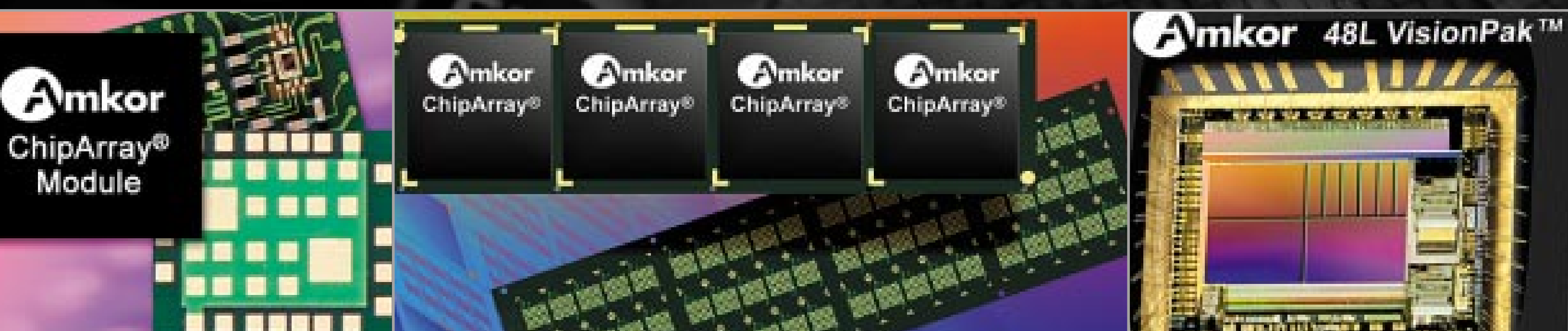
AMKOR TECHNOLOGY, INC. 1999 ANNUAL REPORT



Enabling the Microelectronic World

Amkor Technology™

CORPORATE PROFILE

Amkor is the world's largest independent provider of semiconductor packaging design, assembly and test services. Founded more than 30 years ago, Amkor pioneered the concept of having a highly focused third party provide assembly and test services to semiconductor manufacturers. By capitalizing on strong outsourcing trends and consistently meeting customer needs, Amkor has enjoyed significant growth over the past three decades.

Today we are a critical manufacturing resource for nearly 200 of the world's leading semiconductor companies and electronics OEMs, providing our customers with the industry's broadest array of packaging technology solutions. At the end of 1999, Amkor had over 3.5 million square feet of manufacturing floor space available in seven factories in the Philippines and South Korea.

Since 1998 Amkor has been offering wafer fabrication services through a state-of-the-art wafer foundry 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.

SEMICONDUCTOR ASSEMBLY AND TEST

Assembly and testing are an integral part of the semiconductor manufacturing process and play a critical role in ensuring that semiconductors achieve maximum functionality and performance.

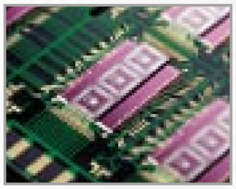
Semiconductors start as a circular silicon wafer housing millions of transistors and complex electronic circuitry. Each wafer may contain hundreds, or even thousands of individual chips.

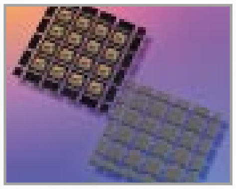
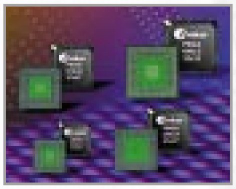
In the assembly process—also known as packaging—the wafer is cut into individual die, which are then separated and attached to a substrate. Electronic leads on the substrate are connected to terminals on the chips by extremely fine gold wires.

Each die is then encapsulated in a plastic or ceramic package, which provides physical protection and maximizes heat dissipation. In some cases, multiple semiconductor devices are packaged together, to enhance functionality and performance.

Once the package is completed, sophisticated testing equipment performs a series of diagnostics to verify that the semiconductors are functioning the way they were designed.

Only when these steps have been completed is the semiconductor ready to be incorporated into an electronic product.

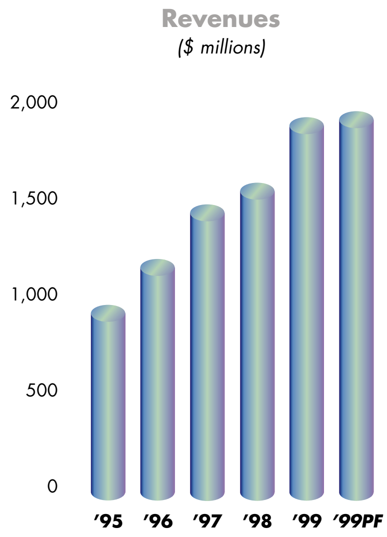
FINANCIAL HIGHLIGHTS

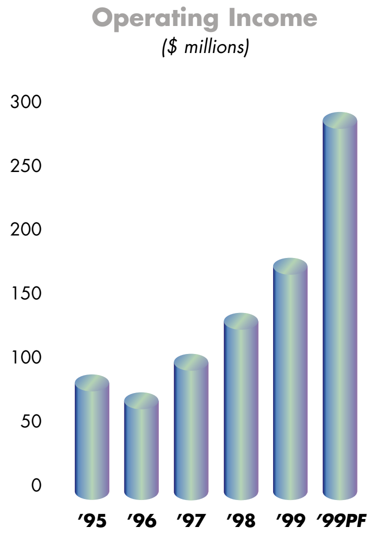
(in thousands, except per share data)	1999 PF*(b)*	1999	1998	1997	1996	1995
Net revenues	$1,941,109	$1,909,972	$1,567,983	$1,455,761	$1,171,001	$932,382
Gross profit	468,874	332,746	260,833	213,092	148,923	149,047
Gross margin	24.2%	17.4%	16.6%	14.6%	12.7%	16.0%
Operating income	289,822	176,077	132,736	100,841	71,368	84,855
Net income*(a)*	15,698	76,719	70,960	39,668	30,022	51,532
Diluted net income per common share*(b)*	.11	.63	.66	.48	.36	.62
EBITDA*(c)*	635,016	346,495	241,252	174,276	126,043	104,946
Cash and short-term investments	126,476	234,640	228,587	93,438	50,545	91,151
Working capital (deficit)	172,137	194,352	191,383	(38,219)	36,785	111,192
Stockholders' equity	1,147,741	737,741	490,361	90,875	45,812	45,289

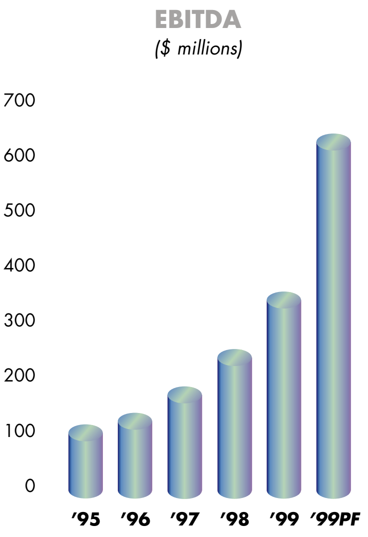
(a) Prior to April 1998, net income includes a pro forma provision for income taxes to reflect income taxes as if our company's conversion to a C Corporation from an S Corporation occurred as of 1995.

(b) Pro forma basis gives effect to the following as if they occurred on January 1, 1999 relating to income statement captions and December 31, 1999 relating to balance sheet captions: (1) the May 2000 acquisition of K1, K2 and K3, and the May 1999 acquisition of K4, (2) our equity investments in ASI in 2000 and 1999, (3) our financings related to the acquisitions and investments, (4) ASI's anticipated use of the proceeds from the transactions and (5) the conversion of a portion of ASI's debt to equity. Our pro forma net income for the year ended December 31, 1999 includes approximately $114 million or $0.81 per share in goodwill amortization related to the transactions. The complete pro forma presentation is included in our filings with the Securities and Exchange Commission.

(c) We have calculated EBITDA by adding: (1) income before income taxes, equity in income (loss) of investees and minority interest, (2) foreign currency (gain) loss, (3) interest expense, net, (4) non-cash other (income) expense, net and (5) depreciation and amortization.







LETTER to our SHAREHOLDERS

Amkor's first full year as a public company was a dynamic and very positive one by all measures.

A Turning Point for Semiconductors

This past year saw a strong upturn in the semiconductor cycle, and continued growth for Amkor. During the course of 1999, the semiconductor industry surged forward on several fronts, driven by the explosive growth in communications devices, the proliferation of inexpensive PCs, and widespread adoption of the Internet and related applications. In addition, the technology evolution toward smaller chip geometries and larger wafer sizes has resulted in an acceleration of investment in semiconductor manufacturing. Industry analysts now expect the semiconductor market to grow at double-digit rates for the next several years.

Strong Financial Performance

The magnitude of the industry turn can best be appreciated by looking at Amkor's results over the first and second halves of the year. For the first six months of 1999, revenues were $870 million; operating income was $59 million; and EBITDA (a commonly used measure of cash flow) was $129 million. In the second half of the year, revenues rose to $1.04 billion; operating income reached $117 million; and EBITDA soared to $217 million.

For 1999, total company revenues were $1.91 billion, a 22% increase over 1998. Our packaging and test business contributed $1.62 billion of this revenue, based on a 30% growth in unit shipments offset by lower average selling prices. The pricing environment was challenging in the first part of the year but returned to normal levels in the second half, as customer demand strengthened and capacity tightened. Our wafer fabrication business accounted for $293 million, representing an entire year of full capacity production of digital signal processors and other logic devices through Anam Semiconductor Inc.'s world-class wafer foundry in South Korea.

For 1999, net income before a non-cash charge for the early redemption of debt rose to $90.6 million, or $0.73 per diluted share, from $71.0 million, or $0.66 per share in 1998. We generated $346 million in EBITDA compared to $241 million in 1998.

A Foundation For Continued Growth

During the year we took some important steps to accommodate our future growth.

Acquisition of K4

In May 1999 we completed the acquisition of the K4 semiconductor packaging plant from our manufacturing partner, Anam Semiconductor. With more than one million square feet of facility space, plus the infrastructure to support an additional million square feet of manufacturing space, K4 is the single largest semiconductor packaging complex in the world. This state-of-the-art facility specializes in developing and producing our advanced leadframe and laminate products, and is expected to be a prime engine for our growth.

Expansion of P3

In order to respond to rapidly increasing demand for laminate-based packages and test services, we undertook a significant expansion of our P3 facility in the Philippines. During the year we commenced a project that will add more than 200,000 square feet of world-class manufacturing and test space to the existing 388,000 square foot plant. Plans have also been developed for a new 500,000 square foot factory to be constructed on an adjacent property, which will be known as P4.

Flip Chip Development Center

Located adjacent to our operational headquarters in Chandler, Arizona, our Advanced Product Development Center was created to facilitate Amkor's global development of Flip Chip and other new packaging technologies. We are utilizing the APDC to tailor our Flip Chip capabilities to provide interconnect solutions for the increasing variety of portable electronics and other devices that require very high lead counts.

System-in-Package

During the year we created a new business unit within Amkor to capitalize on an increasing customer demand for multi-chip modules. Dubbed "System-in-Package," this effort is designed to marry our microelectronics assembly capabilities with the ongoing need of electronics OEMs to both miniaturize their products and increase functionality. We believe this business has the potential to significantly increase our available market over the next few years.

A Landmark Agreement

Late in the year, we reached an agreement to acquire Anam's three remaining packaging factories, known as K1, K2 and K3, and to take a 42% ownership stake in Anam. K1, K2 and K3 are three of the finest semiconductor assembly factories in the world, and we are delighted to welcome their 6,600 employees to the Amkor family. This historic transaction was completed in the second quarter of 2000 and brings several important benefits to Amkor.

At the end of 1998, Amkor owned three factories, which together accounted for only 31% of our assembly and test revenue. The rest was subcontracted to Anam. With the completion of this transaction, seven Amkor-owned and operated factories, comprising more than 3.5 million square feet of world-class manufacturing space, now produce 100% of our assembly and test revenues.

In addition, we now have a sizable interest in one of the world's most advanced semiconductor wafer foundries. This investment has very exciting implications for Amkor, because foundries are playing an increasingly important role in the global semiconductor supply chain. Operating with submicron CMOS semiconductor process technology, transferred from Texas Instruments Corporation, the foundry is producing semiconductor chips at the .35μm, .25μm and .18μm process levels. The fab will be expanding significantly during 2000, and by the end of the year, production capacity is expected to reach 30,000 wafers per month.

Building Shareholder Value

Our primary goal as a public company is to create value for our shareholders. We made exceptional progress toward increasing shareholder value during the past year, as evidenced by the substantial rise in our stock price; the broadening of our investor base; enhanced liquidity in the trading of our stock; and additional research coverage from several respected analysts.

Poised for the Future

The microelectronics industry has been—and will continue to be—a key force in shaping the world's technology and by doing so, advancing our standard of living. For more than thirty years, Amkor has played a vital role in this process by developing and commercializing semiconductor packaging technologies that enable new microelectronic products and expand the use of existing ones. While we do not know precisely what the future holds, we certainly expect to play a large part in making it happen.

This year of outstanding accomplishment would not have been possible without the dedicated efforts of the more than 20,000 employees at Amkor and Anam, the ongoing cooperation of our suppliers, and the continued trust and confidence of our customers and shareholders.

Sincerely,

James Kim

John Boruch

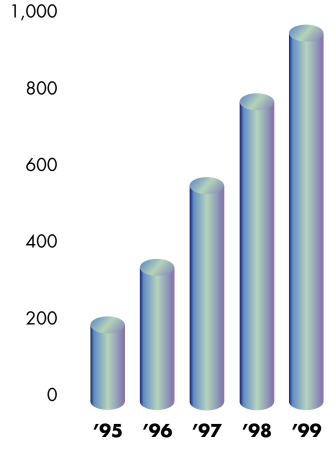
ENABLING *the* MICROELECTRONIC WORLD

In a few short decades, we have reached the point where it is nearly impossible to conceive of modern human existence without the benefit of microelectronics.

The world of microelectronics is a special place—where incredibly small elements are harnessed together to create achievements on the grandest of scales. Since the integrated circuit was invented in 1959, the proliferation of microelectronics has revolutionized our civilization, creating a truly global society.

Today, microelectronic products touch our lives in almost every respect, at almost every point. They help educate our children and make our work force more productive. They help forecast the weather and transport us in safety. Microelectronics allow us to communicate, entertain, research, invest and conduct commerce. They help cook our food, brew our coffee, clean our dishes and wash our laundry.

Advanced Products Revenues
($ millions)



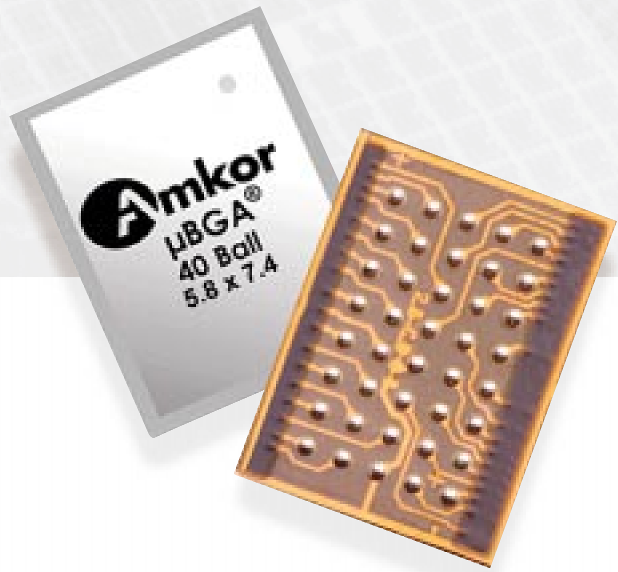
Their medical use spans the human condition, from pre-natal care to treating the elderly. Indeed, in a few short decades, we have reached the point where it is nearly impossible to conceive of modern human existence without the benefit of microelectronics.

The phenomenal progress that has been achieved in such a short period of our history is due in large part to the rapid development of microelectronics technology and the broad application of that technology across virtually all industries.

For more than 30 years, Amkor has played a vital role in helping speed the development of new forms of microelectronics and in enabling existing products to attain higher levels of performance and functionality.

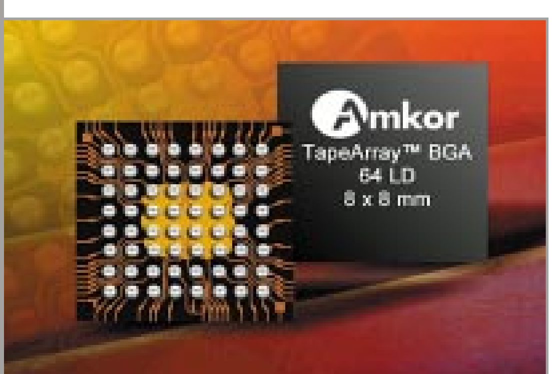
Amkor's global product engineering organization represents the world's largest independent "laboratory" of advanced semiconductor package design and development. Our commitment to new product development, and the success of those efforts, is evidenced by the fact that typically one-third of our annual packaging revenue comes from package families that were introduced within the past three or four years.

PROVIDING SOLUTIONS *between the* SILICON *and the* SYSTEM



Semiconductors are the core of microelectronics technology, and assembly is an integral part of the IC manufacturing process. Industry analysts estimate that more than one fifth of all semiconductor devices are now assembled by “outsourcing” companies, with a far greater proportion of advanced packages produced by specialists like Amkor. Analysts also expect that the use of outsourcing will accelerate over the next several years.

According to Prismark Partners, the outsourced assembly and test industry is expected to grow from $6 billion in 1999 to $16 billion in 2004.

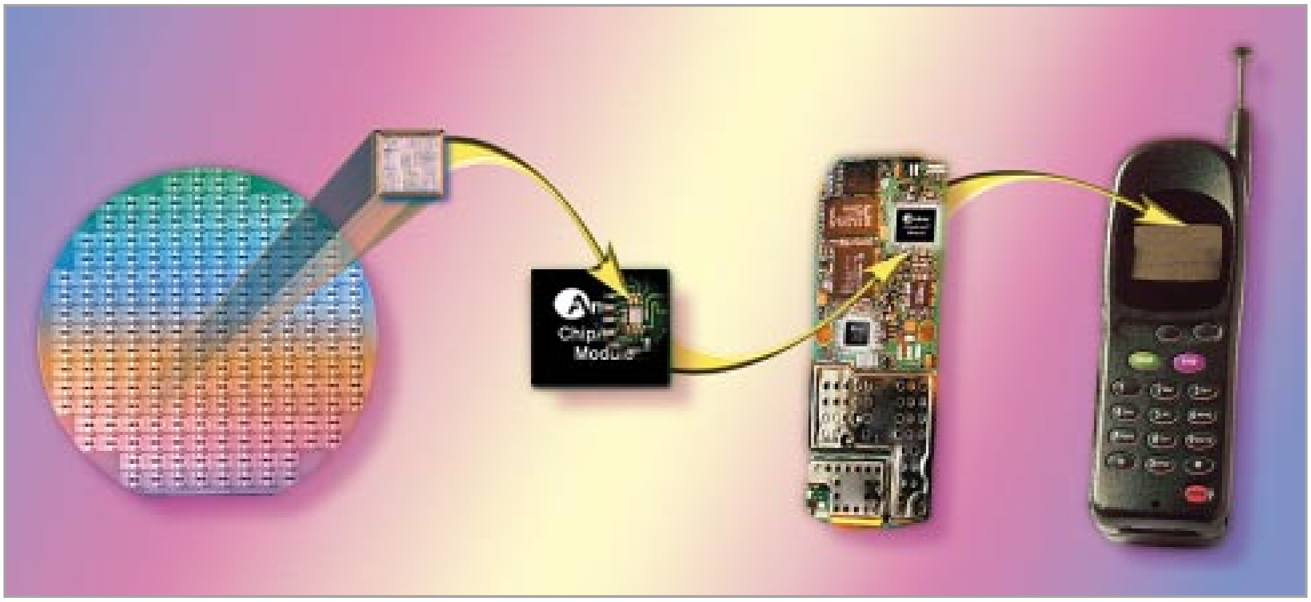


As the world’s largest contract semiconductor assembly company—and a leader in IC package development—Amkor represents a critical link between the semiconductor wafer and the ultimate end-user product.

The IC assembly process is responsible for managing the interconnect between the very fine pitch of the semiconductor device and the much larger geometry of the system board. As device sizes continue to shrink, lithography line widths become even narrower, and interconnect challenges become more difficult to manage.

Providing solutions to these challenges—the interface between the silicon chip and the system board—is what Amkor is all about. Our business is focused on developing, engineering and producing rugged, reliable and cost-effective interconnect solutions that preserve the performance characteristics designed into the semiconductor.

Our operating strategy is based on the belief that resources equals success. We support this strategy with industry-leading capabilities in product design and engineering, together with a strong portfolio of intellectual property.



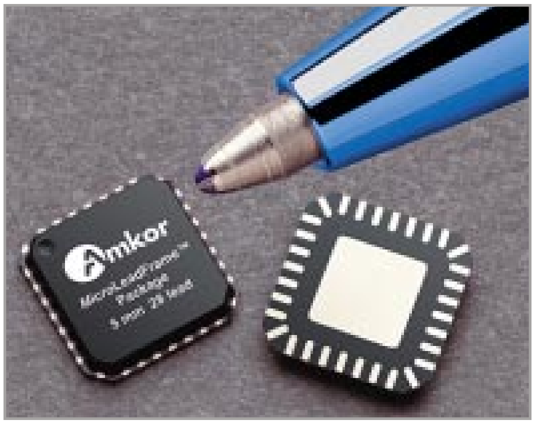
Amkor represents the critical link between the semiconductor wafer and the end-user product

Amkor provides our customers with over 3.5 million square feet of manufacturing floor space in seven factories in the Philippines and Korea, plus world-class product development laboratories in the Philippines, Korea and the United States. A new 500,000 square foot factory is planned for the Philippines, and there is nearly one million additional square feet of manufacturing space available for development in Korea.

With these world-class facilities, supported by more than twelve hundred product and design engineers, Amkor provides an unmatched combination of design, engineering and manufacturing scale, together with a high degree of operating flexibility and ISO standard quality assurance.

In a microelectronics world, success means creating products that offer more functionality and better performance—and typically for less cost. It also helps to reach the market first. Whether its cellular phones, digital cameras, video games or computer laptops, microelectronics companies are always looking for a competitive edge.

At Amkor, we strive to add more value to our customers by understanding their needs and providing the technology and resources to meet those needs. Working both independently and in conjunction with leading semiconductor companies, Amkor has developed or commercialized an incredible range of IC packages that can be used in virtually any microelectronic environment.



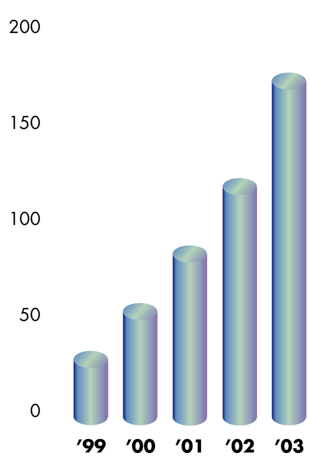
At Amkor, the product development process is market-oriented and customer-driven. Leveraging our strong relationships—some of which go back more than 20 years—we work in a highly collaborative environment to develop customized package solutions for specific IC designs, and increasingly for specific end products.

The growing use of RF radio applications and emerging market for Bluetooth wireless protocol led Amkor to develop our *Micro*LeadFrame™ family of wireless IC packages. Designed with exceptional RF and thermal properties, a compact footprint and low cost, the MLF™ package is quickly becoming an industry standard.

The increasing use of cellular phones and other handheld electronic devices has product designers pushing for smaller, thinner and lighter semiconductor packages. Amkor is accommodating these needs with a variety of sophisticated package solutions. Our family of advanced leadframe packages are thinner and more flexible than prior leadframe packages, yet provide for considerably more heat dissipation. Our growing variety of Chip Scale packages, which are nearly the size of the semiconductor die, has been widely accepted for use in assembling flash memory and other semiconductor devices.

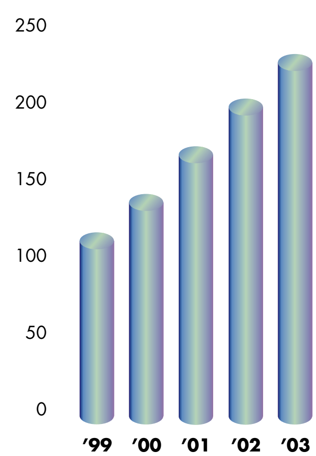
Amkor's new System-in-Package (SiP) is an integrated solution that goes beyond what current System on Chip efforts can do. SiP uses both advanced packaging and traditional surface mount techniques to enable the combination of otherwise incompatible technologies in a single, highly reliable package. By integrating various system elements into a single-function block, Amkor's SiP delivers space and power efficiency, high performance, and lower production costs. Our SiP technology is proving to be a desirable solution in the rapidly expanding markets for cellular phones and flash memory modules.

Digital Set Top Box Shipments
(millions)



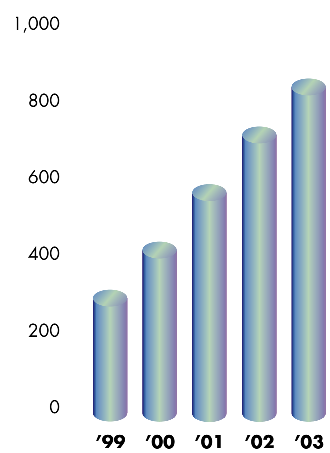
Source: Dataquest; LSI Logic

PC & Internet Terminal Shipments
(millions)

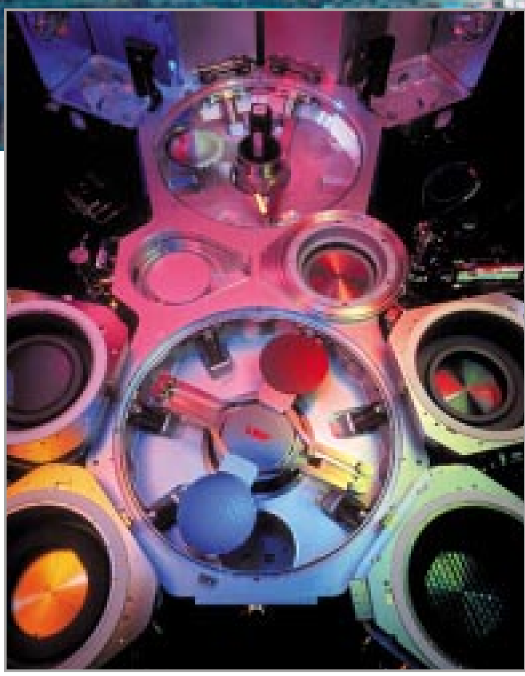


Source: Cahners In-Stat; IC Insights

Cellular Handset Shipments
(millions)



Source: Dataquest



WORLD CLASS WAFER FOUNDRY SERVICES

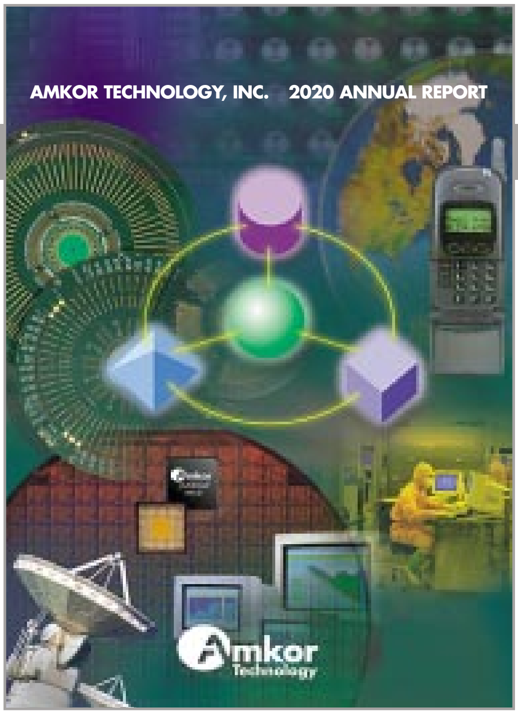
Since 1998, Amkor has been offering wafer fabrication services through one of the world's most advanced semiconductor wafer foundries—a 480,000 ft.^{2} world-class wafer fab located in Buchon, South Korea. In the second quarter of 2000, Amkor acquired a sizable ownership interest in the foundry.

Operating with the latest in submicron CMOS semiconductor process technology transferred from Texas Instruments Corporation, the Buchon foundry is producing a variety of logic devices using .35µm, .25µm and .18µm process levels.

The foundry is producing semiconductor chips that are well suited for the rapidly growing cellular phone market, as well as other wireless and mobile applications that require a combination of low power and high performance. In addition to supplying digital signal processors for Texas Instruments, the foundry is producing a broad range of semiconductors for such customers as Alcatel Microelectronics, Atmel Corporation, Ericsson, NEC Corporation and Toshiba Corporation.

Wafer foundries are playing an increasingly important role in the global semiconductor supply chain. According to Dataquest, the market for wafer foundry services is expected to reach nearly $15 billion in 2003, from just over $5 billion in 1998. In order to accommodate growing demand from our customers, the Buchon fab will be expanding its wafer production significantly during 2000, with fabrication capacity expected to reach 30,000 wafers per month by the end of the year.

the FUTURE of ELECTRONICS



The Electronics Industry in 2020

**Prismark Partners:
Electronics Industry Report 2000**

The electronics industry will not be old in the year 2020, but it will be different. It will be bigger; the products will have different functions; they will be easier to use; and they will be cheaper. Some companies will be clearly dominant, and the geographic distribution of production and consumption will have changed.

With the rapid growth of personal computers and their ancillary equipment, two-thirds of the electronics hardware industry is now devoted to enabling us to access, route, and store information—in more simple terms, to communicate globally on a personal and business level. In ten years, this segment will account for 80% of the electronics industry.

Who Will Be Manufacturing Electronic Products in 2020?

It will be a handful of semiconductor companies whose focus will be on efficient production of customized products.

And it will be contract assemblers who embrace semiconductor assembly as well as board assembly as these disciplines merge.

In this process, the companies that manage their relationships with their customers, partners and suppliers most effectively will be best able to meet the needs of the market.

Year Ended December 31, (in thousands, except per share data)	1995	1996	1997	1998	1999
Income Statement Data:					
Net revenues	$932,382	$1,171,001	$1,455,761	$1,567,983	$1,909,972
Cost of revenues—including purchases from ASI	783,335	1,022,078	1,242,669	1,307,150	1,577,226
Gross profit	149,047	148,923	213,092	260,833	332,746
Operating expenses:					
Selling, general and administrative	55,459	66,625	103,726	119,846	145,233
Research and development	8,733	10,930	8,525	8,251	11,436
Total operating expenses	64,192	77,555	112,251	128,097	156,669
Operating income	84,855	71,368	100,841	132,736	176,077
Other (income) expense:					
Interest expense, net	9,797	22,245	32,241	18,005	45,364
Foreign currency (gain) loss	1,512	2,961	(835)	4,493	308
Other (income) expense, net*(a)*	6,523	3,150	8,429	9,503	25,117
Total other (income) expense	17,832	28,356	39,835	32,001	70,789
Income before income taxes, equity in income (loss) of investees and minority interest	67,023	43,012	61,006	100,735	105,288
Provision for income taxes*(b)*	6,384	7,876	7,078	24,716	26,600
Equity in income (loss) of investees*(c)*	2,808	(1,266)	(17,291)	—	(1,969)
Minority interest*(d)*	1,515	948	(6,644)	559	—
Net income*(b)*	$ 61,932	$ 32,922	$ 43,281	$ 75,460	$ 76,719
Basic net income per common share	$ .75	$ .40	$ .52	$ .71	$ .64
Diluted net income per common share	$ .75	$ .40	$ .52	$ .70	$ .63
Pro forma data (unaudited)*(b)*:					
Historical income before income taxes, equity in income (loss) of investees and minority interest	$ 67,023	$ 43,012	$ 61,006	$ 100,735	
Pro forma provision for income taxes	16,784	10,776	10,691	29,216	
Pro forma income before equity in income (loss) of investees and minority interest	50,239	32,236	50,315	71,519	
Historical equity in income (loss) of investees*(c)*	2,808	(1,266)	(17,291)	—	
Historical minority interest*(d)*	1,515	948	(6,644)	599	
Pro forma net income	$ 51,532	$ 30,022	$ 39,668	$ 70,960	
Basic pro forma net income per common share	$ .62	$ .36	$ .48	$ .67	
Diluted pro forma net income per common share	$ .62	$ .36	$ .48	$ .66	
Shares used in computing net income per share:					
Basic and pro forma basic	82,610	82,610	82,610	106,221	119,341
Diluted and pro forma diluted	82,610	82,610	82,610	116,596	135,067

Year Ended December 31, (in thousands)	1995	1996	1997	1998	1999
Other Financial Data:					
Depreciation and amortization	$ 26,614	$ 57,825	$ 81,864	$ 119,239	$ 180,332
Capital expenditures	123,645	185,112	178,990	107,889	242,390

December 31, (in thousands)	1995	1996	1997	1998	1999
Balance Sheet Data:					
Cash and cash equivalents	$ 91,151	$ 49,664	$ 90,917	$ 227,587	$ 98,045
Short term investments	—	881	2,521	1,000	136,595
Working capital (deficit)	111,192	36,785	(38,219)	191,383	194,352
Total assets	626,379	804,864	855,592	1,003,597	1,755,089
Total long-term debt	326,422	402,338	346,710	221,846	687,456
Total debt, including short-term borrowings and current portion of long-term debt	411,542	594,151	514,027	260,503	693,921
Stockholders' equity	45,289	45,812	90,875	490,361	737,741

Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Price per Share of Common Stock:				
1998				
High		$ 14.00	$ 9.75	$ 10.88
Low		7.00	3.25	3.00
1999				
High	$ 12.56	$ 10.63	$ 22.88	$ 29.56
Low	7.19	7.09	9.13	15.63

(a) In 1999 we recognized a pre-tax non-cash loss of $17.4 million as a result of the early conversion of $153.6 million principal amount of our 5¾% convertible subordinate notes due 2003.

(b) 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. As a result 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 that would have been recorded if AEI had been a C Corporation during these periods.

(c) In 1997, we recognized a loss of $17.3 million resulting principally from the impairment of value of our prior investment in ASI, which we sold in February 1998.

(d) Represents 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.

The following discussion contains forward-looking statements within the meaning of the federal securities laws, including statements regarding: (1) 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 proposed acquisition of K1, K2 and K3 and our proposed investment in ASI, including the financing of these transactions, (6) future won/dollar exchange rates, (7) the future of our relationship with ASI and (8) other matters 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, 1999 and our liquidity and capital resources. In addition, the information contained herein is provided as of March 30, 2000 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 on our website at http://www.amkor.com or 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 Exchange Commission's website at http://www.sec.gov.

Overview

From 1995 to 1999, our net revenues increased from $932.4 million to $1,910.0 million. We generate revenues primarily from the sale of semiconductor packaging and test services. Historically we performed these services at our three factories in the Philippines and subcontracted for additional services with ASI which operated four packaging and test facilities in Korea. In May 1999, we acquired K4, one of ASI's packaging and test facilities, and we intend to acquire ASI's remaining packaging and test facilities, K1, K2, and K3 during the second quarter of 2000. Since 1998, we have also generated revenue by marketing the wafer fabrication services performed by the wafer fabrication facility owned by ASI. If we complete our proposed acquisition of K1, K2 and K3, we will no longer depend upon ASI for packaging or test services, but we will continue to market ASI's wafer fabrication services.

Historically, prices for our packaging and test services and wafer fabrication services have declined over time. Beginning in 1997, a worldwide slowdown in demand for semiconductor devices led to excess capacity and increased competition. As a result, price declines in 1998 accelerated. From 1996 through 1999, 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. In addition, beginning in the third quarter of 1999, demand for packaging and test services increased significantly, which reduced the decline in average selling prices.

We depend on a small group of customers for a substantial portion of our revenues. In 1997, 1998 and 1999, we derived 40.1%, 35.3% and 30.6%, respectively, of our net revenues from sales to five packaging and test customers, with 23.4%, 20.6% and 14.1% of our net revenues, respectively, derived from sales to Intel Corporation. In addition, during 1998 and 1999, we derived 7.4% and 15.3%, respectively, of our net revenues from wafer fabrication services, and we derived substantially all of these revenues from Texas Instruments.

Historically, our cost of revenues has consisted principally of: (1) service charges paid to ASI for packaging and test services performed for us, (2) costs of materials and (3) labor and other costs at our factories in the Philippines and at K4 after our acquisition of that factory in May 1999. Service charges paid to ASI and our gross margins on sales of services performed by ASI have been set in accordance with our supply agreements with ASI, which provide for periodic pricing adjustments based on changes in forecasted demand, product mix, capacity utilization and fluctuations in exchange rates, as well as our mutual long-term strategic interests. Fluctuations in service charges we pay to ASI have historically had a significant effect on our gross margins. In addition, our gross margins on sales of services performed by ASI have generally been lower than our gross margins on sales of services performed by our factories in the Philippines, but we have not borne any of ASI's fixed costs. If we complete our proposed acquisition of K1, K2 and K3 from ASI, we will bear all of the costs associated with these factories, but we will no longer pay service charges to ASI for packaging and test services. We will continue to incur costs of direct materials used in packages that we produce for our customers. Because a portion of our costs at our factories in the Philippines and Korea will remain fixed, increases or decreases in capacity utilization rates may continue to 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.

In order to meet customer demand for our laminate packages, we have made significant investments to expand our capacity in the Philippines. In connection with our newest factory in the Philippines, P3, in 1996 we expensed $15.5 million of pre-operating and start-up costs and in the first six months of 1997 we incurred $16.6 million of initial operating losses. 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 and in 1999, we significantly increased utilization at P3 due to continued growth in demand for laminate packages. As a result, P3 contributed positive gross margins throughout 1998 and 1999.

Relationship with ASI

Through our supply agreements with ASI, we historically have had a first right to substantially all of the packaging and test services capacity of ASI and the exclusive right to all of the wafer output of ASI's wafer fabrication facility. During 1997, 1998 and 1999, we derived approximately 68%, 69% and 60%, respectively, of our net revenues and approximately 42%, 49% and 38%, respectively, of our gross profit from sales of services performed for us by ASI. In addition, ASI has derived 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, and we expect to assume marketing rights for such services in Korea upon completion of our proposed acquisition of K1, K2 and K3. In January 1998, we also began marketing wafer fabrication services provided by ASI's new semiconductor wafer fabrication facility.

Upon completion of our proposed acquisition of K1, K2 and K3, we will no longer receive any packaging and test services from ASI. However, we expect to continue to have certain contractual and other business relationships with ASI, primarily our wafer fabrication services supply agreement. Under this supply agreement, we will continue to have the exclusive right to all of the wafer output of ASI's wafer fabrication facility, and we expect to continue to purchase all of ASI's wafer fabrication services. Furthermore, we will own approximately 43% of ASI's outstanding voting stock after our investment in ASI and the anticipated conversion of an additional ₩150 billion (approximately $132.0 million) of ASI's debt to equity by ASI's creditor banks. Accordingly, we will report ASI's results in our financial statements through the equity method of accounting. Our company and ASI will also continue to have close ties due to our overlapping ownership and management.

Financial Impact of Our Acquisition of K1, K2 and K3 and Investment in ASI on Our Results of Operations

If we complete our proposed acquisition of K1, K2 and K3 and our proposed investment in ASI, we expect there will be significant changes in our future financial results. Because we already sell substantially all of the output of K1, K2 and K3, there will not be a significant change in our revenues. We expect our gross margin to increase significantly as the K1, K2 and K3 factories would no longer be subject to our supply agreement with ASI. The factories that we currently own operate with gross margins significantly higher than the margins we achieve under our supply agreement with ASI. However, our operating expenses will increase as we will absorb the research and development and general and administrative expenses related to the operations of K1, K2 and K3. Our interest expense will also increase due to the debt we will incur to finance our proposed acquisition and investment. We expect our overall effective tax rate to decrease due to the fact that the profits of K1, K2 and K3 will be subject to a tax holiday in Korea. The tax holiday will apply to 100% of the profits of K1, K2 and K3 for seven years and then to 50% of such profits for three additional years. Because of our equity investment in ASI, we will be required to record our increased proportionate share of ASI's net income, net of the amortization of goodwill incurred in the acquisition of our equity interest in ASI.

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,	1997	1998	1999
Net revenues	100.0%	100.0%	100.0%
Gross profit	14.6%	16.6%	17.4%
Operating income	6.9%	8.5%	9.2%
Income before income taxes, equity in income (loss) of investees and minority interest	4.2%	6.4%	5.5%
Net income	3.0%	4.8%	4.0%

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net Revenues

Net revenues increased $342.0 million, or 21.8%, to $1,910.0 million in 1999 from $1,568.0 million in 1998. Packaging and test net revenues increased 11.4% to $1,617.2 million in 1999 from $1,452.3 million in 1998. For the same one-year periods, wafer fabrication net revenues increased to $292.7 million from $115.7 million.

The increase in packaging and test net revenues was primarily attributable to a significant increase in unit volumes, which more than offset significant average selling price erosion across all product lines. The average selling price erosion was most severe in the second half of 1998 and has slowed during 1999 due to increases in product demand and decreases in excess factory capacity. Offsetting this erosion in average selling prices was an overall unit volume increase of approximately 30%. Growth in demand for our services was driven by our customers in the PC and telecommunications industries. Particularly strong was the demand for packages used in cellular phones and internet enabling equipment. In addition, changes in the mix of products we are selling, to more advanced and laminate packages, also provided an offset to overall price erosion. During 1999, advanced and laminate packages, which have higher average selling prices than traditional leadframe products, accounted for 60.2% of packaging and test net revenues compared to 53.8% in 1998.

The significant increase in wafer fabrication net revenues represents the production ramp-up of the wafer fabrication facility, which began operation in January 1998 and did not commence producing at near full installed capacity until the beginning of 1999. ASI plans to expand the capacity of the wafer fabrication facility from 18,000 wafers to 22,000 wafers per month by the end of the first quarter of 2000.

Gross Profit

Gross profit increased $71.9 million, or 27.6%, to $332.7 million, or 17.4% of net revenues, in 1999 from $260.8 million, or 16.6% of net revenues, in 1998.

Gross margins were positively impacted by:

- Improved gross margin on the output of K4 following our acquisition of K4 in May 1999; and
- Increasing unit volumes during the third and fourth quarter of 1999, which permitted better absorption of our factories' substantial fixed costs, resulting in a lower manufacturing cost per unit and improved gross margins.

The positive impact on gross margins was partially offset by:

- Increasing contribution to total revenues from our low margin wafer fabrication services business. In 1999 wafer fabrication services net revenues represented 15.3% of total net revenues compared to 7.4% of total net revenues in 1998. In addition, beginning in 1999, our contractual gross margin for this business under our supply agreement with ASI was reduced to 10% from 15% in 1998; and
- Significant average selling price erosion across all product lines.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $25.4 million, or 21.2%, to $145.2 million, or 7.6% of net revenues, in 1999 from $119.8 million, or 7.6% of net revenues, in 1998. The increase in these costs was due to:

- Increased headcount and related personnel costs at our marketing, sales and wafer fabrication departments;
- Increased headcount and related personnel costs at our P3 factory, which continued to increase production capacity; and
- Increased costs related to the consolidation of K4 factory operations during the second quarter of 1999 and general and administrative expenses, including fees paid to ASI under the transition services agreement.

Research and Development

Research and development expenses increased $3.2 million, or 38.6%, to $11.4 million, or 0.6% of net revenues, in 1999 from $8.3 million, or 0.5% of net revenues, in 1998. Increased research and development expenses resulted from increased headcount and general development activities, primarily the expansion of our Chandler, Arizona-based research facility.

Other (Income) Expense

Other expenses increased $38.8 million, or 121.2%, to $70.8 million, or 3.7% of net revenues, in 1999 from $32.0 million, or 2.0% of net revenues, in 1998. The net increase in other expenses was primarily a result of:

- Increase in interest expense of $27.4 million. The increased interest expense resulted from the May 1999 issuance of senior and senior subordinated notes to fund the K4 acquisition, which more than offset the decrease in interest expense resulting from the application of the proceeds from our initial public offering in May 1998 against outstanding debt;
- Decrease in foreign exchange losses of $4.2 million resulting from the stabilization of the Philippine peso since the first quarter of 1998; and
- Increase in other expenses, which in 1999 included a $17.4 million non-cash charge associated with the early conversion of $153.6 million of our outstanding convertible subordinated notes in the fourth quarter.

Income Taxes

Our effective tax rate in 1999 and 1998 was 25.3% and 29.0%, respectively (after giving effect to the pro forma adjustment for income taxes). The decrease in the effective tax rate in 1999 was due to the higher operating profits at our factories that operate with tax holidays.

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 Amkor/Anam Pilipinas, Inc. ("AAP"). Accordingly, until the second quarter of 1998, 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 acquisition of the minority interest resulted in the elimination of the minority interest liability and in additional goodwill amortization of approximately $2.5 million per year.

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 leadframe packages declined. Although traditional leadframe packages accounted for more than 65% of our total unit volume for 1998, the shift to laminate packages significantly impacted revenues because each laminate package had an average selling price significantly higher than the average selling price of a traditional leadframe 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.

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. 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 Investees

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 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.

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.

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, 1999. 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, including as a result of our acquisition of the K4 packaging and test factory from ASI in May 1999, we believe that you should not rely on period-to-period comparisons as an indication of our future performance.

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 related notes, 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 we and ASI close our 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.

Prior to our reorganization in April 1998, our predecessor, AEI, elected to be taxed as an S Corporation under the Code and comparable state tax laws. As a result, AEI did not recognize any provision for federal income tax expense from January 1, 1994 through April 28, 1998. In accordance with applicable SEC regulations, we have provided in our consolidated financial statements the pro forma adjustments for income taxes (unaudited) to reflect the additional U.S. federal income taxes which we would have recorded if AEI had been a C Corporation during these periods.

In May 1999 we purchased the K4 factory from ASI. The acquisition resulted in improved gross margins due to the difference in margins between company-owned factories and factory services provided by ASI under our supply agreement. To purchase K4, we issued $625 million of senior and senior subordinated notes. This has resulted in increased interest expense.

Quarter Ended *(in thousands, except per share data)*	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
Net revenues	$371,733	$384,724	$386,718	$424,808	$419,957	$449,925	$501,816	$538,274
Cost of revenues—including purchases from ASI	310,056	317,106	321,758	358,230	357,382	383,162	404,327	432,355
Gross profit	61,677	67,618	64,960	66,578	62,575	66,763	97,489	105,919
Operating expenses:								
Selling, general and administrative	28,715	28,939	30,017	32,175	30,106	35,017	40,376	39,734
Research and development	2,057	1,938	2,109	2,147	2,251	2,843	2,990	3,352
Total operating expenses	30,772	30,877	32,126	34,322	32,357	37,860	43,366	43,086
Operating income	30,905	36,741	32,834	32,256	30,218	28,903	54,123	62,833
Net income	$ 8,812	$ 26,119	$ 20,874	$ 19,655	$ 18,925	$ 11,520	$ 26,088	$ 20,186
Pro forma net income	$ 9,640	$ 20,791						
Basic net income per common share	$ .11	$ .25	$ .18	$ .17	$ .16	$ .10	$ .22	$ .16
Diluted net income per common share	$ .11	$ .24	$ .17	$ .16	$ .16	$ .10	$ .21	$ .16
Basic pro forma net income per common share	$ .12	$ .20						
Diluted pro forma net income per common share	$ .12	$ .19						

Quarter Ended	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
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	83.4	82.4	83.2	84.3	85.1	85.2	80.6	80.3
Gross profit	16.6	17.6	16.8	15.7	14.9	14.8	19.4	19.7
Operating expenses:								
Selling, general and administrative	7.7	7.5	7.8	7.6	7.2	7.8	8.0	7.4
Research and development	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Total operating expenses	8.3	8.0	8.3	8.0	7.7	8.4	8.6	8.0
Operating income	8.3	9.6	8.5	7.6	7.2	6.4	10.8	11.7
Net income	2.4%	6.8%	5.4%	4.6%	4.5%	2.6%	5.2%	3.8%
Pro forma net income	2.6%	5.4%						

Liquidity and Capital Resources

Our ongoing primary cash needs are for equipment purchases, factory expansions, interest and principal payments on our debt and working capital, in addition to our acquisitions and investments.

In February 2000, we reached an agreement with ASI to acquire K1, K2 and K3 for a purchase price of approximately $950.0 million and to make a $459.0 million additional investment in ASI. This agreement supersedes our remaining commitment to invest $108.4 million in ASI, out of the total $150 million we committed to invest. We intend to finance our proposed acquisition and investment with the proceeds of an offering of $225.0 million convertible subordinated notes ($258.8 million inclusive of the exercised over-allotment option), our proposed $410.0 million equity financing, $750.0 million of new secured bank debt and cash on hand. The new secured bank debt will be drawn from a new $850.0 million secured bank facility which will provide for amortization of the drawn amount over a five to five and one-half year period and quarterly principal and interest payments.

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 Anam USA, Inc., a wholly-owned financing subsidiary of ASI, 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.

On May 17, 1999 we completed an asset purchase 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 was $575 million, plus the assumption of approximately $7 million of employee benefit liabilities. In conjunction with our purchase of K4, we completed a private placement in May 1999 to raise $425 million in senior notes and $200 million in senior subordinated notes. The senior notes mature in May 2006 and have a coupon rate of 9.25%. The senior subordinated notes mature in 2009, and have a coupon rate of 10.5%. We are required to pay interest semi-annually in May and November for all of the notes.

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. In connection with our proposed incurrence of new secured bank debt for the proposed acquisition of K1, K2 and K3 and the proposed investment in ASI, we plan to terminate this 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 1997, 1998 and 1999, we made capital expenditures of $179.0 million, $107.9 million and $242.4 million, respectively. We intend to spend up to $400 million in additional capital expenditures in 2000, primarily for the expansion of our factories. We believe the increase in capital expenditures is necessary to expand our capacity to meet the growth in demand we expect in 2000. If we acquire the K1, K2 and K3 factories, we could incur significant additional capital expenditures.

During the second quarter of 1999, we executed a letter with ASI committing to make a $150 million equity investment in ASI. Our commitment required that we invest this amount in installments of approximately $41 million in each of 1999, 2000 and 2001 and $27 million in 2002. In October 1999 we made our initial investment in ASI. We purchased 10 million shares of common stock at price of ₩5,000 per share, approximately $41.6 million. As a result of this investment and the conversion of ASI's debt to equity by ASI's creditor banks, we now own approximately 18% of ASI's voting stock. The remaining portion of this commitment has been superseded by our new agreement to invest an additional $459.0 million in ASI.

At December 31, 1999, our debt consisted of $625 million of senior and senior subordinated notes, $6.5 million of borrowings classified as current liabilities, $9.0 million of long-term debt and capital lease obligations and $53.4 million of 5.75% convertible subordinated notes due 2003. We had $85.6 million in borrowing facilities with a number of domestic and foreign banks, of which $82.2 million remained unused. These facilities are typically revolving lines of credit and working capital facilities that are renewable annually and bear interest at rates ranging from 8.0% to 10.75%. 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%.

Covenants in the agreements governing our new $850 million secured bank facility, our existing $425 million of senior notes and $200 million of senior subordinated notes and any future indebtedness may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments and encumber or dispose of assets. In addition, financial covenants contained in agreements relating to our existing and future debt could lead to a default in the event our results of operations do not meet our plans. A default under one debt instrument may also trigger cross-defaults under our other debt instruments. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us.

Net cash provided by operating activities in 1997, 1998 and 1999 was $250.1 million, $238.0 million and $293.3 million, respectively. Net cash provided by (used in) financing activities in 1997, 1998 and 1999 was $(16.0) million, $62.0 million and $573.9 million, respectively.

In the fourth quarter of 1999, the holders of our convertible subordinated notes converted $153.6 million of such notes into 12.1 million shares of common stock. In the fourth quarter 1999, we incurred a non-cash after-tax charge of approximately $13.9 million representing the fair market value of the shares of common stock issued in the conversion in excess of the shares required to be issued, which represents a premium for early retirement. In the first quarter of 2000 we expect to incur a similar charge in the amount of $0.3 million.

Following our proposed acquisition of K1, K2 and K3 and our proposed investment in ASI, we believe that our existing cash balances, available credit lines, cash flow from operations and available equipment lease financing will be sufficient to meet our projected capital expenditures, debt service, working capital and other cash requirements for at least the next twelve months. We may require 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. In addition, the terms of the senior and senior subordinated notes sold by us in May 1999 significantly reduce our ability to incur additional debt. Failure to obtain any such required additional financing could have a material adverse effect on our company.

In connection with our wafer fabrication facility agreement with Texas Instruments, our company and Texas Instruments agreed to revise certain payment and other terms contained in the Texas Instruments Manufacturing and Purchase Agreement. As part of the revision, Texas Instruments agreed to advance our company $20 million in June 1998 and another $20 million in December 1998. These advances represented prepayments of wafer fabrication facility 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 fabrication facility 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 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. Under the terms of the revision to the Texas Instruments Manufacturing and Purchase Agreement, we remain ultimately responsible for reimbursing Texas Instruments if ASI fails to comply with the terms of the agreement.

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 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 certain trusts established for the benefit of other members of Mr. and Mrs. James Kim's family (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 $5.0 million and $33.1 million in 1997 and 1998, respectively. As a result of the finalization of the AEI tax returns in 1999, approximately $3.3 million of the 1998 distributions will be refunded to our company.

Year 2000 Issues

We have been actively engaged in addressing year 2000 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.

At the date of this annual report, our systems have not experienced any year 2000 problems. We presently believe that the year 2000 problem will not pose significant operational problems for our business and operations on a going forward basis. While we have contingency plans in place for operational problems which may still arise as a result of year 2000 problems, we cannot assure you that the year 2000 problem will not pose significant operational problems or have a material adverse effect on our business, financial condition and results of operations in the future. Through the date of this annual report, costs incurred for year 2000 compliance have not been material.

We are not aware of any material year 2000 problems encountered by our suppliers to date but have not yet obtained confirmations from our suppliers that they did not experience year 2000 problems. Accordingly, we cannot determine whether our suppliers have experienced year 2000 problems that may impact their ability to supply us with equipment and services. Further, we cannot determine the state of their year 2000 readiness. We cannot assure you that our suppliers will be successful in ensuring that their systems have been and will continue to be or will be year 2000 compliant or that their failure to do so will not harm our business.

Market Risk Sensitivity

Our company is exposed to market risks, primarily related to foreign currency and interest rate fluctuations. In the normal course of business, we employ established policies and procedures to manage the exposure to fluctuations in foreign currency values and changes in interest rates.

Foreign Currency Risks

Our company's primary exposures to foreign currency fluctuations is associated with Philippine peso-based transactions and related peso-based assets and liabilities, as well as Korean-won-based transactions and related won-based assets and liabilities. The objective in managing this foreign currency exposure is to minimize the risk through minimizing the level of activity and financial instruments denominated in pesos and won. Although we have selectively hedged some of our currency exposure through short-term (generally not more than 30 to 60 days) forward exchange contracts, the hedging activity to date has been immaterial.

At December 31, 1999, the peso-based financial instruments primarily consisted of cash, non-trade receivables, deferred tax assets and liabilities, non-trade payables, accrued payroll, taxes and other expenses. Based on the portfolio of peso-based assets at December 31, 1999, a 20% increase in the Philippine peso to U.S. dollar exchange rate would result in a decrease of approximately $3 million, in peso-based net assets.

At December 31, 1999, the won-based financial instruments primarily consisted of cash, non-trade receivables, non-trade payables, accrued payroll, taxes and other expenses. Based on the portfolio of won-based assets at December 31, 1999, a 20% increase in the Korean won to U.S. dollar exchange rate would result in a decrease of less than $1 million, in won-based net assets.

Interest Rate Risks

Our company has interest rate risk with respect to our investment in cash and cash equivalents, use of short-term borrowings and long-term debt, including the $53.4 million of convertible subordinated notes, $425.0 million of senior notes and $200.0 million of senior subordinated notes outstanding, and will have such risk with respect to the new convertible subordinated notes. Overall, we mitigate the interest rate risks by investing in short-term investments, which are due on demand or carry a maturity date of less than three months. In addition, both the short-term borrowings and long-term debt, excluding our convertible subordinated notes, senior notes and senior subordinated notes, have variable rates that reflect currently available terms and conditions for similar borrowings. As the convertible subordinated notes, senior notes and senior subordinated notes bear fixed rates of interest, the fair value of these instruments fluctuate with market interest rates. The fair value of the convertible subordinated notes is also impacted by the market price of our common stock.

The table below presents the interest rates, maturity dates, principal cash flows and fair value of our fixed rate debt as of December 31, 1999.

Debt *(dollars in thousands)*	Fixed Interest Rate	Maturity Date	Principal	Fair Value
Convertible notes	5.75%	May 2003	$ 53,435	$115,420
Senior notes	9.25%	May 2006	$425,000	$416,500
Senior subordinated notes	10.5%	May 2009	$200,000	$199,000

Based on our conservative policies with respect to investments in cash and cash equivalents, use of variable rate debt, and the fact we currently intend to repay upon maturity our senior notes, senior subordinated notes the convertible subordinated notes (unless converted), we believe that the risk of potential loss due to interest rate fluctuations is not material.

Equity Price Risks

Our outstanding convertible subordinated notes are convertible into common stock at $13.50 per share. As stated above, we intend to repay our convertible subordinated notes upon maturity, unless converted. If investors were to decide to convert their convertible subordinated notes to common stock, there would be no impact on our future earnings, other than a reduction in interest expense, unless such conversion were induced by us.

CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31, (in thousands, except per share data)	1997	1998	1999
Net revenues	$1,455,761	$1,567,983	$1,909,972
Cost of revenues—including purchases from ASI (Note 3)	1,242,669	1,307,150	1,577,226
Gross profit	213,092	260,833	332,746
Operating expenses:			
Selling, general and administrative	103,726	119,846	145,233
Research and development	8,525	8,251	11,436
Total operating expenses	112,251	128,097	156,669
Operating income	100,841	132,736	176,077
Other (income) expense:			
Interest expense, net	32,241	18,005	45,364
Foreign currency (gain) loss	(835)	4,493	308
Other expense, net	8,429	9,503	25,117
Total other expense	39,835	32,001	70,789
Income before income taxes, equity in loss of investees and minority interest	61,006	100,735	105,288
Provision for income taxes	7,078	24,716	26,600
Equity in loss of investees	(17,291)	—	(1,969)
Minority interest	(6,644)	559	—
Net income	$ 43,281	$ 75,460	$ 76,719
Pro forma data (unaudited):			
Historical income before income taxes, equity in loss of investees and minority interest	$ 61,006	$ 100,735	
Pro forma provision for income taxes	10,691	29,216	
Pro forma income before equity in loss of investees and minority interest	50,315	71,519	
Historical equity in loss of investees	(17,291)	—	
Historical minority interest	(6,644)	559	
Pro forma net income	$ 39,668	$ 70,960	
Per share data:			
Basic net income per common share	$ .52	$ .71	$ .64
Diluted net income per common share	$ .52	$ .70	$ .63
Basic pro forma net income per common share (unaudited)	$ .48	$ .67	
Diluted pro forma net income per common share (unaudited)	$ .48	$ .66	
Shares used in computing basic (pro forma for 1997 and 1998) net income per common share	82,610	106,221	119,341
Shares used in computing diluted (pro forma for 1997 and 1998) net income per common share	82,610	116,596	135,067

The accompanying notes are an integral part of these statements.

December 31, (in thousands)	1998	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 227,587	$ 98,045
Short-term investments	1,000	136,595
Accounts receivable—		
Trade, net of allowance for doubtful accounts of $5,952 and $2,443	109,243	157,281
Due from affiliates	25,990	6,278
Other	5,900	6,469
Inventories	85,628	91,465
Other current assets	16,687	11,117
Total current assets	472,035	507,250
Property, plant and equipment, net	416,111	859,768
Investments	25,476	63,672
Other assets:		
Due from affiliates	28,885	27,858
Intangible assets	26,158	233,532
Other	34,932	63,009
Total other assets	89,975	324,399
Total assets	$1,003,597	$1,755,089
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank overdraft	$ 13,429	$ 16,209
Short-term borrowings and current portion of long-term debt	38,657	6,465
Trade accounts payable	96,948	122,147
Due to affiliates	15,722	37,913
Accrued expenses	77,004	88,577
Accrued income taxes	38,892	41,587
Total current liabilities	280,652	312,898
Long-term debt	14,846	9,021
Senior and senior subordinated notes	—	625,000
Convertible subordinated notes	207,000	53,435
Other noncurrent liabilities	10,738	16,994
Total liabilities	513,236	1,017,348
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock	118	131
Additional paid-in capital	381,061	551,964
Retained earnings	109,738	189,733
Receivable from stockholder (Note 12)	—	(3,276)
Accumulated other comprehensive income	(556)	(811)
Total stockholders' equity	490,361	737,741
Total liabilities and stockholders' equity	$1,003,597	$1,755,089

The accompanying notes are an integral part of these statements.

(in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Receivable From Stockholder	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance at January 1, 1997	$ 46	$ 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 12)							$45,962
Distributions	—	—	(5,000)	—	—	(5,000)	
Change in division equity account	—	4,101	—	—	—	4,101	
Balance at December 31, 1997	46	20,871	70,621	—	(663)	90,875	
Net income	—	—	75,460	—	—	75,460	$75,460
Unrealized losses on investments	—	—	—	—	(556)	(556)	(556)
Currency translation adjustments, reclassification for loss included in net income	—	—	—	—	663	663	663
Comprehensive income (Note 12)							$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	
Net income	—	—	76,719	—	—	76,719	$76,719
Unrealized (losses) on investments, net of tax	—	—	—	—	(255)	(255)	(255)
Comprehensive income (Note 12)							$76,464
Issuance of stock through employee stock purchase plan and stock options	—	3,875	—	—	—	3,875	
Receivable from stockholder (Note 12)	—	—	3,276	(3,276)	—	—	
Debt conversion (Note 9)	13	167,028	—	—	—	167,041	
Balance at December 31, 1999	$131	$551,964	$189,733	$(3,276)	$ (811)	$737,741	

The accompanying notes are an integral part of these statements.

For the Year Ended December 31, (in thousands)	1997	1998	1999
Cash flows from operating activities:			
Net income	$ 43,281	$ 75,460	$ 76,719
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	81,864	118,022	176,866
Amortization of deferred debt issuance costs	—	1,217	3,466
Debt conversion expense	—	—	17,381
Provision for accounts receivable	3,490	1,719	(3,500)
Provision for excess and obsolete inventory	12,659	7,200	6,573
Deferred income taxes	(11,715)	1,250	9,418
Equity in loss of investees	16,779	—	4,591
(Gain) loss on sale of fixed assets and investments	(239)	2,500	1,805
Minority interest	(6,644)	559	—
Changes in assets and liabilities excluding effects of acquisitions			
Accounts receivable	(19,802)	4,742	(44,526)
Proceeds from sale/(repurchase of) accounts receivable	90,700	(16,500)	(2,700)
Other receivables	1,547	(1,021)	(555)
Inventories	(26,609)	23,042	(12,063)
Due to/from affiliates, net	(19,138)	(11,117)	35,403
Other current assets	(7,239)	6,709	1,601
Other noncurrent assets	3,322	(8,061)	(15,088)
Accounts payable	60,939	(12,489)	27,474
Accrued expenses	13,817	33,489	13,117
Accrued income taxes	14,130	11,924	2,695
Other long-term liabilities	(1,089)	(685)	(5,380)
Net cash provided by operating activities	250,053	237,960	293,297
Cash flows from investing activities:			
Purchases of property, plant and equipment	(178,990)	(107,889)	(242,390)
Acquisition of K4	—	—	(575,000)
Acquisition of minority interest in AAP	—	(33,750)	—
Acquisition of AKI	—	(3,244)	—
Acquisition of AAPMC	—	—	(2,109)
Sale of property, plant and equipment	1,413	121	—
Proceeds from the sale/(purchase) of investments	(15,187)	(18,550)	(135,595)
Investment in ASI	—	—	(41,638)
Net cash used in investing activities	(192,764)	(163,312)	(996,732)
Cash flows from financing activities:			
Net change in bank overdrafts and short-term borrowings	52,393	(173,565)	(24,264)
Net proceeds from issuance of 35,250,000 common shares in public offering	—	360,263	—
Proceeds from issuance of stock through employee stock purchase plan and stock options	—	—	3,875
Proceeds from issuance of Anam USA, Inc. debt	1,408,086	522,116	—
Payments of Anam USA, Inc. debt	(1,443,464)	(658,029)	—
Net proceeds from issuance of long-term debt	11,389	203,170	603,569
Payments of long-term debt	(43,541)	(158,833)	(9,287)
Distributions to stockholders	(5,000)	(33,100)	—
Change in division equity account	4,101	—	—
Net cash provided by (used in) financing activities	(16,036)	62,022	573,893
Net increase (decrease) in cash and cash equivalents	41,253	136,670	(129,542)
Cash and cash equivalents, beginning of period	49,664	90,917	227,587
Cash and cash equivalents, end of period	$ 90,917	$ 227,587	$ 98,045
Supplemental disclosures of cash flows information:			
Cash paid during the period for:			
Interest	$ 37,070	$ 27,730	$ 45,500
Income taxes	$ 3,022	$ 12,908	$ 13,734

The accompanying notes are an integral part of these 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, as well as the Company's investment in Anam Semiconductor Inc. ("ASI") (see Note 7), 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 ASI (which changed its name in 1998 from Anam Industrial Co., Ltd.) (—see Note 3), 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);
- The semiconductor packaging and test business unit of Chamterry Enterprises, Ltd. ("Chamterry"). During 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.

Nature of Operations

The Company provides semiconductor packaging and test services as well as wafer fabrication services to semiconductor manufacturing and semiconductor design companies located in strategic markets throughout the world. Such services are provided by the Company and by ASI under a long-standing arrangement (see Note 3). Approximately 68%, 67%, and 53% of the Company's packaging and test revenues in 1997, 1998 and 1999, 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 3).

Concentrations of Credit Risk

Financial instruments, for which the Company is subject to credit risk, consist principally of accounts receivable, cash and cash equivalents and short-term investments. 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.

During 1999, the Company has invested in high grade municipal bonds, commercial paper and preferred stocks. These investments are classified in the consolidated balance sheets either as cash and cash equivalents for securities that have an underlying maturity date of less than three months, or as short-term investments for securities that have an underlying maturity date in excess of three months and are being held for trading purposes ("Trading Securities"). As of December 31, 1999, the Company held approximately $137,000 in Trading Securities. These investments are carried at fair market value based on market quotes and recent offerings of similar securities.

The Company has mitigated its credit risk with respect to cash and cash equivalents, as well as Trading Securities, through diversification of its portfolio of holdings into various money market accounts, U.S. treasury bonds, federal mortgage backed securities, high grade municipal bonds, commercial paper and preferred stocks. At December 31, 1998 and 1999, the Company maintained approximately $35,000 and $183,000, respectively, in high grade municipal bonds, commercial paper and preferred stocks, with the largest individual investment balance of approximately $10,000 and $12,000, respectively.

In addition, at December 31, 1998 and 1999, the Company maintained approximately $29,000 and $11,000, respectively, in deposits and certificates of deposits at foreign owned banks and approximately $4,000 and $13,000 respectively, in deposits at U.S. banks which exceeded federally insured limits, of which, approximately $5,000 was maintained in one bank at December 31, 1999.

Significant Customers

The Company has a number of major customers in North America, Asia and Europe. The Company's largest customer, Texas Instruments, Inc. ("TI"), accounted for 16.5% of net revenues in 1999. Revenues for services provided to TI prior to 1999 were less than 10%. In addition, the Company's second largest customer, Intel Corporation, accounted for approximately 23.4%, 20.6% and 14.1% of net revenues in 1997, 1998 and 1999, respectively. The Company's five largest customers collectively accounted for 40.1%, 41.6%, and 43.6% of net revenues in 1997, 1998, and 1999, 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 3), 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 the results of ASI on an equity method of accounting basis.

Foreign Currency Translation

Substantially all of the Company's foreign subsidiaries and investee companies 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. 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 7).

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, 1998 and 1999, 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 4). Of the total net trade accounts receivable amount at December 31, 1998 and 1999, $22,488 and $36,880, respectively, relates to the trade accounts receivable of CIL which were not sold under the accounts receivable sale 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 $81,159, $116,424 and $158,938 for 1997, 1998 and 1999, respectively.

Intangible Assets

Intangible assets consist principally of goodwill. The Company recorded goodwill representing the excess of cost over the recorded minority interest in Amkor/Anam Pilipinas, Inc., one of its Philippine subsidiaries ("AAP"). In addition, the Company recorded goodwill representing the excess of the cost over the fair market value of the net assets acquired of ASI's packaging and test business located in Kwangju, Korea ("K4") (see Note 3) and the excess of the cost over the fair market value of the net assets acquired of Anam/Amkor Precision Machine Company, Inc. ("AAPMC"), an affiliate of ASI (see Note 18).

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 acquisitions. The unamortized balance of goodwill at December 31, 1998 and 1999 was $24,596 and $232,350, respectively.

Other Noncurrent Assets

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

In connection with the $207,000 offering of convertible notes (see Note 2), and the $625,000 offering of senior and senior subordinated notes (see Note 3) the Company incurred approximately $30,500 of debt issuance costs which have been deferred and are amortized and reflected as interest expense over the life of the notes.

Other Noncurrent Liabilities

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

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, "Accounting for Stock-Based Compensation," are presented in Note 14.

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, which was merged into ATI just prior to the Initial Public Offering (see Note 2), 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.

Just prior to the Initial Public Offering (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 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. The Company generally records revenues upon shipment of packaged semiconductors to its customers. The Company records wafer fabrication services 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, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. 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, or December 31, 1998, as selected at the transition date.

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").

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 18.) In connection with the Offerings, one existing stockholder sold approximately 5,000,000 of his shares.

3. Relationship with Anam Semiconductor Inc.

In December 1999 the Company announced that it was in discussions with ASI to purchase it's three remaining packaging and test factories, known as K1, K2 and K3 combined with an additional equity investment in ASI. In February 2000, the Company announced that it had reached an agreement with ASI to purchase K1, K2 and K3 for $950,000 and committed to make an additional equity investment in ASI of approximately $459,000. The commitment to make this equity investment supersedes the existing commitment to ASI to purchase $150,000 in equity, previously agreed to as part of the terms of ASI's Workout (as defined below) excluding the $41,600 already invested in October 1999. The Company expects to complete the purchase of K1, K2 and K3 and investment in ASI during the second quarter of 2000. To complete the transaction with ASI, the Company intends to use existing cash and raise approximately $750,000 in secured bank debt, $410,000 in private equity financing and $225,000 in convertible subordinated notes. If we make the additional $459,000 investment in the common stock of ASI and the Creditor banks convert ₩150 billion (approximately $132,000) of debt to common stock of ASI, the Company's and the Creditor banks' ownership in ASI voting stock will be approximately 43% and 34%, respectively.

If the transaction with ASI is completed as described above, ASI will emerge from its Workout with its Korean Creditor Banks. ASI has indicated that they expect the net proceeds from the sale of K1, K2 and K3 and our additional equity investment to be used to repay a substantial amount of debt, provide funding to expand the capacity of their wafer foundry and provide general working capital.

In October 1999, the Company acquired 10,000,000 shares of ASI common stock for approximately $41,600 (₩50,000,000,000) representing the Company's first installment of its commitment to invest in ASI over a four year period in connection with ASI's Workout. The remaining portion of the obligation will be canceled under the terms of the agreement to purchase K1, K2 and K3. The Company owns 18% of ASI's common stock and members of the Kim family own 11%. As a result of this ownership, and the relationship with ASI, the Company follows the equity method of accounting for its investment in ASI.

Because the Company and ASI have reached agreement on terms to purchase K1, K2 and K3, ASI's consolidated financial statements have been prepared to reflect the packaging and test operations of ASI as discontinued operations. If the Company is successful in acquiring K1, K2 and K3 and making our planned additional equity investment in ASI, ASI will exit from the Workout program.

The following summary of consolidated financial information pertaining to ASI for 1997, 1998 and 1999, reflecting the packaging and test operations of ASI as discontinued operations, was derived from the consolidated financial statements of ASI.

	1997	1998	1999
Summary Income Statement Information:			
Sales	$ 406,937	$ 221,098	$ 285,925
Income (loss) from continuing operations	$ (102,039)	$ (957,165)	$ (169,759)
Net income (loss)	$ 41,430	$ (847,533)	$ 109,865
Summary Balance Sheet Information:			
Total assets	$2,922,114	$1,878,950	$1,487,469
Total liabilities	$2,662,612	$2,477,323	$1,785,219

On May 17, 1999, the Company purchased certain assets and liabilities of ASI's packaging and test business located in Kwangju, Korea ("K4"). The purchase price for K4 was $575,000 in cash plus the assumption of approximately $7,000 of employee benefit liabilities. The acquisition was accounted for as a purchase. Accordingly, the results of K4 have been included in the accompanying consolidated financial statements since the date of acquisition. The purchase price of $582,000 was allocated to the fair value of the assets acquired, principally property plant and equipment, of approximately $358,000 and liabilities assumed of approximately $7,000. Goodwill resulting from the transaction of approximately $223,000 will be amortized on a straight-line basis over a 10 year period, and is included in intangible assets in the Company's consolidated balance sheets at December 31, 1999.

This acquisition was financed through a private placement completed by the Company in May 1999 which raised approximately $603,600, net of debt issuance costs of $21,400, through the issuance of $425,000 of senior notes and $200,000 in senior subordinated notes. The senior notes mature in May 2006 and have a coupon rate of 9.25%. The senior subordinated notes mature in May 2009 and have a coupon rate of 10.50%. The Company is required to pay interest semi-annually in May and November for all of the notes. Subsequent to the purchase of K4 and payment of related offering costs, the Company had approximately $29,714 of proceeds remaining for working capital. The debt issuance costs have been deferred and are included, net of amortization, in other noncurrent assets in the Company's consolidated balance sheet at December 31, 1999. These deferred costs are amortized over the life of the related notes.

In connection with the acquisition of K4, the Company has entered 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 has incurred approximately $5,800 of costs during the year ended December 31, 1999 for the services provided under this agreement. In addition, the Company has also entered into an intellectual property license agreement with ASI that was effective upon the closing of the acquisition.

To encourage the investment in K4, the Korean government has granted a tax holiday on K4's operations. The tax holiday expires ten years after the earlier of the first year K4 has taxable income or five-years.

The following table displays unaudited pro forma consolidated results of operations as though the acquisition of K4 had occurred as of the beginning of the periods presented:

Year Ended December 31,	1998	1999
Net revenues	$1,577,594	$1,913,201
Net income	$ 18,119	$ 62,388
Pro forma net income	$ 13,619	
Basic net income per common share	$ .17	$ .52
Diluted net income per common share	$ .17	$ .52
Basic pro forma net income per common share	$ .13	
Diluted pro forma net income per common share	$ .13	

The pro forma results include adjustments for goodwill amortization, depreciation, interest expense on debt issued to finance the purchase of K4, and income taxes. The pro forma results are not necessarily indicative of the results the Company would actually have achieved if the acquisition had been completed as of the beginning of each of the periods presented, nor are they necessarily indicative of future consolidated results.

In 1997, 1998, and 1999, approximately 68%, 67% and 53%, respectively, of the Company's packaging and test revenues as well as 100% of the Company's wafer fabrication revenues in 1998 and 1999 (see Note 1) were derived from services performed for the Company by ASI. 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 cancelable 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.

As of December 31, 1999, ASI was contingently liable under guarantees in respect of debt of its non-consolidated subsidiaries and affiliates in the aggregate amount of approximately $322 million.

Prior to the Initial Public Offering, (see Note 2), 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.

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 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. 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. 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 Workout as approved by the creditor banks in February 1999 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 ₩1,207 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 was contingent on the Company's commitment to invest $150,000 in ASI equity over a four-year period. The Company has agreed to make an investment of $41,000 in 1999 and, assuming certain additional conditions are met, invest an additional $109,000 between years 2000 and 2002. As a result of the commitment to invest, ASI agreed to reduce the K4 purchase price from $607,000 to $582,000. The Company's commitment to ASI's creditor banks committing to an investment in ASI is contingent upon the continuation of the Workout plan as approved, the continued effectiveness of the Supply Agreements with ASI and coordination of proposed equity investments with the conversion by the creditor banks of their ASI debt to equity. The commitment letter provides that upon meeting these conditions, the Company would invest $41,000 in 1999, 2000, and 2001 with a final investment of $27,000 in 2002. The Company would purchase the ASI shares at ₩5,000 per share. Since the commitment is in U.S. dollars, the number of shares the Company would purchase will vary based on the exchange rate of Korean won to U.S. dollars.

Assuming the creditor banks and ASI finalize and implement the Workout under its original terms, the relative equity of ownership of ASI among the creditor banks, the Kim family and the Company would be approximately 45%, 6% and 32%, respectively (assuming an exchange rate of ₩1,135 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.

The Company believes 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 the Company's 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. 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.

4. 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.

The Agreement was renewed effective December 30, 1998 and December 29, 1999 with the next renewal date scheduled March 29, 2000. ASI had guaranteed the Company's obligations under the agreement (see Note 3), 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 and $2,200 during 1998 and 1999, respectively, due to a further reduction in selected accounts receivable. Losses on receivables sold under the Agreement were approximately $2,414, $4,693 and $4,280 in 1997, 1998 and 1999, respectively, and are included in other expense, net. As of December 31, 1998 and 1999, approximately $2,700 and $2,200, respectively, are included in current liabilities for amounts to be refunded to the Purchasers as a result of a reduction in selected accounts receivable.

5. 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 and Korea, or at ASI on a consignment basis. Components of inventories follow:

December 31,	1998	1999
Raw materials and purchased components	$ 77,351	$ 81,379
Work-in-process	8,277	10,086
	$ 85,628	$ 91,465

6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

December 31,	1998	1999
Land	$ 2,346	$ 38,349
Buildings and improvements	142,252	303,077
Machinery and equipment	534,314	883,057
Furniture, fixtures and other equipment	40,502	52,866
Construction in progress	8,282	47,393
	727,696	1,324,742
Less—accumulated depreciation and amortization	311,585	464,974
	$416,111	$ 859,768

7. Investments

The Company's investments include investments in affiliated companies which provide services to the Company (see Note 3) and certain other technology based companies. Investments are summarized as follows:

December 31,	1998	1999
Equity investment in ASI (18% at December 31, 1999)	$ —	$ 39,927
Other equity investments (20%–50% owned)		
Taiwan Semiconductor Technology Corporation	20,052	18,456
Other	738	860
Total other equity investments	20,790	19,316
Available for sale	4,686	4,429
	$ 25,476	$ 63,672

In October, 1999, the Company acquired 10,000,000 shares of ASI common stock for approximately $41,600 (₩50,000,000,000) representing the Company's first installment of its planned investments in ASI over a four year period in connection with ASI's Workout (see Note 3).

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 AUSA.

The following summary of consolidated financial information pertaining to ASI for 1997 was derived from the consolidated financial statements (see Note 3). No amounts are presented for 1998 as the investment was sold in February 1998.

	1997
Summary Income Statement Information:	
Sales	$ 406,937
Net income	$ 41,430
Summary Balance Sheet Information:	
Total assets	$2,922,114
Total liabilities	$2,662,612

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 commenced operations in 1999, provides independent advanced integrated circuit ("IC") packaging services primarily for the Taiwan market and Taiwan foundry output. The Company has committed 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. No capital contributions were required during 1999. As of December 31, 1999 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.

8. Short-Term Credit Facilities

At December 31, 1998 and 1999, 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 10% to 11% at December 31, 1999). For 1998 and 1999, the weighted average interest rate on these borrowings was 11.9% and 11.7%, respectively. The unused portion of lines of credit was approximately $82,000 at December 31, 1999.

9. Debt

Following is a summary of the Company's short-term borrowings and long-term debt:

December 31,	1998	1999
Short-term borrowings (see Note 8)	$ 30,430	$ 3,386
Senior notes, 9.25%, due May 2006 (see Note 3)	—	425,000
Senior subordinated notes, 10.5%, due May 2009 (see Note 3)	—	200,000
Convertible subordinated notes, 5.75%, due May 2003 (see Note 2)	207,000	53,435
Note payable, interest at bank's prime (8.8% at December 31, 1999), due in installments with balance due April 2004	12,747	11,472
Note payable, interest at LIBOR plus annual spread (10.25% at December 31, 1998), due in installments with balance due November 1999	7,000	—
Other, primarily capital lease obligations and other debt	3,326	628
	260,503	693,921
Less—short-term borrowings and current portion of long-term debt	(38,657)	(6,465)
	$221,846	$687,456

In the fourth quarter of 1999, the Company completed an early conversion of convertible subordinated notes. As a result, the Company exchanged 12.1 million shares of the Company's common stock for $153,565 of the Company's convertible notes. The fair value of the shares of common stock issued in the exchanges in excess of the shares required for conversion was $17,381, and was expensed during the fourth quarter of 1999. This amount is included in other expense in the accompanying consolidated statements of income.

Interest expense related to short-term borrowings and long-term debt is presented net of interest income of $5,752, $9,072, and $19,905 in 1997, 1998 and 1999, respectively, in the accompanying consolidated statements of income.

The $53,435 of convertible notes mature in May 2003, the $425,000 of senior notes mature in May 2006 and the $200,000 of senior subordinated notes mature in May 2009. The senior notes and senior subordinated notes contain certain covenants that could restrict the Company's ability and the ability of the Company's subsidiaries to: incur additional indebtedness; pay dividends, repurchase stock, prepay subordinate debt and make investments and other restricted payments; create restrictions on the ability of the Company's subsidiaries to pay dividends or make other payments; engage in sale and leaseback transactions; create liens; enter into transactions with affiliates; and sell assets or merge with or into other companies. These covenants are subject to certain exceptions. The Company was in compliance with these covenants as of December 31, 1999. The principal payments required under other long-term debt borrowings at December 31, 1999 are as follows:

	Amount
2000	$ 3,079
2001	2,647
2002	2,549
2003	2,549
2004	1,276
Thereafter	—
Total	$12,100

10. Employee Benefit Plans

U.S. Defined Contribution Plan

ATI has a defined contribution benefit plan covering substantially all U.S. employees. 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 $959, $1,394 and $1,828 in 1997, 1998 and 1999, respectively.

Philippine Pension Plan

The Company's Philippine subsidiaries 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.

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

Year Ended December 31,	1997	1998	1999
Service cost of current period	$1,274	$1,618	$ 2,153
Interest cost on projected benefit obligation	957	1,209	1,563
Expected return on plan assets	(534)	(879)	(1,083)
Amortization of transition obligation and actuarial gains/losses	81	79	137
Total pension expense	$1,778	$2,027	$ 2,770

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 Philippine defined benefit pension plan and the related changes in the projected benefit obligation and plan assets:

	1998	1999
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$10,428	$13,567
Service cost	1,618	2,153
Interest cost	1,209	1,563
Actuarial loss/(gain)	194	(356)
Foreign exchange(gain)/loss	348	(388)
Benefits paid	(230)	(1,155)
Projected benefit obligation at end of year	13,567	15,384
Change in plan assets:		
Fair value of plan assets at beginning of year	6,614	8,204
Actual return on plan assets	(461)	2,107
Employer contribution	2,137	1,748
Foreign exchange (gain)/loss	144	(235)
Benefits paid	(230)	(1,155)
Fair value of plan assets at end of year	8,204	10,669
Funded status:		
Projected benefit obligation in excess of plan assets	5,363	4,715
Unrecognized actuarial loss	(2,546)	(1,011)
Unrecognized transition obligation	(906)	(826)
Accrued pension costs	$ 1,911	$ 2,878

The discount rate used in determining the projected benefit obligation was 12% as of December 31, 1998 and 1999. The rates of increase in future compensation levels was 11% as of December 31, 1998 and 1999. The expected long-term rate of return on plan assets was 12% as of December 31, 1998 and 1999. 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 $2,800 at December 31, 1999.

11. 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,	1997	1998	1999
Current:			
Federal	$ 16,126	$18,316	$ 9,928
State	2,639	4,426	1,746
Foreign	28	724	5,508
	18,793	23,466	17,182
Deferred:			
Federal	(4,991)	282	532
Foreign	(6,724)	968	8,886
	(11,715)	1,250	9,418
Total provision	$ 7,078	$24,716	$26,600

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

For the Year Ended December 31,	1997	1998	1999
Federal statutory rate	$ 21,352	$35,257	$ 36,162
State taxes, net of federal benefit	1,285	2,877	2,028
S Corp. status of AEI through April 28, 1998	(3,613)	(4,500)	—
Deferred taxes established at termination of S Corp. status of AEI	—	(1,954)	—
Income of foreign subsidiaries subject to tax holiday	(5,106)	(9,129)	(14,860)
Foreign exchange (losses)/gains recognized for income taxes	(21,147)	12,602	8,023
Change in valuation allowance	22,000	(8,079)	(11,084)
Difference in rates on foreign subsidiaries	(7,693)	(3,377)	(630)
Goodwill and other permanent differences	—	1,019	6,961
Total	$ 7,078	$24,716	$ 26,600

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 and 1999 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. During 1999, AAP reversed a valuation allowance established in prior years for a portion of the related deferred tax assets. During 1999, AAP realized all foreign net operating loss carryforwards established in 1998. In addition, minimum corporate income tax credits of $1,182 reversed to offset current foreign tax obligations.

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

For the Year Ended December 31,	1997	1998	1999
Deferred tax assets (liabilities):			
Retirement benefits	$ 816	$ 1,038	$ 463
Other accrued liabilities	100	4,571	2,579
Receivables	227	1,717	523
Inventories	6,509	2,583	3,892
Property, plant and equipment	—	(2,139)	(2,539)
Unrealized foreign exchange losses	37,447	15,805	480
Unrealized foreign exchange gains	(9,084)	(3,530)	(2,175)
Loss on sale of investment in ASI	—	1,620	1,620
Net foreign operating loss carryforward	—	3,646	—
Minimum corporate income tax	—	1,182	—
Equity in earnings of investees	—	—	1,148
Other	(2)	191	191
Net deferred tax asset	36,013	26,684	6,182
Valuation allowance	(22,000)	(13,921)	(2,837)
Net deferred tax asset	$ 14,013	$ 12,763	$ 3,345

Non-U.S. income before taxes and minority interest of the Company was approximately $33,000, $54,000 and $74,000 in 1997, 1998 and 1999, 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 $112,000 as of December 31, 1999. An estimated $27,000 in U.S. income and foreign withholding taxes would be due if these earnings were remitted as dividends.

At December 31, 1998 and 1999 current deferred tax assets of $9,838 and $5,793, respectively, are included in other current assets and noncurrent deferred tax assets of $2,925 and $2,324, 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. In addition, at December 31, 1999, noncurrent deferred tax liabilities of $4,772 are included in other noncurrent liabilities in the consolidated balance sheet.

The Company's tax returns have been examined through 1995 in the Philippines and through 1994 in the U.S. The tax returns for open years are subject to changes upon final examination. 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.

12. 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 has authorized 500,000,000 shares of $.001 par value common stock, of which 117,860,000 and 130,659,772 were issued and outstanding at December 31, 1998 and 1999, respectively. In addition, the Company has authorized 10,000,000 shares of $.001 par value preferred stock, designated as Series A.

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.

The receivable from stockholder included in stockholders equity represents the balance due from Mr. & Mrs. Kim and the Kim Family Trusts related to the finalization of AEI's tax returns (see Note 11).

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 1997. 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, prior to 1999, 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%. Unrealized losses on investments during 1998 and 1999 have been tax effected at the applicable statutory rates.

13. 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 ("EPS") 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. 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 the year ended December 31, 1997. The Company's basic and diluted per share amounts for the years ended December 31, 1998 and 1999 as well as the Company's basic pro forma and diluted pro forma per share amounts for the year ended December 31, 1998 are calculated as follows:

	Earnings (Numerator)	Weighted Average 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
Earnings per share—			
Year ended December 31, 1999			
Basic earnings per share	$76,719	119,341,000	$0.64
Impact of convertible notes	8,249	14,228,000	
Dilutive effect of options	—	1,498,000	
Diluted earnings per share	$84,968	135,067,000	$0.63

14. 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, 1999, there were 90,000 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, 1999, there were 4,775,098 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 of 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, 1999, there were 200,450 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	—	—
Balance at January 1, 1999	3,823,900	$ 9.97
Granted	1,468,450	$10.62
Exercised	75,534	$10.49
Cancelled	151,268	$ 9.91
Balance at December 31, 1999	5,065,548	$10.15
Exercisable at December 31, 1999	1,363,644	$ 9.82

Significant option groups outstanding at December 31, 1999 and the related weighted average exercise price and remaining contractual life information are as follows:

	Outstanding		Exercisable		
	Shares	Weighted Average Price	Shares	Weighted Average Price	Weighted Average Remaining Life (Years)
Options with exercise price of:					
$16.56–$28.25	223,950	$18.73	—	—	9.79
$10.00–$11.00	3,035,405	$10.98	1,148,538	$11.00	8.37
$ 8.06–$ 9.63	1,083,050	$ 9.06	10,000	$ 9.14	9.33
$ 5.66–$ 7.97	723,143	$ 5.67	205,106	$ 5.66	8.85
Options outstanding at December 31, 1999	5,065,548		1,363,644		

A summary of the weighted average fair value of options at grant date granted during the year ended December 31, 1998 and 1999 follows:

	Number Of Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Values
Options granted during 1998:			
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
Options granted during 1999:			
Options whose exercise price equals market price on grant date	1,468,450	$10.62	$6.33

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% and 75% for 1998 and 1999 respectively, dividend yield—0%, and risk free interest rate—5.38% and 5.52% for 1998 and 1999, respectively.

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, for the offering periods ending April 30, 1999 and October 31, 1999, the Company sold 399,310 and 187,445 shares, respectively. In addition, the Company has withheld $540 through payroll deductions as of December 31, 1999. 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, $9.53 on May 1, 1999 and $21.31 on November 1, 1999. The fair values of the purchase rights granted for the offering periods beginning October 1, 1998, May 1, 1999 and November 1, 1999 were $1.29, $3.21, and $6.99 respectively, which was estimated using the Black-Scholes option-pricing model with the following assumptions: expected option term—7 months for the offering period beginning October 1, 1998 and 6 months for the other offering periods; stock price volatility factor—47% and 75% for the offering period beginning October 1, 1998 and the other offering periods, respectively; dividend yield for all offering periods—0%; risk-free interest rate—5.38% and 5.52% for the offering period beginning October 1, 1998 and the other offering periods, respectively.

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 pro forma adjustments for income taxes for 1997 and 1998 (see Note 20), would have been reduced to the pro forma amounts indicated below:

For the Year Ended December 31,	1997	1998	1999
Net income:			
As reported	$39,668	$70,960	$76,719
Pro forma	$39,668	$69,313	$72,033
Earnings per share:			
Basic:			
As reported	$ 0.48	$ 0.67	$ 0.64
Pro forma	$ 0.48	$ 0.65	$ 0.60
Diluted:			
As reported	$ 0.48	$ 0.66	$ 0.63
Pro forma	$ 0.48	$ 0.64	$ 0.59

15. Related-Party Transactions

At December 31, 1997, the Company owned 8.1% of the outstanding stock of ASI (see Note 7), 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 18).

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 $527,858, $573,791 and $714,475 for 1997, 1998 and 1999, respectively. Charges from AUSA for interest and bank charges were $6,002, $2,215 and $1,416 for 1997, 1998 and 1999, 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 $8,357 and $28,301 at December 31, 1998 and 1999, respectively.

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 and 1999 this amount was approximately $2,600 and $1,141, respectively.

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, 1998 and 1999 was $59 and $0, 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 and 1999, the balance paid-in advance to AST was approximately $3,500 and $1,500, respectively. Payments to AST were approximately $26,000, $32,500 and $33,000 during 1997, 1998 and 1999, 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 $3,844, $869 and $3,881 in 1997, 1998 and 1999, respectively. Anam Precision Equipment and Anam Instruments manufacture certain equipment used by the Philippine operations. Payments to

Anam Precision Equipment and Anam Instruments were $4,211, $10,272 and $14,610 in 1997, 1998 and 1999, respectively.

A principal stockholder of the Company has extended guarantees on behalf of the Company in the amount of $91,000 and $16,000 at December 31, 1998 and 1999, respectively. Also in 1997, a company controlled by this stockholder purchased investments in the amount of $49,740 (see Note 7).

The Company leases office space in West Chester, Pennsylvania 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, 1998 and 1999 were $1,458, $1,118 and $1,140, respectively.

At December 31, 1998 and 1999, the Company had net balances due from affiliates other than ASI and AUSA of $27,510 and $24,524, 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.

16. 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 following summarizes methods and assumptions used to estimate the fair value of other significant classes of financial instruments.

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.

Senior notes

The fair value of these financial instruments at December 31, 1999 is estimated to be $416,500 based on available market quotes.

Senior subordinated notes

The fair value of these financial instruments at December 31, 1999 is estimated to be $199,000 based on available market quotes.

Convertible subordinated notes

The fair value of these financial instruments at December 31, 1999 is estimated to be $115,420 based on available market quotes.

17. 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.

The Company is currently engaged in negotiations regarding amounts due under a technology license agreement with a third party. To date, this dispute has not involved the judicial systems. The Company has accrued its estimate of amounts due under this agreement. However, depending on the results of the negotiations, the ultimate amount payable could be less than the amount accrued or exceed the amount accrued by up to $7,700.

Net future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1999, are:

2000	$ 9,736
2001	8,633
2002	5,966
2003	5,139
2004	3,940
Thereafter	77,312
Total (net of minimum sublease income of $3,862)	$110,726

Rent expense, net of sublease income of $366, $575 and $578 for 1997, 1998 and 1999, respectively, amounted to $6,709, $7,751 and $10,443 for 1997, 1998 and 1999, respectively.

The Company has various purchase commitments for materials, supplies and capital equipment incidental to the ordinary conduct of business. As of December 31, 1999 the Company had commitments for capital equipment of approximately $48,524. In the aggregate, such commitments are not at prices in excess of current market.

18. Acquisitions

On July 1, 1999, the Company acquired the stock of AAPMC for $3,800, which was paid to ASI during June 1999. AAPMC supplies machine tooling used by the Company at its Philippine operations. As an interim step to this acquisition, during April 1999, the Company assumed and repaid $5,700 of AAPMC's debt. The acquisition was financed through available working capital and was accounted for as a purchase. Accordingly, the results of AAPMC have been included in the accompanying consolidated financial statements since the date of acquisition and goodwill of approximately $2,000 was recorded as of the date of acquisition and will be amortized on a straight-line basis over a ten year period. Goodwill, net of amortization, is included in intangible assets in the Company's consolidated balance sheets at December 31, 1999. The historical operating results of AAPMC are not material in relation to the Company's operating results.

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.

19. 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 Packaging and test services

Through its three factories located in the Philippines, its Korean Factory, K4, as well as the three 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.

Sales to Intel Corporation for packaging and test accounted for approximately $340,000, $324,000 and $269,000 for the years ended December 31, 1997, 1998 and 1999, respectively. In addition, TI accounted for approximately $25,000 of packaging and test revenues and $291,000 of wafer fabrication service revenues during the year ended December 31, 1999. Revenues for services provided to TI prior to 1999 were less than 10% of total revenue.

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 ASI and TSTC (see Note 6) and other investments.

	Packaging and Test	Wafer Fabrication	Other	Total
1999				
Net revenues	$1,617,235	$292,737	$ —	$1,909,972
Gross profit	303,467	29,279	—	332,746
Operating income	158,283	17,794	—	176,077
Depreciation and amortization	178,771	1,561	—	180,332
Capital expenditures	603,173	2,536	—	605,709
Total assets	1,391,105	37,011	326,973	1,755,089
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
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

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

Net Revenues	1997	1998	1999
United States	$1,050,048	$1,124,764	$1,316,147
Foreign countries	405,713	443,219	593,825
Consolidated	$1,455,761	$1,567,983	$1,909,972

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

Property, Plant and Equipment	1997	1998	1999
United States	$ 37,845	$ 48,851	$ 48,438
Philippines	388,653	366,717	448,644
Korea	—	—	362,144
Other foreign countries	563	543	542
Consolidated	$ 427,061	$ 416,111	$ 859,768

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

Net Revenues	1997	1998	1999
Traditional leadframe	$ 833,527	$ 603,222	$ 559,563
Advanced leadframe	311,988	342,866	412,395
Laminates	251,257	438,034	561,181
Test and other	58,989	68,163	84,096
Consolidated	$1,455,761	$1,452,285	$1,617,235

20. Pro Forma Adjustments (unaudited)

Statement of Income

Pro forma adjustments are presented for 1997 and 1998 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.

21. Subsequent Event

On February 28, 2000 the company announced a definitive agreement with ASI to acquire ASI's three remaining packaging and test facilities and to make additional equity investments in ASI. On March 16, 2000, the Company agreed to privately place $225,000 aggregate principal amount (excluding any over-allotments) of 5% convertible subordinated notes due 2007. The notes will be convertible into the Company's common stock at a conversion price of $57.34 per share. The Company intends to finance the remainder of the purchase price and investment with $750,000 of secured bank debt under an $850,000 bank credit facility, $410,000 of Series A Preferred Stock and existing cash and short-term investments. See Note 3.

To Amkor Technology, Inc.:

We have audited the accompanying consolidated balance sheets of Amkor Technology, Inc. and its subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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") (See Note 3), the investment in which is reflected in the accompanying 1997 and 1999 financial statements using the equity method of accounting. The investment in ASI represents 2% of total assets at December 31, 1997 and 1999 and the equity in its net loss represents 29% and 2% of net income before the equity in loss of investees in 1997 and 1999, respectively. In addition, we did not audit the financial statements of Amkor Technology Korea, Inc., ("ATK"), a wholly-owned subsidiary, which statements reflect total assets and total operating income of 35% and 6%, respectively, of the related consolidated totals in 1999. The statements of ASI and ATK were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for ASI and ATK, is based solely on the reports 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 reports of other auditors, 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, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 3, 2000
(except as discussed in Note 21 with respect to the Company's proposed acquisition of ASI's packaging and test facilities and its investment in ASI, as to which the date is February 28, 2000, and the related proposed financing, as to which the date is March 16, 2000)

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.

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

Gregory K. Hinckley**
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

Kenneth T. Joyce
Executive Vice President and
Chief Financial Officer

Eric R. Larson
Executive Vice President
Wafer Fabrication

Michael D. O'Brien
Executive Vice President
Manufacturing Operations
& Order Fulfillment

Paul Grant
Corporate Vice President
Worldwide Sales

Bruce Freyman
Corporate Vice President
Product Operations

John McMillan
Corporate Vice President
QRE and Marketing

Scott Voss
Corporate Vice President
Product Management

Corporate Headquarters

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Stock Trading

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

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Independent Auditors

Arthur Andersen LLP
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Philadelphia, PA 19103

Legal Counsel

Kevin J. Heron
Senior Vice President and
General Counsel

Wilson Sonsini Goodrich & Rosati
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Palo Alto, CA 94304

A copy of the Company's Form 10-K, filed with the Securities and Exchange Commission is available on our web site and 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:
www.amkor.com

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