Amkor is one of the world’s largest providers of contract semiconductor assembly and test services. Founded in 1968, Amkor pioneered the concept of having a highly focused third party provide assembly and test to semiconductor manufacturers. By capitalizing on strong outsourcing trends and consistently meeting customer needs, Amkor has enjoyed significant growth over its nearly 40-year history.

Today we are a strategic manufacturing partner for many of the world’s leading semiconductor companies and electronics OEMs, providing our customers with a broad array of package design, assembly and test solutions. Amkor’s operational base encompasses more than 5 million square feet of manufacturing facilities, product development centers, and sales and support offices located in key electronics manufacturing regions in Asia, Europe and the United States.

Semiconductor manufacturing is generally defined in two stages. In the first stage, called the “front end”, complex electronic circuitry is deposited onto silicon wafers through a process called wafer fabrication. In the “back end”, also known as packaging (or assembly) and test, the silicon wafer is cut into individual chips, and each chip is placed in a protective housing that provides a proper electrical connection between the chip and the system board. For most advanced semiconductor devices, these packages are custom designed for specific applications. The packages are then tested to ensure that they meet appropriate performance criteria.

The assembly process is responsible for managing the electrical connections between the very fine pitch of the chip and the larger geometry of the system board. Amkor’s industry-leading technology, design, assembly and test capabilities represent critical operational requirements for many of the world’s leading semiconductor companies.

If you look inside a microelectronic product you won’t see Amkor’s name on many of the actual packages, but you will see the names of our customers – more than 175 of the world’s leading semiconductor suppliers.
In last year’s report to shareholders I voiced a personal commitment to a process of transforming Amkor into a company that is consistently profitable, and I outlined several key management objectives for 2006 and beyond:

- That Amkor achieve sustainable gross margins in the mid-20% range, depending on the magnitude of inventory corrections;
- That we better align our factory operations and support structures to reduce operating costs;
- That we exercise strict financial discipline in our capital spending and generate levels of free cash flow that will permit us to take affirmative steps to de-lever our balance sheet.

I am pleased to say that we entered 2007 having made excellent progress toward achieving these objectives.

Following the industry correction of 2004, we enjoyed a strong business recovery that continued through most of 2006. During the six quarters of this upcycle, our quarterly sales grew by 70%, representing the greatest 18-month sales increase in Amkor’s history as a public company.

Our full year 2006 revenue rose 30% to a record $2.7 billion from $2.1 billion in 2005. We achieved record net income of $170 million, or $0.90 per diluted share, compared with a loss of $137 million, or ($0.78) per share, in 2005. Our 2005 loss included a charge of $50 million for legal settlements.

An Outstanding Year

Let’s take a closer look at our 2006 operating performance:

We achieved gross margin in the mid-20% range in each quarter of 2006. We improved factory alignment and achieved a meaningful reduction in our controllable operating costs. We generated $208 million of free cash flow and retired $136 million of debt. In addition, we retired an additional $142 million of debt at maturity in March 2007. All of these accomplishments are consistent with the objectives we established last year.

In more tangible terms, Amkor assembled nearly nine billion ICs in 2006, an increase of 18% over the prior year, and the fifth consecutive year of record unit shipments following the 2001 downturn. This growth was driven by strong performance in both traditional and advanced product areas, with noteworthy gains in 3D and Chip Scale Packaging, MicroLeadFrame®, Flip Chip and System-in-Package Modules.

Our strategic alliance with IBM has evolved into a broader set of relationships through our affiliation in the Common Platform™ technology ecosystem. We are leveraging our strong capabilities for turnkey wafer bump, wafer probe, flip chip assembly and test services to support next-generation gaming consoles and other applications requiring advanced IC packaging and test.
The inexorable march to increased silicon integration has stimulated the growth of 3D packaging and System-in-Package modules. These formats are vital to supporting increased functionality, such as multimedia processing, that is being designed into cell phones and other handheld products. During 2006 we strengthened our leadership position in advanced die stacking, Package-on-Package and module solutions to enable higher levels of functionality in these devices.

These achievements resulted from an unwavering focus amongst Amkor's management and 22,000 employees to maintain financial discipline, enhance our operational effectiveness, improve productivity, enrich our product mix, and most important, to work closely with our customers, suppliers and technology partners in the furtherance of our mutual goals. In May 2006 we completed a series of financing transactions designed to improve our

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**CORE STRATEGIES FOR GROWTH**

- **Maintain our technology and product leadership in key market segments with Tier 1 customers and technology partners.**
  
  Two of Amkor's strengths have been our visibility into evolving semiconductor technology and our ability to forge co-development relationships with customers and technology partners across the supply chain. These capabilities have allowed Amkor to remain at the forefront in the development of advanced semiconductor packaging technology and processes.

- **Conduct a focused business strategy that recognizes our operational strengths and positions Amkor to profitably support growth applications.**
  
  IC assembly and test is a competitive industry that encompasses a broad spectrum of technologies, processes and equipment supporting a wide range of device and end-market applications. By understanding how semiconductors are being designed and consumed, we can identify market drivers and ensure that our business resources are properly focused on attractive growth opportunities.

- **Drive operational effectiveness.**
  
  During 2006 we commenced the integration of our diverse geographic operations under a single management structure. We are also taking advantage of our large asset base to redeploy equipment from underperforming lines to other product lines or locations that offer better economics, while minimizing incremental capital investments. These measures are designed to allow Amkor to optimize asset productivity and increase the return on our investments.

- **Exercise financial discipline in the way we manage our business mix and capital investments.**
  
  We operate in a capital intensive industry. Over the past year we have taken a hard look at our product portfolio, our business mix, and our production capacity with a view towards increasing productivity and unit throughput without sacrificing quality. The success of these efforts is evident in our improved gross margin and free cash flow generation. Our goal is to consistently achieve consolidated gross margin in the mid-20% range and maintain a sustainable business model.
liquidity and reduce ongoing interest expense. We refinanced $352 million of 9.25% senior notes due 2008 with an issue of similarly priced notes due 2016. We also repurchased $178 million of 10.5% senior subordinated notes with the proceeds from an offering of 2.5% convertible notes due 2011. As evidence of the potential interest savings, our cash interest expense fell from $44 million in the first quarter of 2006 to $40 million in the fourth quarter.

A Global Company in a Global Economy

As a participant in a growth industry, Amkor is benefiting from several important vectors. First, we are in the midst of a broad expansion of economic growth beyond the traditionally dominant Western economies. Second, advancing technology is fostering a dramatic increase in the integration of semiconductors to achieve higher levels of functionality and performance. Third, as standards of living rise in emerging economies, the demand for consumer goods has increased, and accordingly, consumers now represent the single largest market for semiconductors.

With this "democratization" of the semiconductor industry, the geographical base of our customers, suppliers and technology partners has become increasingly diversified. We have accommodated this dynamic by prudently expanding our operational base so we can optimize Amkor's role in the semiconductor supply chain and provide the highest level of service and value to our customers.

The successes we achieved in 2006 represent a validation of our corporate strategies and should serve as a solid foundation for future growth. We remain committed to our strategic objectives and believe that the process of accomplishing these goals will enhance long term value for our shareholders.

Sincerely,

James J. Kim
Chairman and Chief Executive Officer
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