purchased ASI's interest in AAP for approximately $34,000 (see Note 17). In 1996, 1997, and 1998, approximately 72%, 68% and 67%, respectively, of the Company's packaging and test revenues as well as 100% of the Company's wafer fabrication revenues (see Note 1) were derived from services performed for the Company by ASI, a Korean public company in which certain of the Company's principal stockholders hold a minority interest. By the terms of a long-standing agreement, the Company has been responsible for marketing and selling ASI's semiconductor packaging and test services, except to customers in Korea and Japan to whom ASI has historically sold such services directly. During 1998, the Company became responsible for marketing and selling ASI's semiconductor packaging and test services to the majority of ASI's customers in Japan. The Company has worked closely with ASI in developing new technologies and products. Effective January 1, 1998, the Company entered into five-year supply agreements with ASI giving the Company the first right to market and sell substantially all of ASI's packaging and test services and the exclusive right to market and sell all of the wafer output of ASI's new wafer foundry, both of which have negotiable pricing terms. These agreements are cancellable by either party upon five years prior written notice at any time after the fifth anniversary of the effective date. The Company's business, financial condition and operating results have been and will continue to be significantly dependent on the ability of ASI to effectively provide the contracted services on a cost-efficient and timely basis. The termination of the Company's relationship with ASI for any reason, or any material adverse change in ASI's business resulting from underutilization of its capacity, the level of its debt and its guarantees of affiliate debt, labor disruptions, fluctuations in foreign exchange rates, changes in governmental policies, economic or political conditions in Korea or any other change could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company previously met a significant portion of its financing from financing arrangements provided by AUSA. A majority of the amount due to AUSA represented outstanding amounts under financing obtained by AUSA for the benefit of the Company with the balance representing payables to AUSA for packaging and test service charges and wafer fabrication service charges from ASI. Based on guarantees provided by ASI, AUSA obtained for the benefit of the Company a continuous series of short-term financing arrangements which generally were less than six months in duration, and typically were less than two months in duration. Because of the short-term nature of these loans, the flows of cash to and from AUSA under this arrangement were significant. Purchases from ASI through AUSA were $460,282, $527,858 and $573,791 for 1996, 1997 and 1998, respectively. Charges from AUSA for interest and bank charges were $7,074, $6,002 and $2,215 for 1996, 1997 and 1998, respectively. Excluding the $20,000 balance due from ASI at December 31, 1998 for prepaid wafer foundry service charges (see discussion below), the net amounts payable to ASI and AUSA were $156,350 and $8,357 at December 31, 1997 and 1998, respectively.

ASI's ability to continue to provide services to the Company will depend on ASI's financial condition and performance. ASI currently has a significant amount of debt relative to its equity, which debt the Company expects will continue to increase in the foreseeable future. The Company is advised that ASI has published its most recent annual unconsolidated financial statements as of December 31, 1998. These unconsolidated financial statements are prepared on the basis of Korean GAAP, which differs from U.S. GAAP. U.S. GAAP financial statements are not available (See Note 6). As of December 31, 1998, ASI, on an unconsolidated basis, had current liabilities of approximately W1,716 billion, including approximately W924 billion of short-term borrowings and approximately ₩214 billion of current maturities of long-term debt, and had long-term liabilities of approximately ₩1,182 billion, including approximately ₩448 billion of long-term debt and approximately ₩655 billion of long-term capital lease obligations. As of such date, the total shareholders' equity of ASI amounted to approximately W164 billion. ASI's business has been severely affected by the economic crisis in Korea. In late 1997, the Republic of Korea began to undergo a foreign currency liquidity crisis resulting in significant adverse economic circumstances and significant depreciation in the value of the Korea Won against the U.S. dollar. ASI historically operated with a significant amount of debt relative to its equity. The economic crisis in Korea led to sharply higher interest rates and significantly reduced opportunities for refinancing maturing debts. Because ASI maintained a substantial amount of short-term debt, its inability to refinance this debt created a liquidity crisis for ASI.

As of December 31, 1998, ASI was contingently liable under guarantees in respect of debt of its non-consolidated subsidiaries and affiliates in the aggregate amount of approximately W668 billion. As of December 31, 1998, such guarantees included those in respect of all of AUSA's debt totaling approximately $225,000. Prior to the Initial Public Offering, the Company met a significant portion of its financing needs through financing arrangements obtained by AUSA for the benefit of the Company based on guarantees provided by ASI. The Company currently does not depend on such financing arrangements. In addition, if any relevant subsidiaries or affiliates of ASI were to fail to make interest or principal payments or otherwise default under their debt obligations guaranteed by ASI, ASI could be required under its guarantees to repay such debt, which event could have a material adverse effect on its financial condition and results of operations.

In response to this situation, in October 1998, ASI announced that it had applied for and was accepted into the Korean financial restructuring program known as "Workout." The Workout program is the result of an accord among Korean financial institutions to assist in the restructuring of Korean business enterprises. This process involves negotiation between the related banks and ASI, and does not involve the judicial system. The Workout process also does not impact debts outstanding with trade creditors, including balances due to/or from the Company. ASI's operations have continued uninterrupted during the process, and we expect ASI's operations to continue uninterrupted for the duration of the process.

The Company has received the report of the meeting of ASI's creditor banks at which the principal terms of a workout plan for ASI were approved. We understand from ASI's management that many of the details of the Workout program will be contained in definitive agreements between ASI and the creditor banks and none of these agreements have yet been finalized. The terms of ASI's Workout set forth below are based upon the reported information provided to us by ASI's management. References to "won" or "₩" are to the currency of Korea.

The Workout as approved by the creditor banks contains the following relief provisions for ASI.

- The creditor banks will allow ASI to defer repayment on principal of ordinary loans until December 31, 2003. After December 31, 2003, bank loans with repayment terms will be payable through readjustment of repayment schedules on the basis of the repayment period as of October 24, 1998. For loans without repayment terms the schedule to repay principal amounts will be determined by ASI and the creditor banks at the end of such period.
- The creditor banks will allow ASI to defer repayment of principal under capital leases until December 31, 1999, with payments of principal to resume under a 7 year installment plan thereafter.
- The creditor banks will allow ASI to roll over the maturity of its Won-denominated debentures held by the creditor banks for an additional three year term after currently scheduled maturity dates.
- The creditor banks will allow ASI to make no interest payments on ordinary loans until December 31, 1999. The creditor banks

will add accrued interest to the principal amounts of these loans every three months.

- The creditor banks will reduce interest rates on ASI's remaining outstanding Won-denominated ordinary bank loans to 10% or the prime rate of each creditor bank, whichever is greater. This would reduce ASI's weighted average interest rate from 12.9% before the Workout to 10.5% after the Workout.
- The creditor banks will give ASI a five year grace period until December 31, 2003 against enforcement of guarantees made by ASI for liabilities of ASI's affiliates. In addition, interest will not accrue on guaranteed obligations during the five year period.
- The creditor banks will provide to ASI a short-term loan of ₩50 billion at the prime rate plus 1%, to be repaid with proceeds from the sale of K4.
- The creditor banks will convert ₩250 billion ($208,000, using the December 31, 1998 exchange rate of ₩1207 to $1.00) of ASI debt held by the creditor banks into: (1) ₩122.3 billion ($102,000 using the December 31, 1998 exchange rate) in equity shares of ASI, (2) ₩108.1 billion ($90,000 using the December 31, 1998 exchange rate) in five-year non-interest bearing convertible debt and (3) ₩19.6 billion ($16,000) in non-interest bearing loans. The conversion would take place in installments over four years and at a conversion rate equal to ₩5,000 per share, the par value of ASI's common stock. In order for the initial conversion of debt to take place in accordance with the terms of the Workout, ASI will have to undergo a series of corporate actions, including a reverse stock split to bring the fair market value of its equity shares to a price at least equal to the par value of such shares. The creditor banks would time their conversions of ASI debt to coincide with equity investments made in ASI by a third-party foreign investor company, in the aggregate amount of $150,000 over a four year period.

The conversion of debt by the creditor banks depends upon ASI obtaining a commitment from a third party foreign investor to invest $150,000 in ASI equity over a four-year period. We have sent a letter to ASI's creditor banks committing, subject to certain conditions, to make an investment of $41,000 in 1999 and, assuming certain additional conditions are met, we will invest an additional $109,000 between years 2000 and 2002. As a result of our commitment to invest, ASI agreed to reduce the K4 purchase price from $607,000 to $582,000. Our letter to ASI's creditor banks committing to an investment in ASI is contingent upon completion of the acquisition of K4, the continuation of the Workout plan as approved, the continued effectiveness of our Supply Agreements with Anam and coordination of proposed equity investments with the conversion by the creditor banks of their ASI debt to equity. Our commitment letter provides that upon meeting these conditions, we would invest $41,000 in 1999, 2000, and 2001 with a final investment of $27,000 in 2002. We would purchase the ASI shares at ₩5,000 per share. Since our commitment is in U.S. dollars, the number of shares we would purchase will vary based on the exchange rate of Korean won to U.S. dollars. The letter has not yet been accepted by ASI's creditor banks and we cannot be certain that the banks will agree to the terms we have proposed for the investment. Our commitment to invest in ASI must be finalized before the Workout agreements will be implemented. If the Company reaches an agreement with ASI's creditor banks on the terms of Amkor's commitment, ASI has indicated that it will reduce the K4 purchase price to $582,000 from $607,000. The Company does not believe that any other third party is considering investing in ASI.

ASI has not finalized the Workout agreement with the creditor banks. Assuming the creditor banks and ASI finalize and implement the Workout, upon completion of the first installment of the conversion of debt of the creditor banks to equity or convertible debt and the first installment of our equity investment, the relative equity of ownership of ASI among the creditor banks, the Kim family and the Company would be approximately 27%, 21% and 21%, respectively (assuming an exchange rate of ₩1.200 to $1.00 and without any future sales of ASI stock by these parties). Upon completion of all debt conversions and equity investments contemplated by the Workout through 2002, the relative equity ownership of ASI among the creditor banks, the Kim family and the Company would be approximately 29%, 11% and 43%, respectively (assuming an exchange rate of ₩1,200 to $1.00 and without any future sales of ASI stock by these parties.) Upon conversion of all of the convertible debt issued to creditor banks, which would be permitted beginning one year after the date of issuance of such debt, the ownership of ASI among the creditor banks, the Kim family and our company would be approximately 43%, 9% and 34%, respectively (assuming an exchange rate of ₩1,200 to $1.00 and without any future sales of ASI stock by these parties).

The creditor banks have the right to terminate the Workout if ASI fails to meet the conditions of the Workout, which includes conditions related to ASI's financial performance. We believe that if the Workout is not finalized by the creditor banks and ASI or if the creditor banks subsequently terminate the Workout, the debt relief afforded to ASI pursuant to the Workout would be terminated, and the creditor banks could reinstate and enforce the original terms of ASI's debt, including accelerating ASI's obligations. If this were to occur, ASI's and our businesses could be harmed.

There can be no assurance that ASI will be able to satisfy the terms of the proposed Workout Agreement. Any inability of ASI to comply with the terms of the proposed Workout Agreement, generate cash flow from operations sufficient to fund its capital expenditures and other working capital and liquidity requirements could have a material adverse effect on ASI's ability to continue to provide services and otherwise fulfill its obligations to the Company.

As previously discussed, the Company incurs charges from ASI for assembly and test services performed on a monthly basis. Historically the Company has paid ASI for these services on net 30-day terms. On July 21, 1998 the Company entered into a prepayment agreement with ASI relating to assembly and test services. In accordance with the agreement, the Company made a $50,000 non-interest bearing advance to ASI, representing approximately one month's charges for assembly and test services. The Company offset this advance against billings by ASI for assembly and test services provided in the fourth quarter of 1998. During the fourth quarter of 1998, the Company has reduced this advance to ASI in full by offsetting the balance against amounts due to ASI for fourth quarter packaging and test services.

In connection with its wafer foundry agreement with Texas Instruments, Inc. ("TI"), the Company and TI agreed to revise certain payment and other terms contained in the Master Purchase Agreement entered into during 1998 ("Master Purchase Agreement"). As part of this agreement, TI agreed to advance the Company $20,000 in June 1998 and an additional $20,000 in December 1998, as prepayments of wafer foundry services to be provided in the fourth quarter of 1998 and first quarter of 1999, respectively. The Company recorded these amounts in accrued expenses. The Company in turn advanced these funds to ASI as prepayments for foundry service charges. The Company has fully offset the $20,000 advance made in June 1998 against billings by ASI in the fourth quarter of 1998. The December 1998 advance is reflected in the current portion of Due from Affiliates as of December 31, 1998. As of February 28, 1999, the December 1998 advance from TI and the related advance to ASI have both been reduced to $6,640. The Company expects both advances to be fully repaid by the end of the first quarter of 1999.

To facilitate capacity expansion for new product lines, certain customers advanced the Company funds to purchase certain equipment to fulfill such customers forecasts. In certain cases, the customer has requested that the equipment be installed in the ASI factories. In these cases, the Company receives funds from the customer and advances the funds to ASI. ASI in turn purchases the necessary equipment. ASI repays the Company through a reduction of the monthly processing charges related to the customer product being assembled. The Company will reduce its obligation to the customer through a reduction in the accounts receivable, due from the customer, at the time services are billed. As of December 31, 1998 this amount was approximately $2,600.

On August 1, 1997, the Company sold its equity investment in Anam Semiconductor & Technology Co., Ltd. ("AST"), an affiliate of ASI, and certain investments and notes receivable from companies unrelated to the semiconductor packaging and test business to AK Investments, Inc., at cost ($49,740) and AK Investments, Inc. assumed $49,740 of the Company's long-term borrowings from Anam USA, Inc. Management estimates that the fair value of these investments and notes receivable approximated the carrying value at August 1, 1997. Subsequent to the sale on August 1, 1997 the Company loaned AK Investments, Inc. $12,800 for the purchase of additional investments. The amount outstanding on this loan at December 31, 1997 and 1998 was $4,350 and $59, respectively.

The Company utilizes AST as a key supplier of leadframes. Historically, the Company has paid AST for these services on net 30-day terms. Effective at the end of July 1998, the Company changed its payment policy from net 30-days, to paid-in advance. Accordingly the Company now pays for its materials before shipment. This change in payment policy resulted in an advance to AST which is reflected in the current portion of Due from Affiliate. As of December 31, 1998, the balance paid in advance to AST was approximately $3,500. Payments to AST were approximately $27,300, $26,000 and $32,500 during 1996, 1997 and 1998, respectively.

Anam Engineering and Construction, an affiliate of ASI, built the packaging facility for AAAP in the Philippines. Payments to Anam Engineering and Construction were $22,167, $3,844 and $869 in 1996, 1997 and 1998, respectively. Anam Precision Equipment and Anam Instruments manufacture certain equipment used by the Philippine operations. Payments to Anam Precision Equipment and Anam Instruments were $6,652, $4,211 and $10,272 in 1996, 1997 and 1998, respectively.

During 1996, the Company extended guarantees on behalf of an affiliate to vendors used by this affiliate. Outstanding guarantees as of December 31, 1996 and 1997 were $25,100 and $24,655 respectively. During the third quarter of 1998, the Company was released from its obligations under these guarantees. Amounts guaranteed under this agreement fluctuated due to the cyclical nature of the affiliate's retail business. Balances guaranteed at December 31 were generally the largest.

The Company had executed a surety and guarantee agreement on behalf of an affiliate. The Company had unconditionally guaranteed the affiliate's obligation under a $17,000 line of credit and a $9,000 term loan note. The Company had also unconditionally guaranteed another affiliate's obligation under a $4,000 term loan agreement and a $1,000 line of credit. During the third quarter of 1998, the Company was released from its obligations under these guarantees.

A principal stockholder of the Company has extended guarantees on behalf of the Company in the amount of $91,000 at December 31, 1998. Also in 1997, a company controlled by this stockholder purchased investments in the amount of $49,740 (see Note 6).

The Company leases office space in West Chester, PA from certain stockholders of the Company. The lease expires in 2006. The Company has the option to extend the lease for an additional 10 years through 2016. On September 11, 1997, the office previously being leased in Chandler, Arizona was purchased from certain stockholders of the Company. The total purchase price of the building ($5,710) represented the carrying value to the stockholders. Amounts paid for these leases in 1997 and 1998 were $1,458 and $1,118, respectively.

At December 31, 1997 and 1998, the Company had net balances due from affiliates other than ASI and AUSA of $36,501 and $27,510, respectively. Realization of these balances is dependent upon the ability of the affiliates to repay the amounts due. In management's opinion, these receivables are recorded at the net realizable value.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop the estimates for fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is anticipated. The carrying amounts reported in the balance sheet for short-term investments due from affiliates, other accounts receivable, due to affiliates, accrued expenses and accrued income taxes approximate fair value due to the short term nature of these instruments.

The methods and assumptions used to estimate the fair value of significant classes of financial instruments is set forth below:

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

Cash and Cash Equivalents. Cash and cash equivalents are due on demand or carry a maturity date of less than three months when purchased. The carrying amount of these financial instruments is a reasonable estimate of fair value.

Available for sale investments. The fair value of these financial instruments was estimated based on market quotes, recent offerings of similar securities, current and projected financial performance of the company and net asset positions.

Short-term borrowings. Short-term borrowings have variable rates that reflect currently available terms and conditions for similar borrowings. The carrying amount of this debt is a reasonable estimate of fair value.

Long-term debt. Long-term debt balances have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of fair value.

Convertible Subordinated Notes. The fair value of these financial instruments at December 31, 1998 is estimated to be $199,755 based on available market quotes.

16. COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims incidental to the conduct of its business. Based on consultation with legal counsel, management does not believe that any claims, either individually or in the aggregate, to which the Company is a party will have a material adverse effect on the Company's financial condition or results of operations.

Net future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1998, are:

1999	$8,461
2000	7,676
2001	6,097
2002	4,830
2003	4,360
Thereafter	80,980
Total (net of minimum sublease income of $4,507)	$112,404

Rent expense, net of sublease income of $131, $366 and $575 for 1996, 1997 and 1998, respectively, amounted to $5,520, $6,709 and $7,751 for 1996, 1997 and 1998, respectively.

The Company has various purchase commitments for materials, supplies and capital equipment incidental to the ordinary conduct of business. As of December 31, 1998, the Company had commitments for capital equipment of approximately $31,000. In the aggregate, such commitments are not at prices in excess of current market.

17. ACQUISITIONS

On September 30, 1996, AEI and a principal stockholder each acquired 50% of the outstanding common stock of Amkor Anam Test Services, Inc. (AATS), formerly Navell Test Consultants, Inc., a provider of test engineering services for the semiconductor industry located in San Jose, California, for approximately $2,860. Subsequent to September 30, 1996, AEI purchased the 50% interest owned by a principal stockholder at the stockholder's original cost. The acquisition was accounted for using the purchase method of accounting and the results of AATS' operations are included in the Company's consolidated statements of income effective October 1, 1996. Accordingly, the total purchase price was allocated to the assets and liabilities based upon their estimated respective fair values. This acquisition resulted in goodwill of approximately $2,356, which is being amortized over 20 years.

On June 1, 1998, the Company purchased ASI's 40% interest in AAP for $33,750. The acquisition was accounted for using the purchase method of accounting which resulted in the elimination of the minority interest liability reflected on the consolidated balance sheet and the recording of approximately $23,910 of goodwill which is being amortized over 10 years.

18. SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," during the fourth quarter of 1998.

The Company has identified two reportable segments (packaging and test services and wafer fabrication services) that are managed separately because the services provided by each segment require different technology and marketing strategies.

Packaging and test services: Through its three factories located in the Philippines as well as the four ASI factories in Korea, under contract, the Company offers a complete and integrated set of packaging and test services including IC packaging design, leadframe and substrate design, IC package assembly, final testing, burn-in, reliability testing and thermal and electrical characterization.

Wafer fabrication services: Through its wafer fabrication services division, the Company provides marketing, engineering, and support services for ASI's deep submicron CMOS foundry, under a long-term supply agreement.

During the years ended December 31, 1996, 1997 and 1998, sales to Intel Corporation accounted for approximately $275,000, $340,000 and $324,000, respectively, of packaging and test revenues.

The accounting policies for segment reporting are the same as those described in Note 1 of Notes to Consolidated Financial Statements. The Company evaluates its operating segments based on operating income.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes the elimination of inter-segment balances and corporate assets which include cash and cash equivalents, non-operating balances due from affiliates, investment in TSTC (see Note 6) and other investments.

Notes to Consolidated Financial Statements (Continued)

(U.S. dollar amounts in thousands, except share and dollar per share data)

	Packaging and Test	Wafer Fabrication	Other	Total
Year ended December 31, 1998:				
Net Revenues	$1,452,285	$ 115,698	$ —	$1,567,983
Gross Profit	$ 243,479	$ 17,354	$ —	$ 260,833
Operating Income	$ 124,462	$ 8,274	$ —	$ 132,736
Depreciation and Amortization	$ 118,676	$ 563	$ —	$ 119,239
Capital Expenditures	$ 102,142	$ 5,747	$ —	$ 107,889
Total Assets	$ 655,695	$ 65,941	$281,961	$1,003,597
Year ended December 31, 1997:				
Net Revenues	$1,455,761	$ —	$ —	$1,455,761
Gross Profit	$ 213,092	$ —	$ —	$ 213,092
Operating Income	$ 104,903	$ (4,062)	$ —	$ 100,841
Depreciation and Amortization	$ 81,770	$ 94	$ —	$ 81,864
Capital Expenditures	$ 176,858	$ 2,132	$ —	$ 178,990
Total Assets	$ 703,662	$ 2,068	$149,862	$ 855,592
Year ended December 31, 1996:				
Net Revenues	$1,171,001	$ —	$ —	$1,171,001
Gross Profit	$ 148,923	$ —	$ —	$ 148,923
Operating Income	$ 71,368	$ —	$ —	$ 71,368
Depreciation and Amortization	$ 57,825	$ —	$ —	$ 57,825
Capital Expenditures	$ 185,112	$ —	$ —	$ 185,112
Total Assets	$ 656,024	$ —	$148,840	$ 804,864

The following table presents net revenues by country based on the location of the customer:

	Net Revenues		
	1996	1997	1998
United States	$ 852,675	$1,050,048	$1,124,764
Foreign countries	$ 318,326	$ 405,713	$ 443,219
Consolidated	$1,171,001	$1,455,761	$1,567,983

The following table presents property, plant and equipment based on the location of the asset:

	Property, Plant and Equipment		
	1996	1997	1998
United States	$ 10,470	$ 37,845	$ 48,851
Philippines	313,869	388,653	366,717
Other foreign countries	556	563	543
Consolidated	$324,895	$427,061	$416,111

The following supplementary information presents net revenues allocated by product family for the packaging and test segment:

	Net Revenues		
	1996	1997	1998
Traditional Leadframe	$ 818,589	$ 833,527	$ 603,222
Advanced Leadframe	202,373	311,988	342,866
Laminates	108,790	251,257	438,034
Test and Other	41,249	58,989	68,163
Consolidated	$1,171,001	$1,455,761	$1,452,285

19. PRO FORMA ADJUSTMENTS (UNAUDITED)

STATEMENT OF INCOME

Pro forma adjustments are presented to reflect a provision for income taxes as if AEI had not been an S Corporation for all of the periods presented. Pro forma net income per common share is based on the weighted average number of shares outstanding as if the Reorganization had occurred at the beginning of the period presented.

20. THE ACQUISITION OF K4 AND INVESTMENT IN ASI

The Company has entered into an asset purchase agreement with ASI to purchase the assets of ASI's packaging and test facility located in Kwangju, Korea ("K4"), excluding cash and cash equivalents, notes and accounts receivables, intercompany accounts and existing claims against third parties. The purchase price for K4 is $607,000 including the assumption of up to $7,000 of employee benefit liabilities. This purchase price would be reduced to $582,000 if the company signs an agreement to make an equity investment of $150,000 in ASI over a four year period, pursuant to the proposed financial restructuring of ASI with its creditor banks, called "Workout". The Company has sent ASI's creditor banks a letter committing to make an equity investment in ASI (see Note 14).

K4 provides packaging and test services for advanced leadframe and laminate packages that are used in high-performance electronic products such as cellular telephones, laptop computers, digital cameras and microprocessors. K4 began operating in October 1996 and is ASI's newest semiconductor packaging and test facility. In addition to other conditions, including the satisfactory completion of due diligence, the receipt of a fairness opinion and final board approval, the Company's acquisition of K4 is subject to its ability to obtain financing of the entire amount of the purchase price on reasonable terms. We cannot be certain that we will be able to obtain this financing on reasonable terms. The Company intends to finance the full purchase price of K4.

K4 is situated on approximately 100 acres and currently consists of a 1,000,000 square foot facility, including 782,000 square feet of manufacturing and administrative space. K4 provides packaging and test services for many of our most advanced packages. In addition, the K4 site has the infrastructure in place to accommodate four pre-configured modules for a total of 1.6 million square feet of incremental capacity.

In connection with the Acquisition of K4, the Company will enter into a Transition Services Agreement with ASI. Pursuant to this agreement, ASI will continue to provide many of the same non-manufacturing related services to K4 that it provided prior to the acquisition, including transportation and shipping, human resources and accounting and general administrative services.

The Company will also enter into an Intellectual Property License Agreement with ASI that will become effective upon the closing of the acquisition.

Report of Independent Public Accountants

TO AMKOR TECHNOLOGY, INC.:

We have audited the accompanying consolidated balance sheets of Amkor Technology, Inc. and its subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Anam Semiconductor, Inc. ("ASI"), the investment in which is reflected in the accompanying 1996 and 1997 financial statements using the equity method of accounting. The investment in ASI represents 2% of total assets at December 31, 1997 and the equity in its net loss represents 4% and 29% of net income before the equity in loss of ASI in 1996 and 1997, respectively. The statements of ASI were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for ASI, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the report of other auditors,regarding 1996 and 1997, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Amkor Technology, Inc. and its subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

The report of the other auditors referred to above indicates that the financial statements of ASI have been prepared assuming that ASI will continue as a going concern. This report states that the operations of ASI have been significantly affected, and will continue to be affected for the foreseeable future, by Korea's unstable economy caused by currency volatility and unstable finance markets in Korea and that ASI has historically operated with a significant amount of debt relative to its equity, had a significant working capital deficit at December 31, 1997 and has contractually guaranteed the debt obligations of certain affiliates and subsidiaries. These significant uncertainties may affect ASI's future operations and its ability to maintain or refinance certain debt obligations as they mature, which raise substantial doubt regarding ASI's ability to continue as a going concern. ASI's plans to address these matters, which are disclosed in ASI's financial statements, including entering into the Korean financial restructuring program known as "Workout" in October 1998. The Workout program is the result of an accord among Korean financial institutions to assist in the restructuring of Korean business enterprises and does not involve the judicial system. Finally, the report of other auditors states that the ultimate outcome of these uncertainties cannot be determined presently and ASI's financial statements do not include any adjustments that might result from these uncertainties.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania.

February 10, 1999 (except with respect to the Company's proposed investment in ASI pursuant to the financial restructuring of ASI discussed in Note 14, as to which the date is March 29, 1999.)

Corporate Information

BOARD OF DIRECTORS

James J. Kim
Chairman and Chief Executive Officer
Amkor Technology, Inc.

John N. Boruch
President and Chief Operating Officer
Amkor Technology, Inc.

*Winston J. Churchill**
Chairman
Churchill Investment Partners, Inc.
and CIP Capital, Inc.

*Robert E.Denham***
Partner
Munger, Tolles & Olson

*Thomas D. George**
Retired President and
General Manager
Semiconductor Products Sector
Motorola, Inc.

*Gregory K. Hinckley***
Executive Vice President
Chief Operating Officer and
Chief Financial Officer
Mentor Graphics Corporation

John B. Neff
Retired Senior Vice President
and Managing Partner
Wellington Management Co.

* Member Compensation Committee
** Member Audit Committee

CORPORATE MANAGEMENT

James J. Kim
Chairman and
Chief Executive Officer

John N. Boruch
President and
Chief Operating Officer

Frank J. Marcucci
Executive Vice President and
Chief Financial Officer

Eric R. Larson
Executive Vice President
Wafer Fabrication

Michael D. O'Brien
Executive Vice President
Operations

Paul Grant
Vice President
Worldwide Sales

Robert Filipski
Vice President
Business Planning

Bruce Freyman
Vice President
Product Management

Chang Nam Kim
Vice President
Korean Operations

John McMillan
Vice President
QRE and Marketing

Tony Ng
Vice President
Philippine Operations

Scott Voss
Vice President
Product Operations

CORPORATE HEADQUARTERS

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West Chester, PA 19380
Tel: 610.431.9600
Fax: 610.431.5881

Stock Trading
Amkor Technology, Inc.'s common stock is traded on the Nasdaq Stock Market under the symbol AMKR.

TRANSFER AGENT AND REGISTRAR

Common Stock
First Chicago Trust Co.,
a division of Equiserve
P.O. Box 2500
Jersey City, NJ 07303-2500
800.519.3111
Hearing impaired: 201.222.4955
e-mail: fctc@em.fcnbd.com

Convertible Notes
State Street Bank & Trust Company
Corporate Services Division
P.O. Box 778
Boston, MA 02102-0778

INDEPENDENT AUDITORS

Arthur Andersen LLP
1601 Market Street
Philadelphia, PA 19103

LEGAL COUNSEL

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304

A copy of the company's Form 10-K, filed with the Securities and Exchange Commission is available upon written request to:

Jeffrey Luth
Vice President, Investor Relations
Amkor Technology, Inc.
1345 Enterprise Drive
West Chester, PA 19380

Please visit our Web Site:
http://www.amkor.com

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