

ADVANCED SEMICONDUCTOR ENGINEERING INC

Form 424B1

June 03, 2003

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Filed Pursuant to Rule 424(b)(1)

Registration No. 333-89428

Advanced Semiconductor Engineering, Inc.

(Incorporated as a company limited by shares in the Republic of China)

28,757,600
American Depositary Shares
Representing
143,788,000 Common Shares

This is a global offering of 28,757,600 American depositary shares, or ADSs, of Advanced Semiconductor Engineering, Inc., or ASE Inc. The selling shareholders named on page 35 are selling all of the ADSs being offered in this offering. ASE Inc. will receive all of the net proceeds from the sale of ADSs in this offering by the selling shareholders. ASE Inc. will also receive all of the net proceeds from the sale of additional ADSs by one of the selling shareholders, if the underwriter's overallotment option is exercised. The ADSs are not being offered in the Republic of China. Each ADS represents five common shares, par value NT\$10 per share, of ASE Inc. The ADSs are evidenced by American depositary receipts, or ADRs.

Our ADSs are listed on the New York Stock Exchange under the symbol ASX. The last reported sale price of our ADSs on the New York Stock Exchange on May 30, 2003 was US\$2.68 per ADS. ASE Inc.'s outstanding common shares are listed on the Taiwan Stock Exchange under the symbol 2311. The closing price of the common shares on the Taiwan Stock Exchange on May 30, 2003 was NT\$18.40 per share, which is equivalent to approximately US\$0.53, assuming an exchange rate of NT\$34.71 = US\$1.00.

See Risk Factors beginning on page 13 to read about factors you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial price to public	US\$ 2.65	US\$ 76,207,640
Underwriting discount	US\$0.09275	US\$ 2,667,267
Proceeds, before expenses, to the selling shareholders	US\$2.55725	US\$ 73,540,373

ASE Capital Inc. has granted the underwriter an option exercisable within 30 days from the date of this prospectus to purchase up to an additional 4,000,000 ADSs at the initial price to public less the underwriting discount, solely to cover overallotments, if any.

The underwriter expects to deliver the ADSs through the book-entry transfer facilities of The Depository Trust Company against payment in U.S. dollars in New York, New York on June 4, 2003.

Goldman Sachs International

Prospectus dated June 2, 2003.

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These securities may not be offered or sold, directly or indirectly, in the Republic of China, except as permitted by applicable laws of the Republic of China.

The ADSs may only be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of this offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

In connection with this offering, Goldman Sachs International or any person acting for it may over allot or effect transactions with a view to supporting the market price of the ADSs and, subject to applicable laws of the Republic of China, the common shares at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there may be no obligation on Goldman Sachs International or its agent to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. See Underwriting .

Unless otherwise specified, the information contained herein assumes that the underwriter's over allotment option has not been exercised. All references contained herein to the common shares outstanding include common shares held by our consolidated subsidiaries, unless otherwise specified.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere or incorporated by reference in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the discussion of the risks of investing in our ADSs under "Risk Factors", before deciding to buy our ADSs.

Business

We are one of the world's largest independent providers of semiconductor packaging services and, together with our subsidiary ASE Test Limited, or ASE Test, the world's largest independent provider of semiconductor testing services. Our services include semiconductor packaging, design and production of interconnect materials, front-end engineering testing, wafer probing and final testing services. We offer packaging and testing services on both stand-alone and turnkey bases. Turnkey services consist of the integrated packaging, testing and direct shipment of semiconductors to end users designated by our customers.

We believe that we are better positioned than our competitors to meet the requirements of semiconductor companies worldwide for outsourced packaging and testing services across a wide range of end-use applications because of:

our ability to provide a broad range of advanced semiconductor packaging and testing services on a large scale turnkey basis;

our expertise in developing and providing advanced packaging and testing technologies and solutions;

our scale of operations and financial position, which enable us to make significant investments in capacity expansion and research and development as well as to make selective acquisitions;

our geographic presence in key centers of outsourced semiconductor and electronics manufacturing; and

our long-term relationships with providers of complementary semiconductor manufacturing services, including our strategic alliance with Taiwan Semiconductor Manufacturing Company Limited, or TSMC, the world's largest dedicated semiconductor foundry.

We believe that the trend for semiconductor companies to outsource their packaging and testing requirements is accelerating as semiconductor companies increasingly rely on independent providers of foundry and advanced packaging and testing services. In response to the increased pace of new product development and shortened product life and production cycles, semiconductor companies are increasingly seeking independent packaging and testing companies that can provide turnkey services in order to reduce time-to-market. We believe that our expertise and scale in advanced technology and our ability to integrate our broad range of solutions into turnkey services allow us to benefit from the accelerated outsourcing trend and better serve our existing and potential customers.

We believe that we have benefited, and will continue to benefit, from our geographic location in Taiwan. Taiwan is currently the largest center for outsourced semiconductor manufacturing in the world and, in addition, has a high concentration of electronics manufacturing service providers, which are the end users of our customers' products. Our close proximity to foundries and other providers of complementary semiconductor manufacturing services is attractive to our customers who wish to take advantage of the efficiencies of a total semiconductor manufacturing solution by outsourcing several stages of their manufacturing

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requirements. Our close proximity to end users of our customers products is attractive to our customers who wish to take advantage of the logistical efficiencies of direct shipment services that we offer. We believe that, as a result, we are well positioned to meet the advanced semiconductor engineering requirements of our customers.

We have a global base of over 200 customers, including:

Advanced Micro Devices, Inc.	NVIDIA Corporation
Altera Corporation	ON Semiconductor Corp.
ATI Technologies Inc.	Qualcomm Incorporated
Conexant Systems, Inc.	RF Micro Devices, Inc.
IBM Corporation	Silicon Integrated Systems Corp.
Koninklijke Philips Electronics N.V.	STMicroelectronics N.V.
LSI Logic Corporation	VIA Technologies, Inc.
Motorola, Inc.	

Strategy

Our objective is to provide leading-edge semiconductor packaging and testing services which set industry standards and to lead and facilitate the industry trend towards outsourcing semiconductor manufacturing requirements. The principal elements of our strategy are to:

- maintain our focus on providing a complete range of semiconductor packaging and testing services;
- continue to focus on advanced technological, processing and materials capabilities;
- strategically expand production capacity;
- continue to leverage our presence in key centers of semiconductor and electronics manufacturing; and
- strengthen and develop strategic relationships with providers of complementary manufacturing services.

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Our Corporate Structure

The following chart illustrates our corporate structure and our effective equity interest in each of our principal operating subsidiaries and affiliates as of March 31, 2003. The following chart does not include wholly-owned intermediate holding companies.

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- (1) The common shares of ASE Inc. are listed on the Taiwan Stock Exchange under the symbol 2311 . The ADSs of ASE Inc. are listed on the New York Stock Exchange under the symbol ASX .
 - (2) The ordinary shares of ASE Test Limited are quoted for trading on the Nasdaq National Market under the symbol ASTSF . ASE Test s Taiwan depositary shares, which represent its ordinary shares, are listed for trading on the Taiwan Stock Exchange under the symbol 9101 .
 - (3) The common shares of Universal Scientific Industrial Co., Ltd. are listed on the Taiwan Stock Exchange under the symbol 2350 .
 - (4) The common shares of Hung Ching Development & Construction Co. Ltd. are listed on the Taiwan Stock Exchange under the symbol 2527 .
 - (5) The remaining shares of ASE Material Inc. are owned by the management and employees of ASE Material Inc., the management and employees of ASE Inc. and its affiliates, as well as a strategic investor.

We are incorporated under the laws of the Republic of China. Our principal executive offices are located at 26 Chin Third Road, Nantze Export Processing Zone, Nantze, Kaohsiung, Taiwan, Republic of China and our telephone number at the above address is (8867) 361-7131.

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The Offering

The following information assumes that the underwriter does not exercise the overallotment option granted by ASE Capital Inc., or ASE Capital, a wholly-owned subsidiary of ASE Inc., unless otherwise indicated. Please see Underwriting .

Offering price	US\$2.65 per ADS
Selling shareholders	The selling shareholders are ASE Investment Inc., or ASE Investment, and ASE Capital, both of which are our wholly-owned subsidiaries. If the underwriter's option to purchase additional ADSs is exercised, ASE Capital will also sell additional ADSs in this offering.
ADSs offered by the selling shareholders	28,757,600 ADSs
ADSs outstanding as of March 31, 2003	10,323,893 ADSs
Common shares outstanding after this offering	3,254,800,000 common shares
ADS : common share ratio	1 : 5
Overallotment option	ASE Capital has granted the underwriter an option, exercisable within 30 days from the date hereof, to purchase up to an additional 4,000,000 ADSs, solely to cover overallotments, if any.
Trading market for the common shares	The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since 1989 under the symbol 2311 .
New York Stock Exchange symbol for ADSs	ASX
Use of proceeds	We will receive all of the net proceeds from the sale of ADSs by the selling shareholders, which will be approximately US\$72.5 million, after we deduct underwriting and estimated offering expenses. If the underwriter's overallotment option is exercised in full, we will receive all of the net proceeds from the sale of 4,000,000 additional ADSs by ASE Capital, which will be approximately US\$10.2 million, after we deduct underwriting and estimated offering expenses. We intend to use the net proceeds to reduce or retire our indebtedness and for working capital and general corporate purposes. See Use of Proceeds .

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Timing and settlement for ADSs The ADSs are expected to be delivered against payment on June 4, 2003. The ADRs evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by DTC and its direct and indirect participants.

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The summary consolidated income statement data and cash flow data for the years ended December 31, 2000, 2001 and 2002 and the summary consolidated balance sheet data as of December 31, 2001 and 2002 set forth below are derived from our audited consolidated financial statements included in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes to these consolidated financial statements. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The summary consolidated income statement data and cash flow data for the years ended December 31, 1998 and 1999 and the summary consolidated balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from our audited consolidated financial statements not included in this prospectus. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differ in some material respects from US GAAP. Please see notes 26 and 27 to our consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these consolidated financial statements.

As of and for the Year Ended December 31,

	1998	1999	2000	2001	2002	2002
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
(in millions, except share, ADS and earnings per share and per ADS data)						
ROC GAAP:						
Income Statement Data:						
Net revenues	20,762.4	32,609.6	50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues	(15,468.1)	(23,959.6)	(35,567.3)	(32,957.0)	(38,492.2)	(1,109.2)
Gross profit	5,294.3	8,650.0	15,326.1	5,410.8	7,094.6	204.5
Total operating expenses	(2,453.4)	(3,801.4)	(5,449.0)	(5,872.9)	(7,779.8)	(224.2)
Operating income (loss)	2,840.9	4,848.6	9,877.1	(462.1)	(685.2)	(19.7)
Net non-operating income (expense)	(859.6)	4,213.8	(1,473.5)	(2,523.4)	(2,024.5)	(58.4)
Income tax benefit (expense)	150.8	(459.5)	(1,065.8)	199.2	1,140.3	32.9
Income before acquisition		(65.1)				
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary	(528.1)	(743.1)	(1,500.6)	788.7	1,733.0	49.9
Net income (loss)	1,604.0	7,794.7	5,837.2	(2,142.2)	129.0	3.7
Earnings per common share:						
Basic(1)	0.51	2.49	1.84	(0.66)	0.04	0.00
Diluted(1)	0.49	2.45	1.80	(0.66)	0.04	0.00
Dividends per common share(2)	7.20	1.07	3.15	1.70		
Earnings per pro forma equivalent ADS:						
Basic(1)	2.56	12.43	9.22	(3.29)	0.21	0.01
Diluted(1)	2.43	12.27	9.01	(3.29)	0.21	0.01
Number of common shares(3)	3,135,196,466	3,135,196,466	3,166,809,827	3,254,800,000	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs	627,039,293	627,039,293	633,361,965	650,960,000	618,135,645	618,135,645
Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	8,173.9	11,809.1	14,166.5	11,770.7	10,381.9	299.2
Short-term investments	647.2	216.3	1,682.7	4,601.2	2,038.0	58.7
Notes and accounts receivable	3,636.7	7,463.4	9,260.6	7,126.1	8,998.5	259.3
Inventories	1,744.8	2,449.7	3,246.3	2,768.4	3,131.7	90.3
Other	771.9	1,411.8	2,431.6	3,383.2	2,481.7	71.5

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Total	14,974.5	23,350.3	30,787.7	29,649.6	27,031.8	779.0
Long-term investments	7,317.0	9,674.4	10,712.2	9,530.4	6,566.7	189.3
Properties	20,356.8	38,107.5	60,566.2	60,555.1	63,088.9	1,818.1
Other assets	1,125.9	952.8	1,275.6	1,342.3	2,640.2	76.1
Consolidated debits	3,237.3	5,245.8	4,999.5	5,248.9	5,541.8	159.7
Total assets	47,011.5	77,330.8	108,341.2	106,326.3	104,869.4	3,022.2
Short-term bank borrowings/loans(4)	6,810.2	9,868.2	13,768.0	13,983.1	13,453.8	387.8
Long-term bank borrowings/loans(5)	12,235.0	24,551.5	25,976.9	30,674.3	30,553.7	880.5
Other liabilities and minority interest	6,091.5	12,854.1	24,927.1	19,722.6	21,431.2	617.6
Total liabilities and minority interest	25,136.7	47,273.8	64,672.0	64,380.0	65,438.7	1,885.9
Shareholders equity	21,874.8	30,057.0	43,669.2	41,946.3	39,430.7	1,136.3

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As of and for the Year Ended December 31,

	1998	1999	2000	2001	2002	2002
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except share, ADS and earnings per share and per ADS data)					
Other Data:						
Net cash outflow from acquisition of fixed assets	(6,945.0)	(9,869.2)	(30,063.6)	(11,565.7)	(12,657.9)	(364.8)
Depreciation and amortization	3,237.2	5,554.4	8,593.8	11,127.3	12,286.3	354.1
Net cash inflow (outflow) from operations	5,194.2	7,017.2	17,459.9	11,578.4	11,313.8	326.0
Net cash inflow (outflow) from sale of investments	290.5	7,889.3				
Net cash inflow (outflow) from investing activities(6)	(8,558.3)	(11,782.7)	(33,392.0)	(15,051.2)	(13,167.2)	(379.5)
Net cash inflow (outflow) from financing activities(7)	589.3	8,569.0	17,607.3	603.5	530.5	15.3
Segment Data:						
Net revenues:						
Packaging	16,867.4	24,523.0	38,028.8	28,898.2	35,515.4	1,023.5
Testing	3,131.3	7,793.2	12,768.4	9,459.2	10,060.6	289.9
Other	763.7	293.4	96.2	10.4	10.8	0.3
Gross profit:						
Packaging	3,693.8	5,753.0	10,016.9	4,625.8	6,255.4	180.3
Testing	1,484.6	3,105.2	5,294.4	782.8	841.2	24.2
Other	115.9	(208.2)	14.8	2.2	(2.0)	(0.0)
US GAAP:						
Income Statement Data:						
Net revenues			50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues			37,081.2	34,538.3	39,308.2	1,132.8
Gross profit			13,812.2	3,829.5	6,278.6	180.9
Total operating expenses			5,820.8	6,209.9	9,294.2	267.8
Operating income (loss)			7,991.4	(2,380.4)	(3,015.6)	(86.9)
Net non-operating income (expense)			(1,502.5)	(2,511.8)	(2,747.7)	(79.2)
Income tax benefit (expense)			(1,059.2)	206.2	1,151.1	33.2
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary			(1,499.7)	784.0	1,572.5	45.3
Net income (loss)			3,930.0	(4,046.6)	(3,074.3)	(88.6)
Earnings per common share:						
Basic(1)			1.34	(1.32)	(0.99)	(0.03)
Diluted(1)			1.29	(1.32)	(0.99)	(0.03)
Earnings per pro forma equivalent ADS:						
Basic(1)			6.69	(6.59)	(4.97)	(0.14)
Diluted(1)			6.47	(6.59)	(4.97)	(0.14)
Number of common shares(8)			2,938,004,535	3,071,234,458	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs			587,600,907	614,246,892	618,135,645	618,135,645
Balance Sheet Data:						
Current Assets						
Cash and cash equivalents				11,770.7	10,381.9	299.2
Short-term investments				4,642.1	2,040.0	58.8
Notes and accounts receivable				7,126.1	8,998.5	259.3
Inventories				2,768.4	3,131.7	90.3
Other				3,383.2	2,481.7	71.5

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Total	29,690.5	27,033.8	779.1
Long-term investments	6,608.3	5,609.3	161.7
Properties	60,363.1	62,797.4	1,809.7
Other assets	1,371.0	2,679.7	77.2
Consolidated debits	4,331.6	3,227.0	93.0
	<u> </u>	<u> </u>	<u> </u>
Total assets	102,364.5	101,347.2	2,920.7
	<u> </u>	<u> </u>	<u> </u>
Short-term bank borrowings/loans(4)	13,983.1	13,453.8	387.7
Long-term bank borrowings/loans(5)	30,674.3	30,553.7	880.5
Other liabilities and minority interest	19,746.8	21,622.9	623.2
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and minority interest	64,404.2	65,630.4	1,891.4
	<u> </u>	<u> </u>	<u> </u>
Shareholders' equity	37,960.3	35,716.8	1,029.3

- (1) The numerator of both basic and diluted earnings per share is calculated with consideration of the adjustment of ASE Test's basic and diluted earnings per share. See notes 19 and 27(i) to our consolidated financial statements.
- (2) Dividends per common share issued as a stock dividend.
- (3) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends and employee stock bonuses. Beginning in 2002, common shares held by consolidated subsidiaries are classified for accounting purposes as treasury stock, and are deducted from the number of common shares outstanding.
- (4) Includes current portions of long-term debt and long-term payable for investments.
- (5) Excludes current portion of long-term debt and long-term payable for investments.
- (6) Includes proceeds from the sale of common shares, including common shares represented by global depository shares, by affiliates of ASE Inc. and proceeds from the sale of ordinary shares of ASE Test by ASE Inc.
- (7) Includes proceeds from primary offerings of common shares represented by ADSs by ASE Inc., and of ordinary shares by ASE Test.
- (8) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends.

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We regularly release unaudited summary consolidated financial information as of and for the three months ended March 31, June 30 and September 30. Such financial information is prepared in accordance with generally accepted accounting principles in the Republic of China, or ROC GAAP, which differ in some material respects from generally accepted accounting principles in the United States, or US GAAP. For a discussion of the principal differences between ROC GAAP and US GAAP, see notes 26 and 27 to our consolidated financial statements included elsewhere in this prospectus. Furthermore, the unaudited summary quarterly consolidated financial information is generated internally by us, is not subject to the same review and scrutiny, including internal auditing procedures and review by independent auditors, to which we subject our audited unconsolidated semi-annual and annual financial statements and our audited consolidated annual financial statements. As the unaudited summary quarterly consolidated financial information is neither audited nor reviewed, it may vary materially from our audited consolidated financial information for the same period. Any evaluation of the unaudited summary consolidated financial information presented in this prospectus should also take into account our audited consolidated financial statements and the notes to those statements included elsewhere in this prospectus. In addition, the quarterly financial information presented is not necessarily indicative of our results for any future periods.

The following table sets forth certain unaudited summary consolidated income statement data for the three months ended March 31, 2002 and 2003 and unaudited summary consolidated balance sheet data as of March 31, 2002 and 2003.

Unaudited Summary Consolidated Financial Information

	As of and for the Three Months Ended March 31,	
	2002	2003
	NT\$	NT\$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
ROC GAAP:		
Income Statement Data:		
Net revenues:		
Packaging	7,814.6	9,021.5
Testing	2,227.4	2,534.7
Others	1.7	28.2
	10,043.7	11,584.4
Cost of revenues	8,795.8	10,073.3
Gross Profit	1,247.9	1,511.1
Operating expenses:		
Selling	206.6	257.2
General and administrative(1)	640.3	705.8
Goodwill amortization(2)	204.9	206.4
Research and development	421.7	543.0
Total operating expenses	1,473.5	1,712.4
Operating income (loss)	(225.6)	(201.3)

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	As of and for the Three Months Ended March 31,	
	2002	2003
	NT\$	NT\$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
Net non-operating (income) expense:		
Interest expense net(3)	443.9	388.6
Foreign exchange loss (gain) net	3.2	14.2
Loss (income) on long-term investment net(1)(4)	71.0	95.9
Loss (gain) on disposal of assets net	16.4	53.5
Others net(5)	(143.0)	(43.0)
	<u>391.5</u>	<u>509.2</u>
Total net non-operating expense	391.5	509.2
Income (loss) before tax	(617.1)	(710.5)
Income tax expense (benefit)	(109.3)	(7.6)
Income (loss) before minority interest	(507.8)	(702.9)
Minority interest	(277.5)	(354.9)
Net income (loss)	(230.3)	(348.0)
Earnings per common share:		
Basic(6)	(0.07)	(0.11)
Diluted(6)	(0.07)	(0.11)
Earnings per pro forma equivalent ADS:		
Basic(6)	(0.37)	(0.56)
Diluted(6)	(0.37)	(0.56)
Number of common shares(7)	3,090,678	3,090,678
Number of pro forma equivalent ADSs	618,136	618,136
Balance Sheet Data:		
Current assets:		
Cash and cash equivalents	10,079.8	12,019.1
Short-term investments	5,344.2	2,578.3
Notes and accounts receivable	7,360.0	8,353.5
Inventories	2,640.6	3,169.9
Other	3,621.1	1,971.7
	<u>29,045.7</u>	<u>28,092.5</u>
Total	29,045.7	28,092.5
Long-term investments	6,834.0	6,471.4
Properties	59,850.9	64,503.6
Other assets	7,449.5	8,362.1
	<u>103,180.1</u>	<u>107,429.6</u>
Total assets	103,180.1	107,429.6

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	As of and for the Three Months Ended March 31,	
	2002	2003
	NT\$	NT\$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
Current liabilities:		
Short-term debt revolving credit	8,006.1	6,719.9
Short-term debt current portion of long-term debt	3,268.5	5,996.4
Convertible bond payable current portion	3,140.9	
Notes and accounts payable	3,069.3	3,823.7
Other	5,635.4	8,735.9
	<u>23,120.2</u>	<u>25,275.9</u>
Total		
Long-term debt(8)	21,256.6	25,236.0
Convertible bond payable	4,908.3	5,303.7
Other liabilities	3,216.2	2,814.4
	<u>52,501.3</u>	<u>58,630.0</u>
Total liabilities		
Minority interest	11,612.2	9,694.8
Shareholders equity	39,066.6	39,104.8
	<u>103,180.1</u>	<u>107,429.6</u>
Total liabilities and shareholders equity		

(1) Excludes goodwill amortization for purpose of this table only.

(2) Included in general and administrative expense in our consolidated financial statements.

(3) Derived by netting interest in non-operating income and interest in non-operating expenses in our consolidated financial statements.

(4) Derived by netting investment income under equity method in non-operating income and investment loss under equity method in non-operating expenses in our consolidated financial statements.

(5) Derived by netting others in non-operating income and others in non-operating expenses in our consolidated financial statements.

(6) The numerator of both basic and diluted earnings per share is calculated with consideration of the adjustment of ASE Test's basic and diluted earnings per share. See notes 19 and 27(i) to our consolidated financial statements.

(7) Represents the weighted average number of shares. Beginning in 2002, common shares held by consolidated subsidiaries are classified for accounting purposes as treasury stock, and are deducted from the number of common shares outstanding.

(8) Excludes current portion of long-term debt and long-term payable for investments.

Three Months Ended March 31, 2003 (unaudited) Compared to Three Months Ended March 31, 2002 (unaudited)

Net Revenues. Net revenues increased 15.3% to NT\$11,584.4 million in the three months ended March 31, 2003 from NT\$10,043.7 million in the comparable period in 2002. Packaging revenues increased 15.4% to NT\$9,021.5 million in the three months ended March 31, 2003 from NT\$7,814.6 million in the comparable period in 2002. Testing revenues increased 13.8% to NT\$2,534.7 million in the

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three months ended March 31, 2003 from NT\$2,227.4 million in the comparable period in 2002. The increase in packaging revenues was primarily due to an increase in packaging volume as well as an increase in the average selling prices for packaging services. The increase in testing revenues was primarily due to an increase in testing volume, which was partially offset by a decrease in the average selling prices for testing services. The increase in packaging and testing volume resulted primarily from the modest recovery in the semiconductor

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industry since the second quarter of 2002, tempered in part by adverse global political and economic conditions in the first quarter of 2003.

Gross Profit. Gross profit increased 21.1% to NT\$1,511.1 million in the three months ended March 31, 2003 from NT\$1,247.9 million in the comparable period in 2002. Our gross margin increased to 13.0% in the three months ended March 31, 2003 compared to 12.4% in the comparable period in 2002, primarily as a result of a decrease in depreciation expense partially offset by increases in raw material and labor costs, all as a percentage of net revenues. Our gross margin for packaging decreased to 12.9% in the three months ended March 31, 2003 from 16.4% in the comparable period in 2002, primarily due to increases in labor and raw material costs all as a percentage of packaging revenues. Our gross margin for testing increased to 14.0% in the three months ended March 31, 2003 from a negative 1.5% in the comparable period in 2002, primarily due to a decrease in depreciation expense as a percentage of testing revenues. Raw material costs in the three months ended March 31, 2003 were NT\$3,582.7 million, or 30.9% of net revenues, compared to NT\$2,995.1 million, or 29.8% of net revenues, in the comparable period in 2002. The increase in raw material costs was primarily due to the increased portion of our packaging revenues accounted for by more advanced package types that carry proportionately higher material costs per package. Labor costs in the three months ended March 31, 2003 were NT\$1,924.5 million, or 16.6% of net revenues, compared to NT\$1,501.9 million, or 15.0% of net revenues, in the comparable period in 2002. The increase in labor costs was largely a result of an increase in the number of our employees for both direct and indirect labor in anticipation of increased packaging and testing volume. Depreciation expense in the three months ended March 31, 2003 was NT\$2,891.3 million, compared to NT\$2,809.7 million in the comparable period in 2002. As a percentage of net revenues, depreciation expense decreased to 25.0% in the three months ended March 31, 2003 from 28.0% in the comparable period in 2002, principally as a result of increased net revenues.

Operating Income (Loss). We incurred an operating loss of NT\$201.3 million in the three months ended March 31, 2003, compared to an operating loss of NT\$225.6 million in the comparable period in 2002. Operating margin increased to a negative 1.7% in the three months ended March 31, 2003, compared to a negative 2.2% in the comparable period in 2002. Operating expenses increased 16.2% to NT\$1,712.4 million in the three months ended March 31, 2003, compared to NT\$1,473.5 million in the comparable period in 2002. The increase in operating expenses was primarily due to higher research and development, selling, and general and administrative expenses. Research and development expenses increased 28.8% to NT\$543.0 million in the three months ended March 31, 2003 from NT\$421.7 million in the comparable period in 2002. This increase was primarily a result of an increase in the number of our research and development employees. Research and development expenses accounted for 4.7% of our net revenues in the three months ended March 31, 2003, compared to 4.2% of our net revenues in the comparable period in 2002. Selling expense increased 24.5% to NT\$257.2 million in the three months ended March 31, 2003 from NT\$206.6 million in the comparable period in 2002. This increase was primarily due to increased commission and fee payments to our sales and customer service agents. Selling expense represented 2.2% of our net revenues in the three months ended March 31, 2003, compared to 2.1% in the comparable period in 2002. General and administrative expense, excluding goodwill amortization, increased 10.2% to NT\$705.8 million in the three months ended March 31, 2003 from NT\$640.3 million in the comparable period in 2002, primarily due to increased salaries and bonuses. General and administrative expense, excluding goodwill amortization, represented 6.1% of our net revenues in the three months ended March 31, 2003, compared to 6.4% in the comparable period in 2002. Goodwill amortization expense remained relatively unchanged at NT\$206.4 million in the three months ended March 31, 2003 compared to NT\$204.9 million in the comparable period in 2002. Goodwill amortization expense represented 1.8% of our net revenues in the three months ended March 31, 2003, compared to 2.0% in the comparable period in 2002.

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Net Non-Operating Income (Expense). We recorded a net non-operating loss of NT\$509.2 million in the three months ended March 31, 2003, compared to a net non-operating loss of NT\$391.5 million in the comparable period in 2002, primarily as a result of a decrease in other net non-operating income and increases in net loss on disposal of assets and net loss on long-term investment, partially offset by a decrease in net interest expense. Other non-operating income decreased 69.9% to NT\$43.0 million in the three months ended March 31, 2003 from NT\$143.0 million in the comparable period in 2002. This decrease was primarily due to a decrease in gain on short-term investments. We recorded a net loss of NT\$53.5 million on disposal of assets in the three months ended March 31, 2003, compared to NT\$16.4 million in the comparable period in 2002, primarily due to a provision of NT\$62.3 million for idle assets of ASE Korea. Net loss on long-term investment increased 35.1% to NT\$95.9 million in the three months ended March 31, 2003 from NT\$71.0 million in the comparable period in 2002, primarily as a result of a loss of NT\$82.7 million in our investment in Hung Ching, partially offset by a decrease of investment loss of NT\$39.3 million from Universal Scientific. Net interest expense decreased 12.5% to NT\$388.6 in the three months ended March 31, 2003 from NT\$443.9 million in the comparable period in 2002, primarily due to lower interest rates achieved through the refinancing of certain of our bank loans.

Net Income (Loss). As a result of the foregoing, we had a loss before minority interest of NT\$702.9 million in the three months ended March 31, 2003, compared to a loss before minority interest of NT\$507.8 million in the comparable period in 2002. After excluding minority interest in the net losses of our subsidiaries of NT\$354.9 million, we had a net loss of NT\$348.0 million in the three months ended March 31, 2003. In the three months ended March 31, 2002, we recorded a net loss, after excluding minority interest in the net loss of our subsidiaries of NT\$277.5 million, of NT\$230.3 million. The net loss per ADS was NT\$0.56 in the three months ended March 31, 2003 compared with a net loss of NT\$0.37 per ADS in the comparable period in 2002. We had an income tax benefit of NT\$7.6 million in the three months ended March 31, 2003, compared to an income tax benefit of NT\$109.3 million in the comparable period in 2002, primarily as a result of reduced tax credits for losses incurred by ISE Labs.

Liquidity and Capital Resources

As of March 31, 2003, we had an aggregate of NT\$14,597.4 million in cash and cash equivalents and short-term investments, compared to NT\$15,424.0 million as of March 31, 2002. As of March 31, 2003, we had total bank borrowings of NT\$37,952.3 million, comprising NT\$6,719.9 million of revolving working capital loans, NT\$5,996.4 million of current portion of long-term debt and NT\$25,236.0 million of long-term debt, less current portion. As of March 31, 2003, we had unused lines of credit of NT\$13,527.7 million, including NT\$10,255.8 million in short-term lines of credit.

Quarterly Net Revenues, Gross Profit and Gross Margin

Our results of operations for the three months ended March 31, 2003 were adversely affected by global political and economic conditions and, to a lesser extent, seasonality when compared to the immediately preceding quarter. Our quarterly results of operations are subject to significant fluctuations. See Risk Factors Risks Relating to Our Business Our operating results are subject to significant fluctuations, which could adversely affect the value of your investment and Management's Discussion and Analysis of Financial Condition and Results of Operations Quarterly Net Revenues, Gross Profit and Gross Margin .

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical with investments in the shares of U.S. companies. Before making an investment decision, you should carefully consider all of the information contained in this prospectus, including the following risk factors.

Risks Relating to Our Business

Since we are dependent on the highly cyclical semiconductor industry and conditions in the markets for the end-use applications of our products, our revenues and earnings may fluctuate significantly.

Our semiconductor packaging and testing business is affected by market conditions in the highly cyclical semiconductor industry. All of our customers operate in this industry, and variations in order levels from our customers and service fee rates may result in volatility in our revenues and earnings. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns. As our business is, and will continue to be, dependent on the requirements of semiconductor companies for independent packaging and testing services, any future downturn in the semiconductor industry would reduce demand for our services. For example, a worldwide slowdown in demand for semiconductors led to excess capacity and increased competition beginning in early 1998. As a result, price declines in 1998 accelerated more rapidly and, together with a significant decrease in demand, adversely affected our operating results in 1998. Prices for packaging and testing services improved due to an upturn in the industry in the second half of 1999 that continued through the third quarter of 2000, but have fallen since an industry downturn that commenced in the fourth quarter of 2000. This most recent worldwide downturn resulted in an even more significant deterioration in the average selling prices, as well as demand, for our services in 2001, and significantly and adversely affected our operating results in 2001. Although there has been a modest recovery in the semiconductor industry during 2002, we expect the market conditions to continue to exert downward pressure on the average selling prices for our packaging and testing services. If we cannot reduce our costs to sufficiently offset any decline in average selling prices, our profitability will suffer and we may incur losses.

Market conditions in the semiconductor industry depend to a large degree on conditions in the markets for the end-use applications of semiconductor products, such as communications, personal computer and consumer electronics products. Any deterioration of conditions in the markets for the end-use applications of the semiconductors we package and test would reduce demand for our services, and would likely have a material adverse effect on our financial condition and results of operations. In 2001 and 2002, approximately 71.5% and 69.8% of our net revenues, respectively, were attributable to the packaging and testing of semiconductors used in personal computer and communications applications. Both industries are subject to intense competition and significant shifts in demand, which could put pricing pressure on the packaging and testing services provided by us and adversely affect our revenues and earnings.

A reversal or slowdown in the outsourcing trend for semiconductor packaging and testing services could adversely affect our growth prospects and profitability.

In recent years, semiconductor manufacturers that have their own in-house packaging and testing capabilities, known as integrated device manufacturers, have increasingly outsourced stages of the semiconductor production process, including packaging and testing, to independent companies to reduce costs and shorten production cycles. In addition, the availability of advanced independent semiconductor manufacturing services has also enabled the growth of so-called fabless semiconductor companies that focus exclusively on design and marketing, and

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that outsource their manufacturing, packaging and testing requirements to independent companies. We cannot assure you that these integrated device manufacturers and fabless semiconductor companies will continue to outsource their packaging and testing requirements to third parties like us. A reversal of, or a slowdown in, this outsourcing trend could result in reduced demand for our services and adversely affect our growth prospects and profitability.

If we are unable to compete favorably in the highly competitive semiconductor packaging and testing markets, our revenues and earnings may decrease.

The semiconductor packaging and testing markets are very competitive. We face competition from a number of sources, including other independent semiconductor packaging and testing companies, especially those which offer turnkey packaging and testing services. We believe that the principal competitive factors in the markets for our products and services are:

ability to provide total solutions to customers;

technological expertise;

range of package types and testing platforms available;

ability to work closely with customers at the product development stage;

responsiveness and flexibility;

capacity;

production cycle time;

production yield; and

price.

We face increasing competition from other packaging and testing companies, as most of our customers obtain packaging or testing services from more than one source. In addition, some of our competitors may have access to more advanced technologies and greater financial and other resources than we do. Many of our competitors have shown a willingness to quickly and sharply reduce prices, as they did in 1998 and in 2001, in order to maintain capacity utilization in their facilities during periods of reduced demand. Although prices have stabilized, any renewed erosion in the prices for our packaging and testing services could cause our revenues and earnings to decrease and have a material adverse effect on our financial condition and results of operations.

The outbreak of Severe Acute Respiratory Syndrome, or SARS, in mainland China, Hong Kong, Singapore, Taiwan and certain other regions may have an adverse effect on the economies and financial markets of certain Asian countries and as a result may adversely affect our results of operations.

In March 2003, mainland China, Hong Kong, Singapore and certain other regions in Asia encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. Since April 2003, the outbreak of SARS has spread to certain other regions, including Taiwan. According to the World Health Organization, as of May 31, 2003, 8,360 cases of SARS and 764 deaths have been reported worldwide, including 676 cases and 81 deaths in Taiwan. In response to the severity of the SARS outbreak in certain regions, the World Health Organization issued a travel advisory recommending that persons traveling to certain regions, including much of mainland China and Taiwan, consider postponing all but essential travel. As a result, the SARS outbreak may restrict the level of economic activity in the affected areas, which may adversely affect our business and prospects.

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While the long-term impact of the SARS outbreak is unclear at this time, the prolonged existence of the SARS outbreak, or the perception that the SARS outbreak has not been contained, may have an adverse effect on the economic conditions of certain regions in Asia. Each of the governments of Hong Kong, Singapore and the ROC has recently revised downward its gross domestic product growth forecasts for 2003 due to SARS. As a result, the economic fallout of the SARS outbreak may result in a decrease in the demand for our packaging and testing services. In addition, our production operations and that of our suppliers or customers may be seriously interrupted due to the SARS outbreak or the measures taken by the respective government of the ROC, Hong Kong, Singapore, the PRC or other regions against SARS.

Our profitability depends on our ability to respond to rapid technological changes in the semiconductor industry.

The semiconductor industry is characterized by rapid increases in the diversity and complexity of semiconductors. As a result, we expect that we will need to constantly offer more sophisticated packaging and testing technologies and processes in order to respond to competitive industry conditions and customer requirements. If we fail to develop, or obtain access to, advances in packaging or testing technologies or processes, we may become less competitive and less profitable. In addition, advances in technology typically lead to declining average selling prices for semiconductors packaged or tested with older technologies or processes. As a result, if we cannot reduce the costs associated with our services, the profitability on a given service, and our overall profitability, may decrease over time.

Our operating results are subject to significant fluctuations, which could adversely affect the market value of your investment.

Our operating results have varied significantly from period to period and may continue to vary in the future. Downward fluctuations in our operating results may result in decreases in the market price of our ADSs and common shares. Among the more important factors affecting our quarterly and annual operating results are the following:

changes in general economic and business conditions, particularly given the cyclical nature of the semiconductor industry and the markets served by our customers;

our ability to quickly adjust to unanticipated declines or shortfalls in demand and market prices for our packaging and testing services, due to our high percentage of fixed costs;

timing of capital expenditures in anticipation of future orders;

changes in prices of our packaging and testing services;

volume of orders relative to our packaging and testing capacity;

our ability to obtain adequate packaging and testing equipment on a timely basis;

changes in costs and availability of raw materials, equipment and labor; and

earthquakes, drought and other natural disasters, as well as industrial accidents.

Due to the factors listed above, it is possible that our future operating results or growth rates may be below the expectations of research analysts and investors. If so, the market price of our ADSs and common shares, and thus the market value of your investment, may fall.

Due to our high percentage of fixed costs, we will be unable to maintain our gross margin at past levels if we are unable to achieve relatively high capacity utilization rates.

Our operations, in particular our testing operations, are characterized by relatively high fixed costs. We expect to continue to incur substantial depreciation and other expenses as a result of

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our previous acquisitions of packaging and testing equipment and facilities. Our profitability depends in part not only on absolute pricing levels for our services, but also on utilization rates for our packaging and testing equipment, commonly referred to as capacity utilization rates. In particular, increases or decreases in our capacity utilization rates can have a significant effect on gross margins since the unit cost of packaging and testing services generally decreases as fixed costs are allocated over a larger number of units. In periods of low demand, we experience relatively low capacity utilization rates in our operations due to relatively low growth in demand, which leads to reduced margins during that period. During 2001, we experienced lower than anticipated utilization rates in our operations due to a significant decline in worldwide demand for our packaging and testing services, which led to reduced margins during that period. Although our capacity utilization rates have improved recently, we cannot assure you that we will be able to maintain or surpass our past gross margin levels if we cannot consistently achieve or maintain relatively high capacity utilization rates.

If we are unable to manage our expansion effectively, our growth prospects may be limited and our future profitability may be affected.

We have significantly expanded our packaging and testing operations in recent years, and expect to continue to expand our operations in the future, including the expansion of our interconnect materials operations. In particular, we intend to provide total solutions covering all stages of the semiconductor manufacturing process to attract new customers and broaden our product range to include products packaged and tested for a variety of end-use applications. In the past, we have expanded through both internal growth and the acquisition of new operations. Rapid expansion puts strain on our managerial, technical, financial, operational and other resources. As a result of our expansion, we have implemented and will continue to need to implement additional operational and financial controls and hire and train additional personnel. Any failure to manage our growth effectively could lead to inefficiencies and redundancies and result in reduced growth prospects and profitability.

Because of the highly cyclical nature of our industry, our capital requirements are difficult to plan. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be adversely affected.

Our capital requirements are difficult to plan in our highly cyclical and rapidly changing industry. We will need capital to fund the expansion of our facilities as well as research and development activities in order to remain competitive. We believe that our existing cash and cash equivalents, short-term investments, expected cash flow from operations and existing credit lines under our short-term loan facilities will be sufficient to meet our capital expenditures, working capital, cash obligations under our existing debt and lease arrangements, and other requirements for at least the next twelve months. However, future capacity expansions or market or other developments may cause us to require additional funds. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flows;

general market conditions for financing activities by semiconductor companies; and

economic, political and other conditions in Taiwan and elsewhere.

If we are unable to obtain funding in a timely manner or on acceptable terms, our growth prospects and future profitability may decline.

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Restrictive covenants and broad default provisions in the agreements governing our existing debt may materially restrict our operations as well as adversely affect our liquidity, financial condition and results of operations.

We are a party to numerous loan and other agreements relating to the incurrence of debt, many of which include restrictive covenants and broad default provisions. In general, covenants in the agreements governing our existing debt, and debt we may incur in the future, 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 the event of a prolonged downturn in the demand for our services as a result of a downturn in the worldwide semiconductor industry or otherwise, we cannot assure you that we will be able to remain in compliance with our financial covenants which, as a result, may lead to a default. Furthermore, a default under one agreement by us or one of our subsidiaries may also trigger cross-defaults under other agreements. In the event of default, we may not be able to cure the default or obtain a waiver on a timely basis, and our operations would be significantly disrupted or harmed and our liquidity would be adversely affected. An event of default under any agreement governing our existing or future debt, if not cured or waived, would have a material adverse effect on our liquidity, financial condition and results of operations.

As a result of the reduced levels of operating cash flow due primarily to the recent downturn in the worldwide semiconductor industry, we had on occasion during 2001 failed to comply with certain financial covenants in some of our loan agreements. Such non-compliance may also have, through broadly worded cross-default provisions, resulted in default under some of the agreements governing our other existing debt. We have obtained waivers from the relevant lenders relating specifically to such non-compliance. In addition, we have repaid or refinanced all amounts owed under agreements containing cross-default provisions that we have identified which may have been triggered by such non-compliance. Such non-compliance has not had any significant effect on our ability to repay or refinance amounts due in respect of our existing debt. For these and other reasons, including our financial condition and our relationship with our lenders, no lender has to date sought and we do not believe that any of our lenders would seek to declare a default or enforce remedies in respect of our existing debt, as a result of cross-default provisions or otherwise, although we cannot provide any assurance in this regard.

We depend on select personnel and could be affected by the loss of their services.

We depend on the continued service of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. Although some of these management personnel have entered into employment agreements with us, they may nevertheless leave before the expiration of these agreements. We are not insured against the loss of any of our personnel. In particular, we may be required to increase substantially the number of these employees in connection with our expansion plans, and there is intense competition for their services in the semiconductor industry. We may not be able to either retain our present personnel or attract additional qualified personnel as and when needed. In addition, we may need to increase employee compensation levels in order to attract and retain our existing officers and employees and the additional personnel that we expect to require. A portion of the workforce at our facilities in Taiwan are foreign workers employed by us under work permits which are subject to government regulations on renewal and other terms. Consequently, our business could also suffer if the Taiwan regulations relating to the import of foreign workers were to become significantly more restrictive or if we are otherwise unable to attract or retain these workers at reasonable cost.

Criminal charges were brought in December 1998 by the district attorney for Taipei against Jason C.S. Chang, our Chairman, Richard H.P. Chang, our Vice Chairman, Chief Executive Officer and President, and Chang Yao Hung-ying, our director, and others for alleged breach of fiduciary duties owed to Hung Ching Development & Construction Co. Ltd., or Hung Ching, an

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affiliate of ASE Inc., in their capacity as directors and officer of Hung Ching relating to a sale of land. ASE Inc. is not a party to these proceedings and we do not expect that these charges will result in any liability to us. In January 2001, the District Court of Taipei rendered a judgment finding Jason C.S. Chang and Chang Yao Hung-ying guilty of forgery of corporate and other documents and breach of fiduciary duties and Richard H.P. Chang not guilty. In January 2002, the High Court of Taiwan, the Republic of China, or ROC, rendered a judgment relating to the appeal of the judgment by the District Court, and found Jason C.S. Chang and Chang Yao Hung-ying guilty and Richard H.P. Chang not guilty. In order to comply with the Singapore Companies Act, Jason C.S. Chang and Chang Yao Hung-ying have both resigned as directors of our subsidiary, ASE Test. Neither Jason C.S. Chang nor Chang Yao Hung-ying believes that he or she committed any offense in connection with such transactions, and they appealed the decision to the Supreme Court of Taiwan, ROC. On January 23, 2003, the Supreme Court reversed the judgment of the High Court with respect to Jason C.S. Chang and Chang Yao Hung-ying and remanded the case to the High Court for retrial. If a final adverse judgment is rendered against Jason C.S. Chang and Chang Yao Hung-ying, they may be required under ROC law to resign as directors of ASE Inc. and Jason C.S. Chang may be required to resign as Chairman of ASE Inc. See Business Legal Proceedings .

If we are not successful in developing and enhancing our in-house interconnect materials capabilities, our margins and profitability may be adversely affected.

We expect that we will need to offer more advanced interconnect materials designs and production processes in order to respond to competitive industry conditions and customer requirements. In particular, our competitive position will depend to a significant extent on our ability to design and produce interconnect materials that are comparable to or better than those produced by independent suppliers and others. Many of these independent suppliers have dedicated greater resources than we have for the research and development and design and production of interconnect materials. In addition, we may not be able to acquire the technology and personnel that would enable us to further develop our in-house expertise and enhance our design and production capabilities. We expect to continue making investments in our subsidiary ASE Material Inc., or ASE Material, which focuses on the design and production of interconnect materials. In particular, we intend to further develop our in-house interconnect materials capabilities with a view to sourcing a majority of our substrate requirements by value from ASE Material by the end of 2003. If we are unable to maintain and enhance our in-house interconnect materials expertise to offer advanced interconnect materials that meet the requirements of our customers, we may become less competitive and our margins and profitability may suffer as a result.

If we are unable to obtain additional packaging and testing equipment or facilities in a timely manner and at a reasonable cost, our competitiveness and future profitability may be adversely affected.

The semiconductor packaging and testing business is capital intensive and requires significant investment in expensive equipment manufactured by a limited number of suppliers. The market for semiconductor packaging and testing equipment is characterized, from time to time, by intense demand, limited supply and long delivery cycles. Our operations and expansion plans depend on our ability to obtain a significant amount of such equipment from a limited number of suppliers, including, in the case of wire bonders, Kulicke & Soffa Industries Inc., and in the case of testers, Advantest Corporation, Agilent Technologies, Inc., Credence Systems Corporation, LTX Corporation, NP Test Inc. and Teradyne, Inc. We have no binding supply agreements with any of our suppliers and acquire our packaging and testing equipment on a purchase order basis, which exposes us to changing market conditions and other substantial risks. For example, shortages of capital equipment could result in an increase in the price of equipment and longer delivery times. Semiconductor packaging and testing also requires us to

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operate sizeable facilities. If we are unable to obtain equipment or facilities in a timely manner, we may be unable to fulfill our customers' orders, which could adversely affect our growth prospects as well as financial condition and results of operations.

Fluctuations in exchange rates could result in foreign exchange losses.

Currently, the majority of our revenues from packaging and testing services are denominated in U.S. dollars and NT dollars. Our costs of revenues and operating expenses associated with packaging and testing services, on the other hand, are incurred in several currencies, primarily in NT dollars and U.S. dollars, as well as, to a lesser extent, Malaysian ringgit, Korean won, Japanese yen and Philippine pesos. In addition, a substantial portion of our capital expenditures, primarily for the purchase of packaging and testing equipment, has been, and is expected to continue to be, denominated in U.S. dollars with much of the remainder in Japanese yen. Fluctuations in exchange rates, primarily among the U.S. dollar, the NT dollar and the Japanese yen, will affect our costs and operating margins. In addition, these fluctuations could result in exchange losses and increased costs in NT dollar and other local currency terms. Despite hedging and mitigating techniques implemented by us, fluctuations in exchange rates have affected, and may continue to affect, our financial condition and results of operations.

The loss of a major customer or termination of our strategic alliance and other commercial arrangements with semiconductor foundries and providers of other complementary semiconductor manufacturing services may result in a decline in our revenues and profitability.

Although we have over 200 customers, due in part to the concentration of market share in the semiconductor industry, we have derived and expect to continue to derive a large portion of our revenues from a small group of customers during any particular period. Our five largest customers together accounted for approximately 44%, 41% and 40% of our net revenues in 2000, 2001 and of 2002, respectively. Other than Motorola, Inc. and VIA Technologies, Inc. in 2000 and 2001, and Motorola, Inc. in 2002, no other customer accounted for more than 10% of our net revenues in 2000, 2001 and 2002. The demand for our services from each customer is directly dependent upon that customer's level of business activity, which could vary significantly from year to year. The loss of a major customer may adversely affect our revenues and profitability.

Our strategic alliance with TSMC, the world's largest dedicated semiconductor foundry, as well as our other commercial arrangements with providers of other complementary semiconductor manufacturing services, enable us to offer total semiconductor manufacturing solutions to our customers. This strategic alliance and any of our other commercial arrangements may be terminated at any time. A termination of this strategic alliance and other commercial arrangements, and our failure to enter into substantially similar alliances and commercial arrangements, may adversely affect our competitiveness and our revenues and profitability.

All of our key customers operate in the cyclical semiconductor business and have varied in the past, and may vary in the future, order levels significantly from period to period. Some of these companies are relatively small, have limited operating histories and financial resources, and are highly exposed to the cyclicity of the industry. We cannot assure you that these customers or any other customers will continue to place orders with us in the future at the same levels as in prior periods. The loss of one or more of our significant customers, or reduced orders by any one of them, and our inability to replace these customers or make up for such orders could reduce our profitability. In addition, we have in the past reduced, and may in the future be requested to reduce, our prices to limit the level of order cancellations. Any price reduction would likely reduce our margins and profitability.

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We depend on our agents for sales and customer service in North America and Europe. Any serious interruption in our relationship with these agents, or substantial loss in their effectiveness, could significantly reduce our revenues and profitability.

We depend on non-exclusive agents for sales and customer service in North America and Europe. Our sales agents help us identify customers, monitor delivery acceptance and payment by customers and, within parameters set by us, help us negotiate price, delivery and other terms with our customers. Purchase orders are placed directly with us by our customers. Our customer service agents provide customer service and after-sales support to our customers.

Currently, our sales and customer service agents perform services only for us and our subsidiaries but they are not owned or controlled by us. These agents are free to perform sales and support services for others, including our competitors. In particular, we may not be able to find an adequate replacement for these agents or to develop sufficient capabilities internally on a timely basis. Any serious interruption in our relationship with these agents or substantial loss in their effectiveness in performing their sales and customer service functions could significantly reduce our revenues and profitability.

Our revenues and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at a reasonable price.

Our packaging operations require that we obtain adequate supplies of raw materials on a timely basis. Shortages in the supply of raw materials experienced by the semiconductor industry have in the past resulted in occasional price increases and delivery delays. For example, in 1999 and the first half of 2000, the industry experienced a shortage in the supply of advanced substrates used in ball grid array, or BGA, packaging. We established ASE Material in 1997 to partially reduce this risk. However, we do not expect ASE Material to supply all of our raw materials requirements. Consequently, we will remain dependent on market supply and demand for our raw materials. We cannot assure you that we will be able to obtain adequate supplies of raw materials in a timely manner and at a reasonable price. Our revenues and earnings could decline if we were unable to obtain adequate supplies of high quality raw materials in a timely manner or if there were significant increases in the costs of raw materials that we could not pass on to our customers.

Any environmental claims or failure to comply with any present or future environmental regulations may require us to spend additional funds and may materially and adversely affect our financial condition and results of operations.

We are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of chemical by-products of, and water used in, our packaging and interconnect materials production process. Although we have not suffered material environmental claims in the past, the failure to comply with any present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of our operations. New regulations could require us to acquire costly equipment or to incur other significant expenses. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that may have a material adverse effect on our financial condition and results of operations.

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Our controlling shareholders may take actions that are not in, or may conflict with, our public shareholders' best interest.

Members of the Chang family own, directly or indirectly, a controlling interest in our outstanding common shares. See "Principal Shareholders". Accordingly, these shareholders will continue to have the ability to exercise a controlling influence over our business, including matters relating to:

our management and policies;

the timing and distribution of dividends; and

the election of our directors and supervisors.

Members of the Chang family may take actions that you may not agree with or that are not in our or our public shareholders' best interests.

We are a ROC company and, because the rights of shareholders under ROC law differ from those under U.S. law, you may have difficulty protecting your shareholder rights.

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the Republic of China. The rights of shareholders and the responsibilities of management and the members of the board of directors under ROC law are different from those applicable to a corporation incorporated in the United States. As a result, public shareholders of ROC companies may have more difficulty in protecting their interest in connection with actions taken by management or members of the board of directors than they would as public shareholders of a U.S. corporation.

Any impairment charges required under US GAAP may have a material adverse effect on our financial condition and results of operations on a US GAAP reconciled basis.

Under currently effective US GAAP, we are required to evaluate our equipment, goodwill and other long-lived assets for impairment whenever there is an indication of impairment. If certain criteria are met, we are required to record an impairment charge. We can give no assurance that impairment charges will not be required in periods subsequent to December 31, 2002.

As a result of new standards under US GAAP that became effective on January 1, 2002, we are no longer permitted to amortize remaining goodwill. Total goodwill amortization expense amounted to NT\$815.6 million (US\$23.5 million) under ROC GAAP for the year ended December 31, 2002. Starting from January 2002, all goodwill must be periodically tested for impairment under US GAAP. As a result of our impairment test as of December 31, 2002, we wrote off the remaining goodwill associated with our purchase of shares of ASE Test of NT\$2,213.0 million (US\$63.8 million) under US GAAP. As of December 31, 2002, goodwill under US GAAP amounted to NT\$3,227.1 million (US\$93.0 million). We currently are not able to estimate the extent and timing of any goodwill impairment charge for future years. Any goodwill impairment charge required under US GAAP may have a material adverse effect on our financial condition and results of operations on a US GAAP reconciled basis.

The determination of an impairment charge at any given time is based significantly on our expected results of operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed.

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Risks Relating to Taiwan, Republic of China

Strained relations between the Republic of China and the People's Republic of China could negatively affect our business and the market value of your investment.

Our principal executive offices and our principal packaging and testing facilities are located in Taiwan and approximately 77% of our net revenues in 2002 were derived from our operations in Taiwan. The Republic of China has a unique international political status. The People's Republic of China asserts sovereignty over all of China, including Taiwan. The People's Republic of China government does not recognize the legitimacy of the Republic of China government. Although significant economic and cultural relations have been established in recent years between the Republic of China and the People's Republic of China, relations have often been strained and the government of the People's Republic of China has indicated that it may use military force to gain control over Taiwan in some circumstances, such as the declaration of independence by the Republic of China. Relations between the Republic of China and the People's Republic of China have been particularly strained in recent years. Past developments in relations between the Republic of China and the People's Republic of China have on occasion depressed the market price of the securities of ROC companies. Relations between the Republic of China and the People's Republic of China and other factors affecting the political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our ADSs and common shares.

In July 2000, our shareholders approved a resolution which authorized our board of directors to make investments in the People's Republic of China. However, the Republic of China government currently restricts certain types of investments by ROC companies in the People's Republic of China, including investments in facilities for the packaging and testing of semiconductors. We do not know when or if such laws and policies governing investment in the People's Republic of China will be amended, and we cannot assure you that any such amendments to the Republic of China investment laws and policies will permit us to make an investment that we consider beneficial to us in the People's Republic of China in the future. As a result, our growth prospects and profitability may be adversely affected if we are restricted from making certain investments in the People's Republic of China and are not able to fully capitalize on the growth of the semiconductor industry in the People's Republic of China.

As a substantial portion of our business and operations are located in Taiwan, we are vulnerable to earthquakes, typhoons, drought and other natural disasters, which could severely disrupt the normal operation of our business and adversely affect our earnings.

Taiwan is susceptible to earthquakes and has experienced severe earthquakes which caused significant property damage and loss of life, particularly in the central and eastern parts of Taiwan. These earthquakes damaged production facilities and adversely affected the operations of many companies involved in the semiconductor and other industries. We experienced no structural damage to our facilities and no damage to our machinery and equipment as a result of these earthquakes. There were, however, interruptions to our production schedule primarily as a result of power outage caused by the earthquakes.

Taiwan is also susceptible to typhoons, which may cause damage and business interruption to companies with facilities located in Taiwan. In 2001, Taiwan experienced severe damage from typhoons, including a typhoon on September 16 that caused over 100 deaths, severe flooding and extensive damage to property and businesses. We have not experienced any material damage or business interruption from the increased typhoon activity in Taiwan.

In May 2002, Taiwan experienced a severe drought. Although our manufacturing process does not rely on an adequate supply of water and we were not affected by the May 2002 drought directly, a drought may interrupt the manufacturing process of the foundries located in Taiwan, in turn disrupting some of our customers' production, and this could result in a decline in the

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demand for our services. In addition, any temporary or sustained adverse impact from any future droughts may adversely affect Taiwan's economic, social or political conditions and may lead to fluctuations in the market price of our ADSs.

While we maintain several insurance policies relating to our business, we do not currently carry any insurance coverage for interruptions in public utility services or any other business interruption insurance except in connection with fire. Should these interruptions occur, we will be exposed to substantial risks and may be liable for the full amount of any losses.

Our production facilities as well as many of our suppliers and customers and providers of complementary semiconductor manufacturing services, including foundries, are located in Taiwan. If our customers are affected by an earthquake, a typhoon, a drought or other natural disasters, it could result in a decline in the demand for our packaging and testing services. If our suppliers and providers of complementary semiconductor manufacturing services are affected, our production schedule could be interrupted or delayed. As a result, a major earthquake, typhoon, drought, or other natural disasters in Taiwan could severely disrupt the normal operation of business and have a material adverse effect on our financial condition and results of operations.

Risks Relating to Ownership of ADSs

If an active market for our ADSs fails to be sustained, the price of our ADSs may fall.

Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors, compared to less active and less liquid markets. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, ROC law requires that the common shares be held in an account in the ROC or sold for the benefit of the holder on the Taiwan Stock Exchange. In connection with any withdrawal of common shares from our ADR facility, the ADSs evidencing these common shares will be cancelled. Unless additional ADSs are issued, the effect of withdrawals will be to reduce the number of outstanding ADSs. If a significant number of withdrawals are effected, the liquidity of our ADSs will be substantially reduced. We cannot assure you that the ADS depositary will be able to arrange for a sale of deposited shares in a timely manner or at a specified price, particularly during periods of illiquidity or volatility.

As a holder of ADSs, your voting rights are limited by the terms of the deposit agreement. You will not be able to exercise your voting rights on an individual basis.

As a holder of ADRs evidencing ADSs, you will not be able to exercise voting rights on an individual basis. You may exercise your voting rights with respect to the underlying common shares only in accordance with the provisions of the deposit agreement. In particular, for any resolution to be proposed at a shareholders meeting, only holders who (1) have provided voting instructions in a timely manner in accordance with the provisions of the deposit agreement, and (2) together own at least 51% of the outstanding ADSs voting in the same manner, will be able to vote the common shares representing their ADSs in the manner set forth in their voting instructions. In all other cases, holders will be deemed to have authorized and directed the depositary to give a discretionary proxy to our Chairman or his designee to vote the common shares represented by their ADSs in any manner he or his designee may wish, which may not be in the interests of the holders.

You may not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are

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either exempt from registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurances that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Restrictions on the ability to deposit our common shares into our ADR facility may adversely affect the liquidity and price of our ADSs.

The ability to deposit our common shares into our ADR facility is restricted by ROC law. A significant number of withdrawals of our common shares underlying our ADSs would reduce the liquidity of our ADSs by reducing the number of ADRs outstanding. As a result, the prevailing market price of our ADSs may differ from the prevailing market price of our common shares on the Taiwan Stock Exchange. Under current ROC law, no person or entity, including you and us, may deposit our common shares into our ADR facility without specific approval of the ROC Securities and Futures Commission except where:

- (1) we pay stock dividends on our common shares;
- (2) we make a free distribution of our common shares;
- (3) you exercise preemptive rights in the event of a capital increase for cash; or
- (4) you purchase our common shares, directly or through the depositary, on the Taiwan Stock Exchange, and deliver our common shares to the custodian for deposit into our ADR facility. The depositary may issue ADSs against the deposit of our common shares only if the total number of ADSs outstanding following the deposit will not exceed the number of ADSs previously approved by the ROC Securities and Futures Commission, plus any additional ADSs issued pursuant to the events described in (1) through (3) above.

In addition, in the case of a deposit of common shares requested as described above, the depositary may refuse to accept our common shares for deposit if such deposit is not permitted under any restriction notified by us to the depositary from time to time. These restrictions may include blackout periods during which deposits may not be made and as well as limitations on the size and frequencies of deposits.

The value of your investment may be reduced by possible future sales of ADSs or common shares by us or our shareholders.

The selling shareholders have agreed with the underwriter not to dispose of any of our common shares or securities convertible into or exchangeable for common shares, including ADSs, during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of Goldman Sachs International. Each of Jason C.S. Chang, Richard H.P. Chang, Chang Yao Hung-ying, Feng Mei-Jean and Hung Ching has also entered into a similar 90-day lock-up agreement. In addition, we have agreed, subject to certain exceptions, not to issue any of our common shares, including common shares represented by ADSs, during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of Goldman Sachs International. We have also agreed to cause each of our subsidiaries and controlled affiliates not to dispose of any of our common shares or securities

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convertible into or exchangeable for common shares, including ADSs, during the period beginning from the date of the prospectus continuing through the date 90 days after the date of this prospectus, except with the written consent of Goldman Sachs International. These restrictions do not apply to, among other things, the sale of any of our common shares held by the selling shareholders subsequent to 30 days after the date of this prospectus. Goldman Sachs International may, in its discretion, waive or terminate these restrictions. See **Common Shares Eligible for Future Sale** for a more detailed discussion of restrictions that may apply to future sales of our ADSs or common shares.

While we are not aware of any plans by any major shareholders to dispose of significant numbers of common shares, we cannot assure you that one or more existing shareholders or owners of securities convertible or exchangeable into or exercisable for our common shares or ADSs will not dispose of significant numbers of common shares or ADSs. In addition, following completion of this offering, several of our subsidiaries and affiliates will continue to hold common shares, depositary shares representing common shares and options to purchase common shares or ADSs. We or they may decide to sell those securities in the future. See **Principal Shareholders** for a description of our significant shareholders and affiliates that hold our common shares. We cannot predict the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of ADSs or common shares prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that such sales may occur, could depress the prevailing market prices of our ADSs or common shares.

Changes in exchange controls which restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Under current ROC law, the depositary, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including U.S. dollars, for:

the proceeds of the sale of common shares represented by ADSs or received as stock dividends from the common shares and deposited into the depositary receipt facility; and

any cash dividends or distributions received from the common shares.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the ADR facility against the creation of additional ADSs. The depositary may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new common shares. Although it is expected that the Central Bank of China will grant this approval as a routine matter, we cannot assure you that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a holder, without obtaining further approval from the Central Bank of China, may convert from NT dollars into other currencies, including U.S. dollars, the following:

the proceeds of the sale of any underlying common shares withdrawn from the depositary receipt facility or received as a stock dividend; and

any cash dividends or distribution received.

However, such holder may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars to foreign currencies of the proceeds from the sale of subscription rights for new common shares. Although the Central Bank of China is generally expected to grant this approval as a routine matter, we cannot assure you that you will actually obtain this approval in a timely manner, or at all.

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Under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls in the event of, among others, a material change in international economic conditions. We cannot assure you that foreign exchange controls or other restrictions will not be introduced in the future.

The market value of your investment may fluctuate due to the volatility of the ROC securities market.

The ROC securities market is smaller and more volatile than the securities markets in the United States and in other European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange Index peaked at 12,495.3 in February 1990, and subsequently fell to a low of 2,560.5 in October 1990. On May 30, 2003, the Taiwan Stock Exchange Index closed at 4,555.9. The Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of ROC companies, including our ADSs and common shares, in both the domestic and the international markets.

Purchasers of ADSs may incur dilution as a result of the practice among ROC technology companies of issuing stock bonuses and stock options to employees.

Similar to other ROC technology companies, we issue from time to time bonuses in the form of common shares valued at par under our employee stock bonus plan. In addition, under the revised ROC Company Law we may, upon approval from our board of directors and the ROC Securities and Futures Commission, establish employee stock option plan. On August 13, 2002, we adopted an employee stock option plan pursuant to which our full-time employees and the full-time employees of our domestic and foreign subsidiaries are eligible to receive stock option grants. As of December 31, 2002, 145,989,000 options have been issued. See Management Compensation of Directors, Supervisors and Executive Officers ASE Inc. Employee Bonus and Stock Option Plans . The issuance of our shares pursuant to stock bonuses or stock options may have a dilutive effect on your ADSs.

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FORWARD-LOOKING STATEMENTS

This prospectus and information incorporated by reference includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Our forward-looking statements contain information regarding, among other things, our financial condition, results of operations, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations about future events. Although we believe these expectations are reasonable, these forward-looking statements are inherently subject to risks, uncertainties and assumptions about us and events and circumstances that affect our business, including:

- the highly competitive semiconductor industry;
- our ability to introduce new packaging and testing technologies in order to remain competitive;
- our ability to successfully integrate future acquisitions;
- risks associated with international business activities;
- our business strategy;
- general economic and political conditions;
- possible disruptions in commercial activities caused by natural disasters or industrial accidents;
- our future expansion plans and capital expenditures;
- fluctuations in foreign currency exchange rates; and
- other risks identified in the Risk Factors section of this prospectus.

The words anticipate, believe, estimate, expect, intend, plan and similar expressions, as they relate to us, are intended to identify the forward-looking statements in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Some of these forward-looking statements are derived from projections made and published by Gartner Dataquest and Semiconductor Industry Association. We were not involved in the preparation of these projections. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements as a result of risks and other factors noted above and throughout this prospectus. We do not intend to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents**USE OF PROCEEDS**

ASE Investment and ASE Capital, the selling shareholders named in the Selling Shareholders section of this prospectus, are our wholly-owned subsidiaries. The net proceeds to us from the sale of ADSs will be approximately US\$72.5 million, after deducting underwriting and estimated offering expenses. ASE Capital has also granted the underwriter an option to purchase additional ADSs, solely to cover overallotments, if any. If the underwriter's overallotment option is exercised in full, the net proceeds to us from the sale of additional ADSs will be approximately US\$10.2 million, after deducting underwriting and estimated offering expenses.

We intend to use the net proceeds from the sale of ADSs by ASE Investment to repay ASE Investment's borrowings. The following table sets forth the principal amount, the interest rate and the maturity of each borrowing to be repaid using the net proceeds from the sale of ADSs.

Principal Amount	Interest Rate	Maturity
NT\$ (in millions)		
200.0	5.40%	within one year
300.0	5.00%	within one year
300.0	5.30%	within one year
70.0	5.40%	within one year
250.0	5.30%	within one year

We also intend to use the net proceeds from the sale of the ADSs by ASE Capital and the net proceeds from the sale of additional ADSs by ASE Capital, if the underwriter's overallotment option is exercised in full, to repay ASE Capital's borrowings. The following table sets forth the principal amount, the interest rate and the maturity of the borrowing to be repaid using the net proceeds from the sale of ADSs.

Principal Amount	Interest Rate	Maturity
NT\$ (in millions)		
140.0	5.00%	within one year

The remainder of the net proceeds from the sale of ADSs by the selling shareholders, and if the underwriter's overallotment option is exercised in full, the net proceeds from the sale of additional ADSs by ASE Capital, will be used to reduce the indebtedness of ASE Inc. The following table sets forth the principal amount, the interest rate and maturity of the borrowing we intend to reduce.

Principal Amount	Interest Rate	Maturity
NT\$ (in millions)		
6,000.0	5.51%	within two years

Pending these uses, we expect to invest the net proceeds in short-term, interest-bearing securities or may use a portion of the funds temporarily for working capital or general corporate purposes.

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MARKET PRICE INFORMATION FOR OUR COMMON SHARES

Our common shares were first issued in March 1984 and have been listed on the Taiwan Stock Exchange since July 1989. The Taiwan Stock Exchange is an auction market where the securities traded are priced according to supply and demand through announced bid and ask prices. As of March 31, 2003, there were an aggregate of 3,254,800,000 of our common shares outstanding. The following table sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for the common shares and the high and low of the daily closing values of the Taiwan Stock Exchange Index. The closing price for our common shares on the Taiwan Stock Exchange on May 30, 2003 was NT\$18.40 per share.

**Adjusted
Closing
Price per
Share(1)**

Under the FRBNY Credit Facility, we are currently restricted from declaring or paying dividends or distributions on the common stock, or repurchasing common stock subject to certain exceptions in connection with the employee benefits plans. So long as no default shall have occurred thereunder, the FRBNY Credit Facility permits payments of non-cumulative cash dividends on our Series E Preferred Stock and Series F Preferred Stock at a rate not to exceed 10% per annum.

Contents**DESCRIPTION OF THE EQUITY UNITS**

ion summarizes some of the terms of the Equity Units. This summary does not purport to be complete and is qualified by the documents governing those terms which contain the full legal text of the matters described in this section. Such documents have been filed with the SEC or incorporated by reference as exhibits to the registration statement of which this document forms a part. You should refer to these documents for more information.

Equity Units were issued on May 16, 2008 under the purchase contract agreement and pledge agreement between us and The Bank of New York (formerly known as The Bank of New York), whom we refer to as the purchase contract agent, and Wilmington Trust Company, as collateral agent and securities intermediary (the *collateral agent*). Equity Units may be either Corporate Units or Treasury Units. The initial offering consisted of 78,400,000 Corporate Units, each with a stated amount of \$75, which will reduce by \$25 on each stock purchase date.

Corporate Units

Each Corporate Unit consists of a unit comprising:

(1) a stock purchase contract under which, subject to a holder's early settlement right as described under Description of the Stock Purchase Contracts - Early Settlement,

(1) the holder is obligated to purchase from us, and we are obligated to sell to the holder, for \$25, a number of shares of our common stock equal to the applicable settlement rate described below under Description of the Stock Purchase Contracts - Purchases of Common Stock (which settlement rate is subject to anti-dilution adjustments under the circumstances set forth under Description of the Stock Purchase Contracts - Anti-Dilution Adjustments) on each of February 15, 2011, May 1, 2011 and August 1, 2011, or the next business day (as defined herein) if any such day is not a business day (each such date, a *stock purchase date*); and

(2) we are obligated to pay the holder quarterly contract adjustment payments:

from and including the issue date to but excluding the first stock purchase date at an annual rate of 2.7067% on the initial stated amount of \$75 per stock purchase contract;

from and including the first stock purchase date to but excluding the second stock purchase date at an annual rate of 2.64% on the adjusted stated amount of \$50 per stock purchase contract; and

from and including the second stock purchase date to but excluding the third stock purchase date at an annual rate of 2.61% on the adjusted stated amount of \$25 per stock purchase contract.

(3) a 1/40, or 2.5%, undivided beneficial ownership interest in one or more of the following Debentures, each with a principal amount of \$1,000:

(1) a Series B-1 Junior Subordinated Debenture, or Series B-1 Debenture, initially due February 15, 2041;

(2) a Series B-2 Junior Subordinated Debenture, or Series B-2 Debenture, initially due May 1, 2041; and

(3) a Series B-3 Junior Subordinated Debenture, or Series B-3 Debenture, initially due August 1, 2041.

The Series B-1 Debentures, the Series B-2 Debentures and the Series B-3 Debentures are referred to collectively as the *Debentures*. On the next stock purchase date for any series of Debentures, the undivided beneficial ownership interest in such Debenture will be replaced with an interest in a

of U.S. Treasury securities, which we refer to as the Treasury portfolio.

At the initial issuance of the Equity Units, the purchase price of each Equity Unit was allocated between the related stock purchase contract and the beneficial interest in each Debenture in proportion to their respective

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market values at the time of issuance. We reported the fair market value of each such 1/40, or 2.5%, undivided beneficial ownership interest in a zero-coupon U.S. Treasury security with a principal amount of \$1,000 as \$25 and the fair market value of the stock purchase contract as \$0. This position generally is binding on the beneficial owner of each Equity Unit but not on the IRS.

As an Equity Unit is in the form of a Corporate Unit, your beneficial interest in the Debentures (or, in the case of successful remarketing of the Debentures, the applicable remarketing settlement date and prior to the applicable stock purchase date, the Treasury portfolio) forming a part of the Corporate Unit is pledged to us through the collateral agent to secure your obligation to purchase shares of our common stock under the stock purchase contracts that are a part of such Corporate Unit. Holders of Corporate Units receive interest paid on Debentures pledged in relation to their Equity Units de jure interest.

Creating Treasury Units

Each holder of 40 Corporate Units has the right at any time other than during a blackout period as described below to create Treasury Units by substituting interests in the applicable qualifying treasury securities (as described below) for such holder's ownership interests in the Debentures pledged to us through the collateral agent, in an amount at maturity equal to the principal amount of the Debentures for which substitution is being made. Because qualifying treasury securities are issued in integral multiples of \$1,000, holders of Corporate Units may make this substitution only in integral multiples of \$1,000 of the Units. Accordingly, prior to the close of business on the second business day prior to the first remarketing period start date (as defined in the definition of the Stock Purchase Contracts' Remarketing), to create Treasury Units from Corporate Units a holder must substitute a qualifying treasury security with a principal amount of \$1,000 described in each of the three bullet points below for each 40 Corporate Units. After the first remarketing period (or if the remarketing of the Series B-1 Debentures is successful, after the first stock purchase date) and prior to the close of business on the second business day prior to the second remarketing period start date, to create Treasury Units from Corporate Units a holder must substitute a qualifying treasury security described in each of the second and third bullet points below with a principal amount of \$1,000 for each 40 Corporate Units. After the second remarketing period (or if the remarketing of the Series B-2 Debentures is successful, after the second stock purchase date) and prior to the close of business on the second business day prior to the third remarketing period start date, to create Treasury Units from Corporate Units a holder must substitute a qualifying treasury security described in the third bullet point below with a principal amount of \$1,000 for each 40 Corporate Units. Substitutions will not be permitted following the close of business on the second business day prior to a remarketing period start date and prior to the applicable remarketing period or, if the applicable remarketing is successful, the applicable stock purchase date. We refer to the periods during which substitutions are not permitted as "blackout periods."

The interests in the applicable qualifying treasury securities that must be substituted in order to create each Treasury Unit consist of:

• until the first stock purchase date, a 1/40, or 2.5%, undivided beneficial ownership interest in a zero-coupon U.S. Treasury security (CUSIP No. 912820GC5) that matures on such stock purchase date with a principal amount at maturity of \$1,000;

• until the second stock purchase date, a 1/40, or 2.5%, undivided beneficial ownership interest in a zero-coupon U.S. Treasury security (CUSIP No. 921820NA1) that matures on the day prior to such stock purchase date with a principal amount at maturity of \$1,000; and

• until the third stock purchase date, a 1/40, or 2.5%, undivided beneficial ownership interest in a zero-coupon U.S. Treasury security (CUSIP No. 912820NK9) that matures on the day prior to such stock purchase date with a principal amount at maturity of \$1,000.

When substitutions are made, the applicable series of Debentures will be released to the holder and be separately tradable as Treasury Units.

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Treasury Unit consists of a unit with an initial stated amount of \$75, which will reduce by \$25 on each stock purchase date, and consists of

a stock purchase contract under which, subject to a holder's early settlement right:

(1) the holder is obligated to purchase from us, and we are obligated to sell to the holder, not later than on each stock purchase date, \$25 in cash, a number of shares of our common stock equal to the settlement rate described below under "Description of the Purchase Contracts - Purchase of Common Stock" (which settlement rate will be subject to anti-dilution adjustment under the circumstances set forth in "Description of the Stock Purchase Contracts - Anti-Dilution Adjustments"), and

(2) we are obligated to pay the holder quarterly contract adjustment payments:

from and including the issue date to but excluding the first stock purchase date, at an annual rate of 2.7067% on the initial amount of \$75 per stock purchase contract;

from and including the first stock purchase date to but excluding the second stock purchase date, at the annual rate of 2.6% on the adjusted stated amount of \$50 per stock purchase contract; and

from and including the second stock purchase date to but excluding the third stock purchase date, at the annual rate of 2.6% on the adjusted stated amount of \$25 per stock purchase contract; and

a 1/40, or 2.5%, undivided beneficial ownership interest in the applicable qualifying treasury securities.

For every 40 Treasury Units, a Corporate Unit holder must:

deposit with the collateral agent \$1,000 principal amount at maturity of each qualifying treasury security then constituting part of a Treasury Unit, which must be purchased in the open market at the Corporate Unit holder's expense, and

transfer 40 Corporate Units to the purchase contract agent accompanied by a notice stating that the holder has deposited each such qualifying treasury security with the collateral agent and requesting the release to the holder of the Debentures relating to 40 Corporate Units.

On the deposit and receipt of an instruction from the purchase contract agent, the collateral agent will release the related Debentures from the pledge agreement, free and clear of our security interest, to the purchase contract agent. The purchase contract agent then will:

cancel the 40 Corporate Units,

transfer the related Debentures to the holder, and

deliver 40 Treasury Units to the holder.

The qualifying treasury securities will be substituted for the Debentures and will be pledged to us through the collateral agent to secure the holder's obligation to purchase common stock under the related stock purchase contracts. The related Debentures released to the holder thereafter will trade freely from the resulting Treasury Units.

Using Corporate Units

A holder of 40 Treasury Units has the right at any time other than during a blackout period as described below to recreate Corporate Units by pledging interests in the applicable Debentures for such holder's ownership interest in the qualifying treasury securities held by the collateral agent equal to the principal amount at maturity of the qualifying treasury securities for which substitution is being made. Because qualifying

securities are issued in integral multiples of \$1,000, holders of Treasury Units may make this substitution only in integral multiples of 40 Treasury Units. Accordingly, prior to the close of business on the second business day prior to the first remarketing period start date, to recreate Treasury Units from Treasury Units a holder must substitute Debentures of each series with a principal amount of \$1,000 for each 40 Treasury Units prior to the first remarketing

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or if the remarketing of the Series B-1 Debentures is successful, after the first stock purchase date) and prior to the close of business on the first business day prior to the second remarketing period start date, to recreate Corporate Units from Treasury Units a holder must substitute Series B-2 Debentures and Series B-3 Debentures with a principal amount of \$1,000 for each 40 Treasury Units. After the second remarketing period start date and prior to the close of business on the second business day prior to the third remarketing period start date, to recreate Corporate Units from Treasury Units a holder must substitute Series B-3 Debentures with a principal amount of \$1,000 for each 40 Treasury Units. Substitutions are not permitted during blackout periods.

Substitutions will recreate Corporate Units, and the applicable qualifying treasury securities will be released to the holder and be separated from the Corporate Units.

To create 40 Corporate Units, a Treasury Unit holder must:

deposit with the collateral agent the following Debentures, each with a principal amount of \$1,000, which must be purchased in the open market at the Corporate Unit holder's expense:

a Series B-3 Debenture; and

if prior to the second stock purchase date, a Series B-2 Debenture, and

if prior to the first stock purchase date, a Series B-1 Debenture, and

transfer 40 Treasury Units to the purchase contract agent accompanied by a notice stating that the Treasury Unit holder has deposited \$1,000 principal amount of Debentures with the collateral agent and requesting the release to the holder of the qualifying treasury securities relating to the Treasury Units.

Upon the deposit and receipt of an instruction from the purchase contract agent, the collateral agent will release the related qualifying treasury securities from the pledge under the pledge agreement, free and clear of our security interest, to the purchase contract agent. The purchase contract agent will

cancel the 40 Treasury Units,

transfer the related qualifying treasury securities to the holder, and

deliver 40 Corporate Units to the holder.

The substituted Debentures will be pledged to us through the collateral agent to secure the Corporate Unit holder's obligation to purchase common stock under the related stock purchase contracts.

Any holder that elects to substitute pledged securities, thereby creating Treasury Units or recreating Corporate Units, will be responsible for any fees and expenses payable in connection with the substitution.

Payments

Each holder of Corporate Units is entitled to receive quarterly cash distributions consisting of interest payments on the holder's undivided beneficial ownership interest in each series of Debentures (or *pro rata* distributions on the applicable ownership interest in the Treasury portfolio if it has no ownership interest in any series of Debentures as a component of Corporate Units) and quarterly contract adjustment payments payable by us:

from and including the issue date to but excluding the first stock purchase date:

• interest at the annual rate of 5.67% on your 1/40, or 2.5%, interest in a Series B-1 Debenture with a principal amount of \$1,000;

interest at the annual rate of 5.82% on your 1/40, or 2.5%, interest in a Series B-2 Debenture with a principal amount of \$1,000;

interest at the annual rate of 5.89% on your 1/40, or 2.5%, interest in a Series B-3 Debenture with a principal amount of \$1,000, and

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contract adjustment payments at the annual rate of 2.7067% on the initial stated amount of \$75 per stock purchase contract; from and including the first stock purchase date to but excluding the second stock purchase date: interest at the annual rate of 5.82% on your 1/40, or 2.5%, interest in a Series B-2 Debenture with a principal amount of \$1,000; interest at the annual rate of 5.89% on your 1/40, or 2.5%, interest in a Series B-3 Debenture with a principal amount of \$1,000; contract adjustment payments at the annual rate of 2.6450% on the adjusted stated amount of \$50 per stock purchase contract; and from and including the second stock purchase date to but excluding the third stock purchase date, interest at the annual rate of 5.89% on your 1/40, or 2.5%, interest in a Series B-3 Debenture with a principal amount of \$1,000, and contract adjustment payments at the annual rate of 2.6100% on the adjusted stated amount of \$25 per stock purchase contract.

payments are subject to deferral as described under **Deferral of Payments on Equity Units** and are subordinated to our obligations as **Ranking**.

of Treasury Units are entitled to receive quarterly contract adjustment payments payable by us:

from and including the issue date to but excluding the first stock purchase date at the annual rate of 2.7067% on the initial stated amount of \$75 per stock purchase contract;

from and including the first stock purchase date to but excluding the second stock purchase date, at the annual rate of 2.6450% on the adjusted stated amount of \$50 per stock purchase contract; and

from and including the second stock purchase date to but excluding the third stock purchase date, at the annual rate of 2.6100% on the adjusted stated amount of \$25 per stock purchase contract.

payments are subject to deferral as described under **Deferral of Payments on Equity Units** and are subordinated to our obligations as **Ranking**.

ly settlement date occurs due to a cash merger as described in **Description of the Stock Purchase Contracts** **Early Settlement upon C** adjustment payments will cease to accrue on the early settlement date. If any other early settlement of the stock purchase contracts occur (of an early settlement other than upon a cash merger), contract adjustment payments will cease to accrue on the most recent quarterly p or before such other early settlement, and if the early settlement date falls after the record date for a contract adjustment payment and pr adjustment payment date, the holder electing early settlement must pay to the purchase contract agent, on the early settlement date, the contract adjustment payment, unless such payment has been deferred as described below under **Deferral of Payments on Equity Units**

ll be no distributions in respect of the qualifying treasury securities that are a component of the Treasury Units but holders of the Treas continue to receive the scheduled quarterly interest payments on the Debentures that were released to them when the Treasury Units were c ng as they hold the Debentures. We make these payments on the Corporate Units and the Treasury Units quarterly in arrears on Februar August 1 and November 1 of each year, but if any of these days is not a business day, we make the payment on the next business day an will be payable as a result of that delay. Following a successful remarketing of any series of Debentures, unless we have elected to rema Debentures as floating-rate Debentures, interest on such series of Debentures will be payable on a semi-annual basis on May 1 and Nov year in the case of the Series B-1 Debentures and Series B-3 Debentures or on February 1 and August 1 of each year in the case of the S res, in each case commencing on the next such date following the applicable stock purchase date.

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we may defer contract adjustment payments in respect of the Equity Units at any time and from time to time. Deferred contract adjustment payments will continue to accrue interest until paid, compounded on each payment date for the Equity Units, at the annual rate of 5.67%. If on the third stock purchase date we do not pay all accrued and unpaid contract payments in cash, each holder of an Equity Unit will receive (net of any required tax withholding) contract adjustment payments, which shall be remitted to the appropriate taxing jurisdiction), in our sole discretion, either a number of shares of common stock (in addition to the number of shares of common stock per Equity Unit equal to the applicable settlement rate) equal to the aggregate amount of deferred contract payments payable to such holder divided by the greater of the applicable market value and \$250.34, subject to anti-dilution adjustments, or additional Debentures ("additional Debentures"), in our sole discretion, in a principal amount equal to the aggregate amount of deferred contract payments. The additional Debentures will mature on the later of August 1, 2014 and the date five years after the commencement of the term of the Debentures. Interest on the additional Debentures will accrue interest at an annual rate equal to the then market rate of interest for similar instruments (not to exceed 10%), as determined by a nationally recognized investment banking firm selected by us, rank *pari passu* with the Debentures and our outstanding parity securities and be subject to the same terms and conditions on the same basis as the Debentures and be redeemable at our option at any time at their principal amount plus accrued and unpaid interest thereon as of the date of redemption.

We may also defer the payment of interest on any series of Debentures on any interest payment date prior to the applicable remarketing period. Deferred interest will accrue interest until paid, compounded on each interest payment date, at the annual rate originally applicable to such series of Debentures. We may pay deferred interest in cash or in the form of additional Debentures in a principal amount equal to the aggregate amount of deferred interest at any time; provided that if any deferred interest has not been paid on or prior to the applicable stock purchase date, we must pay the deferred interest in the form of additional Debentures in a principal amount equal to the aggregate amount of deferred interest on such date, to the holder of the Debentures, whether or not they participate in the applicable remarketing.

Subject to certain exceptions described under "Description of the Debentures - Dividend and Other Payment Stoppages during Interest Deferral and Other Circumstances," if we have given notice of our election to defer or are deferring any contract adjustment payments or interest payments on any series of additional Debentures that are outstanding, we and our subsidiaries generally may not make payments on or redeem or purchase our capital stock or other securities or guarantees ranking *pari passu* with or junior to the Debentures.

During any deferral period, interest will continue to accrue on the Debentures and holders of Debentures or Corporate Units that are outstanding will continue to accrue such deferred interest income on a constant-yield basis in the form of original issue discount for U.S. federal income tax purposes. We will not receive the receipt of cash attributable to such income, regardless of the method of accounting used by the holders.

As of October 7, 2010, the day before commencement of the exchange offer, we have not deferred any payment on the Equity Units.

The series of Debentures constitutes one series of AIG's junior subordinated debentures and was issued by AIG under the junior subordinated debenture indenture, dated as of March 13, 2007, as supplemented (the "*junior debt indenture*"). The Debentures rank *pari passu* with our:

\$1,000,000,000 aggregate principal amount of 6.25% Series A-1 Junior Subordinated Debentures,

£750,000,000 aggregate principal amount of 5.75% Series A-2 Junior Subordinated Debentures,

1,000,000,000 aggregate principal amount of 4.875% Series A-3 Junior Subordinated Debentures,

\$750,000,000 aggregate principal amount of 6.45% Series A-4 Junior Subordinated Debentures,

\$1,100,000,000 aggregate principal amount of 7.70% Series A-5 Junior Subordinated Debentures,

\$4,000,000,000 aggregate principal amount of 8.175% Series A-6 Junior Subordinated Debentures,

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750,000,000 aggregate principal amount of 8.000% Series A-7 Junior Subordinated Debentures, and
£900,000,000 aggregate principal amount of 8.625% Series A-8 Junior Subordinated Debentures (collectively, the outstanding parity securities).

issue additional series of junior subordinated debentures that rank *pari passu* with the Debentures.

Debentures and our obligations to make contract adjustment payments are unsecured, rank junior in payment to all of our existing and future securities defined under Description of the Debentures Subordination, including the senior secured debt under the FRBNY Credit Facility, and are fully subordinated to all liabilities of our subsidiaries. Substantially all of our existing indebtedness, other than the outstanding parity securities, debt, and a significant amount of our existing indebtedness consists of our senior secured debt under the FRBNY Credit Facility. Each series of securities will automatically cease to be subordinated and become senior, unsecured obligations of AIG upon the applicable remarketing settlement.

and Certain Other Rights

of stock purchase contracts forming part of the Corporate Units or Treasury Units, in such capacities, have no voting or other rights in respect of common stock.

of the Securities

Corporate Units are listed on the NYSE under the symbol AIG-PrA . Unless and until substitution has been made as described under Description of the Corporate Units or Recreating Corporate Units, the Debentures will not trade separately from the Corporate Units or Treasury Units. The Debentures, upon successful remarketing of any series of Debentures and prior to the applicable stock purchase date, the interest in the Treasury portfolio) will trade with the stock purchase contract component of the Corporate Units, and the qualifying treasury security component will trade as a unit with the stock purchase contract component of the Treasury Units. If the Treasury Units or the Debentures of any series are separately traded to a sufficient extent that applicable exchange listing requirements are met, we may endeavor, but are not obligated, to list the Treasury Units or the Debentures on the same exchange as the Corporate Units are then listed, including, if applicable, the NYSE.

Future Repurchases

Upon completion of the exchange offer, to the extent permitted by applicable law, we may repurchase additional Corporate Units in the open market or in privately negotiated transactions or otherwise. Future purchases of Corporate Units may be on terms that are more or less favorable than those of the exchange offer. Future repurchases, if any, will depend on many factors, including market conditions and the condition of our business.

Contents**DESCRIPTION OF THE STOCK PURCHASE CONTRACTS**

*tion summarizes some of the terms of the purchase contract agreement, stock purchase contracts, pledge agreement, remarketing agree
debt indenture. The summary does not purport to be complete and is qualified by the purchase contract agreement, pledge agreement,
ing agreement and junior debt indenture, which contain the full legal text of the matters described in this section. Such documents have
the SEC or incorporated by reference as exhibits to the registration statement of which this document forms a part. You should refer t
ts for more information.*

*under this caption, Description of the Stock Purchase Contracts, references to we, us, our and other similar references mea
n International Group, Inc., excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries.*

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to a holder's early settlement right as described below under Early Settlement and Early Settlement upon Cash Merger, each stock
underlying a Corporate Unit or Treasury Unit obligates the holder of the stock purchase contract to purchase, and us to sell, on each of
purchase dates, for \$25 in cash, a number of newly issued shares of our common stock equal to the settlement rate. The settlement rate will
no adjustment under the circumstances described in Anti-Dilution Adjustments and Early Settlement upon Cash Merger, be as

If the applicable market value of our common stock is equal to or greater than the threshold appreciation price of \$912.00, the
settlement rate will be 0.02741 shares of our common stock, which is approximately equal to \$25 divided by the threshold
appreciation price, and which we refer to as the minimum settlement rate.

If the applicable market value of our common stock is less than the threshold appreciation price but greater than the reference price of
\$760.00, a number of shares of our common stock equal to \$25 divided by the applicable market value.

If the applicable market value of our common stock is less than or equal to the reference price of \$760.00, the settlement rate will be
0.03289 shares of our common stock, which is approximately equal to \$25 divided by the reference price, and which we refer to as the
maximum settlement rate and together with the minimum settlement rate as the fixed settlement rates.

On the applicable market value of our common stock as of October 7, 2010, the date before the commencement of the exchange offer, the
settlement rate would be 0.03289, the maximum settlement rate, on each stock purchase date.

On the settlement rate, the threshold appreciation price and the reference rate have been adjusted to reflect the one-for-twenty reverse common stock
split that became effective June 30, 2009.

In order to settle your stock purchase contract early in the manner described under Early Settlement, the number of shares of our common
stock upon settlement of each \$25 portion of the stated amount of such stock purchase contract will be equal to the minimum settlement rate,
adjusted as described under Anti-Dilution Adjustments.

The applicable market value with respect to any stock purchase contract date means the average of the volume weighted average price per share
of our common stock (or exchange property units, as defined under Anti-Dilution Adjustments, in which the stock purchase contracts will be settled
upon a reorganization event) on each of the 20 consecutive trading days ending on the third trading day immediately preceding such stock purchase date.
The 20-trading day period we refer to as the observation period, subject to anti-dilution adjustments under the circumstances set forth under
Anti-Dilution Adjustments below. Following a reorganization event, references to the purchase or issuance of shares of our common stock
under the stock purchase contracts will be construed to be references to settlement into exchange property units, and references to the purchase or issuance
of a certain number of shares of common stock upon the settlement of stock purchase contracts will be construed to be references to settlements in
terms of a certain number of exchange property units. For

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of calculating the exchange property unit value, (x) the value of any common stock included in the exchange property unit will be determined as the average of the volume weighted average price per share of such common stock on each of the 20 consecutive trading days ending on the trading day immediately preceding the applicable stock purchase date and (y) the value of any other property, including securities other than common stock, included in the exchange property unit will be the value of such property on the first trading day of the applicable observation period (as determined in good faith by our board of directors, whose determination shall be conclusive and described in a board resolution).

Threshold appreciation price represents a 20% appreciation over the reference price.

Volume weighted average price or VWAP per share of our common stock on any trading day means such price as displayed on Bloomberg (or service) page AIG UN <Equity> AQR in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such trading day; if such price is not available, the volume weighted average price means the market value per share of our common stock on such day as determined by a nationally recognized independent investment banking firm retained by us for this purpose.

Trading day means a day on which the common stock:

(a) is trading at the close of regular way trading (not including extended or after hours trading) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business, and

(b) has traded at least once regular way on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of our common stock.

We will not issue any fractional shares of common stock pursuant to the stock purchase contracts. In lieu of fractional shares otherwise issuable (rounded down on an aggregate basis) in respect of stock purchase contracts being settled by a holder of Equity Units on each stock purchase date, the holder is entitled to receive an amount in cash equal to the fraction of a share multiplied by the closing sales price of our common stock on the trading day immediately preceding the applicable stock purchase date.

Business day immediately preceding each stock purchase date, unless:

(a) a holder of Corporate Units or Treasury Units has settled or provided for the settlement of the related stock purchase contracts prior to such stock purchase date through the early delivery of cash to the purchase contract agent in the manner described under Early Settlement, Early Settlement upon Cash Merger or Notice to Settle with Cash, or

(b) an event described under Termination has occurred,

in the case of Corporate Units where the Treasury portfolio has replaced the applicable series of Debentures as a component of the Treasury portfolio, a portion of the proceeds equal to the stated amount of \$25 per Corporate Unit of the applicable ownership interest in the Treasury portfolio, when paid at maturity, will automatically be applied to satisfy in full the holder's obligation to purchase common stock under the related stock purchase contracts on such stock purchase date,

in the case of Corporate Units where the Treasury portfolio has not replaced the Debentures as a component of the Treasury portfolio, we will exercise our rights as a secured creditor in compliance with applicable law, including, without limitation, disposition of that series of Debentures or applying that series of Debentures (but not any additional Debentures issued to pay deferred interest on such Debentures) against your obligation to purchase shares of our common stock under the related stock purchase contracts on such stock purchase date, and

in the case of Treasury Units, the principal amount of the applicable qualifying treasury securities, when paid at maturity, will automatically be applied to satisfy in full the holder's obligation to purchase common stock under the related stock purchase contracts.

on such stock purchase date.

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Common stock will then be issued and delivered to the holder or the holder's designee, upon presentation and (on or after the third stock purchase date) tender of the Corporate Units or Treasury Units (which, in the case of Equity Units evidenced by physical certificates, must be made by the holder's tender and surrender of such certificates) and payment by the holder of any transfer or similar taxes payable in connection with the issuance of common stock to any person other than the holder. Until the delivery of the shares of our common stock, the holder of an Equity Unit will have the same rights as a holder of AIG; holders of Equity Units will become record holders of our common stock at the close of business on the delivery date of our common stock.

The holder of Corporate Units or Treasury Units, by acceptance of these securities, is deemed to have:

irrevocably agreed to be bound by the terms and provisions of the related stock purchase contracts and the pledge agreement and to have agreed to perform its obligations thereunder for so long as the holder remains a holder of the Corporate Units or Treasury Units, and

duly appointed the purchase contract agent as the holder's attorney-in-fact to enter into and perform the related stock purchase contracts and pledge agreement on behalf of and in the name of the holder.

Each holder of Corporate Units or Treasury Units, by acceptance of the beneficial interest therein, is deemed to have agreed:

to represent itself as the owner of the applicable ownership interests in the related Debentures, Treasury portfolio or qualifying treasury securities, as the case may be, and

to treat the Debentures as indebtedness for all U.S. federal income tax purposes.

Remarketing

Under a remarketing agreement among us, the purchase contract agent and the remarketing agents, the remarketing agents will attempt to remarket Debentures of each series held by Corporate Unit holders as part of Corporate Units during the applicable remarketing period and Debentures of each series that are not part of Corporate Units but whose holders have elected to participate in the remarketing as described under "Description of Securities" - Optional Remarketing. Each remarketing will take place during a 30-day period (a "remarketing period") ending on a date that is 30 business days prior to the date one month prior to the applicable stock purchase date. We refer to the first day of each remarketing period as the "remarketing period start date." If a successful remarketing occurs, settlement will take place on the third business day following the date of the remarketing, or the remarketing settlement date.

Under a remarketing, the remarketing agents will be required to use commercially reasonable efforts to obtain a price for the remarketed Debentures in proceeds, net of the 0.25% remarketing fee, of at least 100% of the sum of the Treasury portfolio purchase price and the separate Debentures purchase price, as defined below. To obtain that price, the remarketing agents, in consultation with us, may reset the interest rate on the Debentures being remarketed at a new fixed or floating rate as described below. We have the right to postpone the remarketing in our discretion on any day prior to the last five business days of a remarketing period. A remarketing will be considered successful and no further attempt will be made if the resulting proceeds, net of the 0.25% remarketing fee, are at least 100% of the sum of the Treasury portfolio purchase price and the separate Debentures purchase price.

Separate Debentures purchase price means the amount in cash equal to the product of (A) the remarketing price per Debenture (as defined below) and the number of Debentures included in such remarketing that are not part of Corporate Units, which we refer to as separate Debentures.

Following a successful remarketing, each holder of a separate Debenture will receive the remarketing price per Debenture, which, for each separate Debenture, is an amount in cash equal to the quotient of the Treasury portfolio purchase price divided by the number of Debentures in such remarketing that are held as components of Corporate Units. Each holder of a Corporate Unit whose Debenture of the applicable

ed in a successful remarketing will receive an applicable ownership interest in the Treasury portfolio equal to the remarketing price per
re.

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ment of a successful remarketing of the Debentures of any series, on the applicable remarketing settlement date, the portion of the proceeds from the remarketing equal to the separate Debentures purchase price will be paid to holders of separate Debentures remarketed in a remarketing, and the portion of the proceeds from the remarketing equal to the Treasury portfolio purchase price will be applied to purchase the Treasury portfolio component of the Debentures of any series.

U.S. Treasury securities (or principal or interest strips thereof) that mature on or prior to the applicable stock purchase date in an aggregate amount equal to the principal amount of the Debentures that were formerly included in Corporate Units but that were remarketed, and

U.S. Treasury securities (or principal or interest strips thereof) that mature on or prior to the applicable stock purchase date in an aggregate amount at maturity equal to the aggregate interest that would have accrued from and including the immediately preceding interest payment date to but excluding the applicable stock purchase date (assuming no reset of the interest rate) on the aggregate principal amount of the Debentures that were formerly included in the Corporate Units but that were remarketed.

If we determine that the foregoing U.S. Treasury securities are not available, we may substitute for such U.S. Treasury securities one or more discount obligations of one of our affiliates that are issued on the applicable remarketing settlement date, accrete interest at an arm's length rate, and have the same aggregate principal amount at maturity as the U.S. Treasury securities for which they are substituted and mature on or prior to the applicable stock purchase date.

The Treasury portfolio will be substituted for the Debentures of the applicable series as a component of the Corporate Units and will be pledged to the collateral agent to secure the Corporate Unit holders' obligation under the stock purchase contracts to purchase shares of our common stock on the applicable stock purchase date. On or promptly following the applicable remarketing settlement date, the remarketing agent will remit to the collateral agent any remaining portion of the proceeds for the benefit of the holders of the Corporate Units, the Debentures component of the Treasury portfolio included in the remarketing. On the applicable stock purchase date, a portion of the proceeds from the Treasury portfolio equal to the principal amount of the Debentures previously included in the Corporate Units will automatically be applied to satisfy the Corporate Unit holders' obligation to purchase common stock under the stock purchase contracts on such stock purchase date and proceeds from the Treasury portfolio equal to the interest that would have accrued (assuming no reset of the interest rate) that would have accrued to the holders of Corporate Units on the Debentures (to but excluding the interest that would have accrued on the stock purchase date) previously included in the Corporate Units on the applicable stock purchase date will be paid to the holders of the Corporate Units.

In this context, Treasury portfolio purchase price means the lowest aggregate ask-side price quoted by a primary U.S. government securities dealer on the date of the applicable remarketing, as determined by the quotation agent between 9:00 a.m. and 11:00 a.m., New York City time, on the date of a successful remarketing for the purchase of the Treasury portfolio described above for settlement the third business day immediately following such date. Quotation agent means any primary U.S. government securities dealer in New York City selected by us.

In the event of a failed remarketing of a series of Debentures, the remarketing agent may reset the rate on such series of Debentures at a fixed rate or a floating rate. If the remarketing is successful and the rate is reset, the reset rate will apply to all outstanding Debentures of that series, whether or not the holders participated in such remarketing, and will become effective on the applicable remarketing settlement date. The interest rate on each series of Debentures will be the reset rate or, if we have elected to remarket such series of Debentures as floating-rate Debentures, the applicable index rate as determined by the remarketing agents, in consultation with us, such that the proceeds from such remarketing, net of the 0.25% remarketing fee, will be at least equal to 100% of the sum of the Treasury portfolio purchase price and the separate Debentures purchase price. The interest on such series of Debentures will be paid semi-annually if the Debentures are successfully remarketed at a fixed rate or quarterly if the Debentures are successfully remarketed at a floating rate.

In the event of a failed remarketing of a series of Debentures, we will cause a notice of any failed remarketing to be published on the business day immediately following the end of the remarketing period, or as soon as practicable thereafter, in a daily newspaper in the English language of general circulation in New York City, which is expected to be *The Wall Street Journal*. If we are unable to do so, we will request, not later than seven nor

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in 15 calendar days prior to each remarketing period start date, that the depository notify its participants holding Debentures, Corporate Units or Treasury Units of the remarketing.

If Debentures have not been successfully remarketed during the remarketing period, the interest rate on the Debentures will not be reset.

Settlement

Under the conditions described below, a holder of Corporate Units or Treasury Units may settle the related stock purchase contracts in cash or by check, other than during a blackout period, on or prior to the second business day immediately preceding any stock purchase date by delivering the related Corporate Unit or Treasury Units (which, if they are in certificated form, must be surrendered at the offices of the purchase contract agent) and a duly completed Election to Settle Early form duly completed in accordance with the applicable procedures of the depository (or, if the Equity Units are certificated, a duly completed Election to Settle Early on the reverse side of such certificate completed and executed as indicated), accompanied by immediately available funds of an amount equal to:

(a) the initial or adjusted stated amount per stock purchase contract multiplied by the number of stock purchase contracts being settled, plus

(b) if the delivery is made with respect to any stock purchase contract during the period after the close of business on any record date next preceding any quarterly payment date and prior to the opening of business on such payment date, an amount equal to the contract adjustment payments payable on the payment date with respect to all such stock purchase contracts.

If a holder of a Corporate Unit or Treasury Unit settles a stock purchase contract early (other than pursuant to the merger early settlement right described below), such holder will not be entitled to any accrued contract adjustment payments, and if the early settlement date falls after the record date for contract adjustment payment and prior to the contract adjustment payment date, the holder electing early settlement must pay to the purchase contract agent, on the early settlement date, the amount of such contract adjustment payment, unless such payment has been deferred as described in the Description of the Equity Units – Deferral of Payments on Equity Units.

Corporate Units or Treasury Units may settle early only in integral multiples of 40 Equity Units.

As the Equity Units are evidenced by one or more global security certificates deposited with the depository, procedures for early settlement are governed by standing arrangements between the depository and the purchase contract agent. The early settlement right is also subject to the requirement that, if required under the U.S. federal securities laws, we have a registration statement under the Securities Act in effect and a prospectus covering the shares of common stock and other securities, if any, deliverable upon settlement of a stock purchase contract. We have agreed that, if required under the U.S. federal securities laws, we will use our commercially reasonable efforts to have a registration statement in effect and a prospectus available covering those shares of common stock and other securities to be delivered in respect of the stock purchase contracts being settled. We will use our commercially reasonable efforts to have a registration statement in effect and a prospectus available covering those shares of common stock and other securities to be delivered in respect of the stock purchase contracts being settled in a form that may be used in connection with the early settlement right.

Early settlement of the stock purchase contracts related to any Corporate Units or Treasury Units:

except as described below in Early Settlement upon Cash Merger, the holder will receive the minimum settlement rate per \$25 stated value of each Corporate Unit or Treasury Unit, subject to adjustment under the circumstances described under Anti-Dilution Adjustments, accompanied by an appropriate prospectus if required by law,

the Debentures or the qualifying treasury securities, as the case may be, related to the Corporate Units or Treasury Units will be transferred to the holder free and clear of our security interest,

the holder's right to receive future contract adjustment payments and any accrued and unpaid contract adjustment payments for the period since the most recent quarterly payment date will terminate (unless such early settlement occurs after the close of business on a record date and on or prior to the next succeeding

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payment date, in which case the contract adjustment payment due and payable on such payment date will be paid, on such payment date, to the person who was the record holder of the applicable Equity Units on the applicable record date), and

no adjustment will be made to or for the holder on account of any accrued and unpaid contract adjustment payments, except as referred to in the previous bullet.

purchase contract agent receives a Corporate Unit or Treasury Unit as described above accompanied by the completed Election to Settle (and above) and required immediately available funds, from a holder of Corporate Units or Treasury Units by 5:00 p.m., New York City time, on the day and all conditions to early settlement have been satisfied, that day will be considered the settlement date.

purchase contract agent receives the above after 5:00 p.m., New York City time, on a business day or at any time on a day that is not a business day, the next business day will be considered the settlement date. Upon early settlement of stock purchase contracts in the manner described above, the holder of the related Corporate Units or Treasury Units and payment of any transfer or similar taxes payable by the holder in connection with the purchase of the related common stock to any person other than the holder of the Corporate Units or Treasury Units, we will cause the shares of common stock being purchased to be issued, and the related Debentures or qualifying treasury securities, as the case may be, securing the stock purchase contract to be released from the pledge under the pledge agreement described in Pledged Securities and Pledge Agreement and transferred to the holder, on the days following the settlement date, to the purchasing holder or the holder's designee.

Settle with Cash

holder of an Equity Unit (other than a Corporate Unit as to which an interest in the Treasury portfolio has replaced an interest in a series of Debentures) may settle the obligation to purchase shares of our common stock on any stock purchase date with separate cash. A holder of an Equity Unit to settle this obligation with separate cash must notify the purchase contract agent by presenting and surrendering the certificate evidencing the Corporate Unit or Treasury Unit, as the case may be, at the offices of the purchase contract agent with the form of Notice to Settle by Separate Cash on the reverse side of the certificate completed and executed as indicated after the end of the applicable Remarketing Period and on or prior to 11:00 p.m., New York City time, on the second business day immediately preceding the applicable stock purchase date and, on or prior to 11:00 a.m., New York City time, on the business day immediately preceding the applicable stock purchase date deliver to the collateral agent \$25 in cash for each stock purchase contract.

holders of Equity Units may settle with separate cash only in integral multiples of 40 Equity Units.

holder of a Corporate Unit with respect to which an interest in the Treasury portfolio has not replaced an interest in a series of Debentures and the holder of the Corporate Unit has given notice of its intention to settle the obligation to purchase shares of our common stock on any stock purchase date with separate cash and such holder fails to deliver the cash to the collateral agent on the business day immediately preceding the applicable stock purchase date, its Notice to Settle by Separate Cash shall automatically be deemed withdrawn and without effect.

holder of a Treasury Unit has given notice of its intention to settle the obligation to purchase shares of our common stock on any stock purchase date and the holder of the related stock purchase contract with separate cash fails to deliver the cash to the collateral agent on the business day immediately preceding the applicable stock purchase date, the proceeds from the applicable qualifying treasury securities will automatically be applied to satisfy such holder's obligation to purchase common stock under the related stock purchase contract on such stock purchase date.

Settlement upon Cash Merger

holder involved in an event described in the first or second bullet point in the definition of reorganization events under Reorganization Events and a cash merger in which at least 10% of the consideration received by holders of our common stock consists of cash or cash equivalents, which we refer to as a cash merger, then following the cash merger, each holder of a stock purchase contract will have the right to accelerate and settle such contract at a settlement rate determined as if the applicable market value equaled the stock price (as defined below), and receive, under certain circumstances, a fractional make-whole number of shares, which we refer to as

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make-whole shares. Our obligation to deliver make-whole shares is subject to the condition that at the time of settlement, if so required under applicable federal securities laws, there is in effect a registration statement and a prospectus available covering the common stock and other securities to be delivered in respect of the stock purchase contracts being settled. We refer to this right as the merger early settlement right.

Definition of reorganization events under Reorganization Events below includes a phrase relating to a sale of all or substantially all of our assets. No precise, established definition of the phrase substantially all under applicable law. Accordingly, your right to accelerate and settle your contract early as a result of a sale of substantially all of our assets may be uncertain.

We will provide each of the holders with a notice of the completion of a cash merger within five business days thereof. The notice will specify a date we refer to as the cash merger early settlement date, which shall be at least ten days after the date of the notice but no later than the earliest of (i) ten days after the date of such notice and (ii) two business days prior to the next stock purchase date, by which each holder's merger early settlement right must be exercised. The notice will set forth, among other things, the applicable settlement rate and the amount of the cash, securities and other property receivable by the holder upon settlement. To exercise the merger early settlement right, you must deliver to the purchase contract holder, no later than five business days before the cash merger early settlement date, your Corporate Units or Treasury Units (by delivery of certificates if they are held in certificated form), and payment of a purchase price in immediately available funds equal to the initial or adjusted stated amount per stock purchase contract multiplied by the number of stock purchase contracts being settled, less the amount of any accrued and unpaid contract adjustment payments. If such cash merger early settlement date occurs after the related record date for such contract adjustment payments and before the related settlement date, in which case the applicable purchase price shall not be reduced by the amount of any accrued and unpaid contract adjustment payments).

To exercise the merger early settlement right, we will deliver to you on the cash merger early settlement date, in respect of each such Equity Unit of the kind and amount of securities, cash or other property that you would have been entitled to receive in the cash merger as a holder of a share of our common stock at the settlement rate described above, for each \$25 stated amount of each Corporate Unit or Treasury Unit, and make-whole shares, calculated as described below for each stock purchase contract being settled. You will also receive the Debentures or qualified securities underlying the Corporate Units or Treasury Units, as the case may be. If you do not elect to exercise your merger early settlement right and if your exercise is not effective because the required registration statement is not effective (as described below), your Corporate Units or Treasury Units will remain outstanding and subject to normal settlement, without the make-whole shares, on the stock purchase dates with the same rights as other property holders of our common stock were entitled to receive in the cash merger. If required under the U.S. federal securities laws, a registration statement in effect and a prospectus available covering the common stock and other securities, if any, to be delivered in respect of the stock purchase contracts being settled, in each case in a form that may be used in connection with the early settlement upon a cash merger.

Each holder of the Equity Units may exercise the merger early settlement right only in integral multiples of 40 Equity Units. If an interest in the Treasury Units has replaced the Debentures of any series as a component of Corporate Units, holders of the Corporate Units will receive, on the next stock purchase date, \$1,000 in cash for each 40 Corporate Units as to which they have exercised their merger early settlement right, representing their proportionate share of the treasury portfolio.

Definition of Make-Whole Shares

The number of make-whole shares applicable to a merger early settlement will be determined for each stock purchase contract being settled by the formula set forth below, based on the date on which the cash merger becomes effective, which we refer to as the effective date, and the price, which we refer to as the stock price, paid per share for our common stock in such cash merger. If holders of our common stock receive only cash in such transaction, the price will be the cash amount paid per share. Otherwise, the stock price will be the average of

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ing prices per share of our common stock on each of the 20 consecutive trading days ending on the trading day immediately preceding the date of such cash merger.

Effective Date	Stock Prices										
	\$200.00	\$400.00	\$600.00	\$760.00	\$800.00	\$912.00	\$1000.00	\$1200.00	\$1400.00	\$1600.00	\$2000.00
July 15, 2011	0.0069	0.0031	0.0003	0.0000	0.0000	0.0042	0.0027	0.0012	0.0007	0.0004	0.0004
July 16, 2011	0.0069	0.0031	0.0003	0.0000	0.0000	0.0043	0.0026	0.0012	0.0007	0.0004	0.0004
August 1, 2011	0.0029	0.0013	0.0002	0.0000	0.0000	0.0020	0.0013	0.0005	0.0002	0.0002	0.0002
August 1, 2011	0.0026	0.0012	0.0001	0.0000	0.0000	0.0018	0.0012	0.0004	0.0002	0.0002	0.0002
September 1, 2011	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Stock prices and make-whole share amounts set forth in the table will be adjusted upon the occurrence of certain events requiring anti-dilution adjustments to the fixed settlement rates as set forth under Anti-Dilution Adjustments. Each stock price and number of make-whole shares are set forth to reflect the one-for-twenty reverse common stock split that became effective June 30, 2009.

Each stock price and effective date applicable to a cash merger may not be set forth in the table, in which case:

if the stock price is between two stock price amounts on the table or the effective date is between two dates on the table, the amount of make-whole shares will be determined by straight line interpolation between the make-whole share amounts set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 360-day year;

if the stock price is in excess of \$2400.00 per share (subject to adjustment as described above), then the make-whole share amount will be zero; and

if the stock price is less than \$200.00 per share (subject to adjustment as described above), which we refer to as the minimum stock price, then the make-whole share amount will be determined as if the stock price equaled the minimum stock price, using straight line interpolation, as described above, if the effective date is between two dates on the table.

Interest Adjustment Payments

Interest adjustment payments in respect of Corporate Units and Treasury Units are set:

from and including the issue date to the first stock purchase date at an annual rate of 2.7067% on the initial stated amount of \$75 per stock purchase contract;

from and including the first stock purchase date to but excluding the second stock purchase date, at the annual rate of 2.6450% on the adjusted stated amount of \$50 per stock purchase contract; and

from and including the second stock purchase date to but excluding the third stock purchase date, at the annual rate of 2.6100% on the adjusted stated amount of \$25 per stock purchase contract.

Interest adjustment payments payable for any period are computed on the basis of a 360-day year of twelve 30-day months. Contract adjustment payments are accrued from the date of issuance of the stock purchase contracts and are payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year.

Interest adjustment payments are payable to the holders of stock purchase contracts as they appear on the books and records of the purchase contracts as of the close of business on the relevant record dates, which (unless otherwise specified) is on the 15th day of the month prior to the month

ant payment date falls. These distributions are paid through the purchase contract agent, who holds amounts received in respect of the c
ent payments for the benefit of the holders of the stock purchase contracts relating to the Corporate Units. Subject to any applicable law
ns and so long as the Equity Units are in book-entry form, each such payment will be made as described under Book-Entry System.

e the right to defer contract adjustment payments as described under Description of the Equity Units Deferral of Payments on Equity
subject to the restrictions described under Description

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Debentures Dividend and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances at any time we have such a deferral or a deferral period is continuing or additional Debentures are outstanding.

date on which contract adjustment payments are to be made on the stock purchase contracts related to the Corporate Units or Treasury Units is a business day, then payment of the contract adjustment payments payable on that date will be made on the next succeeding day which is a business day, with the same force and effect as if made on that payment date, and no interest or payment will be paid in respect of the delay. A business day means any day other than a Saturday, Sunday or any other day on which banking institutions or trust companies in New York City are permitted or required by applicable law to close.

obligations with respect to contract adjustment payments are subordinated and junior in right of payment to the same extent as the Debentures are subordinated to our other obligations. For a discussion of this subordination, see Description of the Equity Units Ranking.

Adjustment Adjustments

Each fixed settlement rate will be adjusted, without duplication, if certain events occur:

(a) the issuance of our common stock as a dividend or distribution to all holders of our common stock, or a subdivision or combination of our common stock, in which event each fixed settlement rate will be adjusted based on the following formula:

$$R_0 \times (OS_1 / OS_0)$$

- = the fixed settlement rate in effect at the close of business on the record date
- = the fixed settlement rate in effect immediately after the record date
- = the number of shares of our common stock outstanding at the close of business on the record date prior to giving effect to such event
- = the number of shares of our common stock that would be outstanding immediately after, and solely as a result of, such event

(b) the issuance to all holders of our common stock of certain rights, options or warrants entitling them for a period expiring 60 days or less from the date of issuance of such rights, options or warrants to purchase shares of our common stock at less than the current market price of our common stock as of the record date, in which event each fixed settlement rate will be adjusted based on the following formula:

$$R_0 \times (OS_0 + X) / (OS_0 + Y)$$

- = the fixed settlement rate in effect at the close of business on the record date
- = the fixed settlement rate in effect immediately after the record date
- = the number of shares of our common stock outstanding at the close of business on the record date
- = the total number of shares of our common stock issuable pursuant to such rights, options or warrants
- = the aggregate price payable to exercise such rights divided by the average of the VWAP of our common stock over each of the consecutive trading days prior to the business day immediately preceding the announcement of the issuance of such rights

Further, each fixed settlement rate will be readjusted to the extent that any such rights or warrants are not exercised prior to their expiration.

the dividend or other distribution to all holders of our common stock of shares of our capital stock (other than common stock), right to acquire our capital stock or evidences of our indebtedness or our assets

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(excluding any dividend, distribution or issuance covered by clauses (1) or (2) above or (4) or (5) below) in which event each fixed settlement rate will be adjusted based on the following formula:

$$R_0 \times SP_0 / (SP_0 - FMV)$$

- = the fixed settlement rate in effect at the close of business on the record date
- = the fixed settlement rate in effect immediately after the record date
- = the current market price as of the record date
- = the fair market value (as determined in good faith by our board of directors, whose good faith determination will be conclusive) of the shares of capital stock, rights to acquire capital stock, evidences of indebtedness or assets so distributed on the record date, expressed as an amount per share of our common stock

or, if the transaction that gives rise to an adjustment pursuant to this clause (3) is one pursuant to which the payment of a dividend or other distribution on our common stock consist of shares of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, (which shares, that are, or, when issued, will be, traded on a U.S. securities exchange, then each fixed settlement rate will instead be adjusted based on the following formula:

$$R_0 \times (FMV_0 + MP_0) / MP_0$$

- = the fixed settlement rate in effect at the close of business on the record date
- = the fixed settlement rate in effect immediately after the record date
- = the average of the VWAP of the capital stock or similar equity interests distributed to holders of our common stock applicable to one share of our common stock over each of the 10 consecutive trading days commencing on and including the third trading day after the date on which ex-distribution trading commences for such dividend or distribution with respect to our common stock on the NYSE or such other national or regional exchange or market that is at that time the principal market for our common stock
- = the average of the VWAP of our common stock over each of the 10 consecutive trading days commencing on and including the third trading day after the date on which ex-distribution trading commences for such dividend or distribution with respect to our common stock on the NYSE or such other national or regional exchange or market that is at that time the principal market for our common stock

we make a distribution consisting exclusively of cash to all holders of our common stock, excluding (a) any cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock does not exceed (i) \$4.40 in the then current fiscal quarter in the case of a regular quarterly dividend or (ii) \$17.60 in the prior twelve months in the case of a regular annual dividend (each such number, the dividend threshold amount), (b) any cash that is distributed as part of a distribution referred to in clause (3) above, and (c) any consideration payable in connection with a tender or exchange offer made by us or any of our subsidiaries referred to in clause (5) below, in which event, each fixed settlement rate will be adjusted based on the following formula:

$$R_0 \times SP_0 / (SP_0 - C)$$

- = the fixed settlement rate in effect at the close of business on the record date

- = the fixed settlement rate in effect immediately after the record date
- = the current market price as of the record date
- = the excess of the amount in cash per share we distribute to holders of our common stock over the dividend threshold amount

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dividend threshold amount is subject to adjustment on an inversely proportional basis whenever the fixed settlement rates are adjusted, but no adjustment will be made to the dividend threshold amount for any adjustment made to the fixed settlement rates pursuant to this clause (4). For the purpose of doubt, the dividend threshold amount will be zero in the case of a cash dividend amount that is not a regular quarterly or annual dividend. The dividend threshold amount has been adjusted to reflect the one-for-twenty reverse common stock split that became effective June 30, 2009.

(d) If we or one or more of our subsidiaries make purchases of our common stock pursuant to a tender offer or exchange offer by us or one or more of our subsidiaries for our common stock to the extent that the cash and value of any other consideration included in the payment for one share of our common stock validly tendered or exchanged exceeds the VWAP per share of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer (the "tender/exchange offer expiration date"), in which event each fixed settlement rate will be adjusted based on the following formula:

$$R_0 \times [(FMV + (SP_1 \times OS_1))] / (SP_1 \times OS_0)$$

- = the fixed settlement rate in effect at the close of business on the tender/exchange offer expiration date
- = the fixed settlement rate in effect immediately after the tender/exchange offer expiration date
- = the fair market value (as determined in good faith by our board of directors, whose good faith determination will be conclusive) as of the tender/exchange offer expiration date, of the aggregate value of all cash and any other consideration paid or payable for shares of our common stock validly tendered or exchanged and not withdrawn as of the tender/exchange offer expiration date (the "aggregate value")
- = the number of shares of our common stock outstanding as of the last time tenders or exchanges may be made pursuant to such tender or exchange offer (the "outstanding shares") less any purchased shares
- = the number of shares of our common stock outstanding at the expiration time, including any purchased shares
- = the average of the VWAP of our common stock over each of the ten consecutive trading days commencing with the trading day immediately after the tender/exchange offer expiration date.

Notwithstanding the foregoing, in no event will we adjust the fixed settlement rate to the extent that the adjustment would reduce the conversion price below the par value of our common stock.

The term "average market price" of our common stock on any day, means the average of the VWAP of our common stock over each of the 10 consecutive trading days ending on the earlier of the day in question and the day before the ex-date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, "ex-date" means the first date on which the shares of our common stock trade on the applicable exchange or in the over-the-counter market, regular way, without the right to receive such issuance or distribution.

The term "ex-date" means, for purpose of this section, with respect to any dividend, distribution or other transaction or event in which the holders of our common stock have the right to receive any cash, securities or other property or in which our common stock (or other applicable security) is exchanged for, or converted into any combination of cash, securities or other property, the date fixed for determination of holders of our common stock entitled to receive such cash, securities or other property (whether such date is fixed by our board of directors or by statute, contract or otherwise).

Notwithstanding the foregoing, we may make such increases in each fixed settlement rate as we deem advisable. We may only make such a discretionary adjustment if we make the same proportionate adjustment to each fixed settlement rate. No adjustment in the settlement rate will be required unless such adjustment would require an increase or decrease of at least one percent; provided that any such minor adjustments that are not required to be made will be

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and taken into account in any subsequent adjustment, and *provided, further*, that any such adjustment of less than one percent that has not been made shall be made (x) upon the end of the issuer's fiscal year and (y) upon the stock purchase date or any early settlement date.

Reorganization Events

The following events, in each case as a result of which holders of our common stock are entitled to receive stock, other securities, other property (including cash or any combination thereof) with respect to or in exchange for our common stock, are defined as reorganization events:

any consolidation or merger of AIG with or into another person or of another person with or into AIG (other than a consolidation or merger in which AIG is the continuing corporation and in which its shares of common stock outstanding immediately prior to the consolidation or merger are not exchanged for cash, securities or other property of another person); or

any sale, transfer, lease or conveyance to another person of all or substantially all of the assets of AIG; or

any statutory share exchange of shares of common stock of AIG with another person (other than in connection with a merger or acquisition); or

any liquidation, dissolution or winding-up of AIG (other than as a result of or after the occurrence of a termination event (as defined below under "Termination")).

The foregoing paragraph includes a phrase relating to a sale of all or substantially all of our assets. There is no precise, established definition of "substantially all" under applicable law. Accordingly, your right to accelerate and settle such contract early as a result of a sale of substantially all of our assets may be uncertain.

On the effective date of a reorganization event, the settlement rate relating to the Equity Units shall thereafter be determined by reference to the applicable number of shares of our common stock through the delivery of a corresponding number of, exchange property units. A "property unit" means the kind and amount of securities, cash and other property receivable in such reorganization event (without any right to dividends or distribution thereon which have a record date that is prior to the applicable stock purchase date, cash purchase date or early settlement date) per share of our common stock by a holder of common stock that is not a person with which we are consolidated or into which we are merged or which merged into us or to which such sale, transfer, lease or conveyance was made, or with whom such securities were exchanged pursuant to any such statutory share exchange, as the case may be, which person we refer to as a constituent person, or a constituent person, to the extent such reorganization event provides for different treatment of common stock held by our affiliates and their affiliates. In the event holders of our common stock have the opportunity to elect the form of consideration to be received in such transaction, the property unit that holders of the Corporate Units or Treasury Units will be entitled to receive will be deemed to be the weighted average of the amounts of consideration received by the holders of our common stock that affirmatively make an election.

On the effective date of such a reorganization event, the person formed by such consolidation or merger or the person to whom such sale, transfer, lease or conveyance was made or with whom such statutory share exchange was made shall execute and deliver to the purchase contract agent an agreement that the holder of each Equity Unit that remains outstanding after the reorganization event, if any, shall have the rights described in the foregoing paragraph. Such supplemental agreement shall provide for adjustments to the amount of any securities constituting all or a portion of the property unit which, for events subsequent to the effective date of such reorganization event, shall be as nearly equivalent as may be practicable to the adjustments provided for under "Anti-Dilution Adjustments." The provisions described in the preceding three paragraphs shall apply to successive reorganization events.

Notwithstanding the foregoing, we shall have the right to settle their obligations under the Equity Units early in the event of certain cash mergers as described above under "Early Settlement upon Cash Merger."

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Provisions with Respect to Adjustments

ents to the settlement rate will be calculated to the nearest 1/10,000th of a share. No adjustment in the settlement rate will be required unless an adjustment would require an increase or decrease of at least one percent in the settlement rate. If any adjustment is not required to be made because it would not change the settlement rate by at least one percent, then the adjustment will be carried forward and taken into account in any subsequent adjustment, provided that effect shall be given to all anti-dilution adjustments not later than the applicable stock purchase date, cash merger early settlement date or an early settlement date for Equity Units.

Fixed settlement rates will not be adjusted:

(1) upon the issuance of shares of our common stock or securities convertible into, or exercisable or exchangeable for, common stock in any public or private transactions at any price we deem appropriate;

(2) upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan of that type;

(3) upon the issuance of any shares of our common stock or options or rights to purchase those shares or any other award that relates to, or has a value derived from the value of, our common stock, in each case issued pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

(4) upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date the Equity Units were first issued;

(5) for a change in the par value or no par value of the common stock; or

(6) for accumulated and unpaid dividends.

Notwithstanding the foregoing, we may be required, as soon as practicable after the fixed settlement rates are adjusted, to provide written notice of the adjustment to the holders of Equity Units.

Any adjustment to the fixed settlement rates will result in a corresponding adjustment to the number of shares of our common stock issuable upon exercise of a stock purchase contract.

Whenever an adjustment is made to the fixed settlement rates, an adjustment also will be made to the reference price and the threshold appreciation price on a proportional basis solely to determine which of the clauses of the definition of settlement rate will be applicable on each stock purchase contract. This adjustment will be made as of the merger early settlement date occurring after the date of such adjustment.

In the event that we adopt a shareholder rights plan, holders will receive upon settlement of the Equity Units into shares of common stock, in addition to the shares of common stock, the rights under the rights plan, unless prior to any settlement, the shareholder rights plan expires or terminates or the rights have separated from the shares of common stock, in which case the settlement rate will be adjusted at the time of separation as if we distributed, to all holders of shares of common stock, shares of our common stock, evidences of debt or other assets issuable upon exercise of the rights as described above, subject to the terms and conditions of the rights plan in the event of the expiration, termination or redemption of such rights. A distribution of rights pursuant to such a shareholder rights plan will not trigger a settlement rate adjustment pursuant to paragraphs (2) or (3) above. We currently do not have a shareholder rights plan.

In the event of a taxable distribution to holders of shares of our common stock that results in an adjustment of each fixed settlement rate or an increase in the fixed settlement rate in our discretion, holders of Corporate Units and Treasury Units may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In addition, non-U.S. holders of Corporate Units and Treasury Units may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax requirements.

y be treated as receiving a constructive distribution from us for U.S. federal income tax purposes with respect to the stock purchase cont
ttlement rate is adjusted (or fails to be adjusted) and, as a result of the adjustment (or failure to adjust), your proportionate interest in o
gs and profits is increased, and (2) the adjustment (or failure to adjust) is not made pursuant to a bona fide, reasonable anti-dilution form
der certain

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ances, an increase in (or a failure to decrease) the settlement rate might give rise to a taxable dividend to you even though you will not receive a dividend in connection with the increase in (or failure to decrease) the settlement rate. In addition, non-U.S. holders of Equity Units may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax. See "Certain United States Federal Income Tax Consequences – Taxation of the Stock Purchase Contract – Adjustment to Settlement Rate" and "Non-U.S. Holders" in the prospectus supplement dated July 13, 2008, to the prospectus, dated July 13, 2007, relating to the issuance of the Equity Units.

on, we may increase the settlement rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of shares (or rights to acquire shares) or from any event treated as a dividend or distribution for income tax purposes or for any other reason.

Termination

Under the stock purchase contracts, and our rights and obligations and the rights and obligations of the holders of the Corporate Units and Treasury Units under the stock purchase contracts, including the right and obligation to purchase shares of common stock and the right to receive accrued contract adjustment payments, will immediately and automatically terminate, without any further action, upon the termination of the stock purchase contracts as a result of our bankruptcy, insolvency or reorganization, which we refer to as a "termination event." In the event of such a termination of the stock purchase contracts as a result of our bankruptcy, insolvency or reorganization, holders of the stock purchase contracts will not have a claim in bankruptcy under the stock purchase contract with respect to our issuance of shares of common stock or the right to receive contract adjustment payments.

Upon termination, the collateral agent will release the related interests in the Debentures or Treasury portfolio or qualifying treasury securities that may be held by it to the purchase contract agent for distribution to the holders of Equity Units. Upon any termination, however, the release of the related securities may be subject to a delay. In the event that we become the subject of a case under the U.S. Bankruptcy Code, the delay may occur as a result of the composition of the automatic stay under the Bankruptcy Code or the exercise of the bankruptcy court's power under Section 105(a) of the U.S. Bankruptcy Code. In addition, if we become the subject of a case under the U.S. Bankruptcy Code, the foregoing will be subject to the equitable powers and powers of the bankruptcy court.

If a holder's stock purchase contract is terminated as a result of our bankruptcy, insolvency or reorganization, such holder will have no right to receive any contract adjustment payments.

Securities and Pledge Agreement

The securities are pledged to us through the collateral agent, for our benefit, pursuant to the pledge agreement to secure the obligations of the holders of Corporate Units and Treasury Units to purchase shares of common stock under the related stock purchase contracts. The rights of holders of Corporate Units and Treasury Units to the related pledged securities are subject to our security interest created by the pledge agreement.

No holder of Corporate Units or Treasury Units is permitted to withdraw the pledged securities related to the Corporate Units or Treasury Units under the pledge agreement except:

- to substitute qualifying treasury securities for the related Debentures, as provided for under "Description of the Equity Units – Creating Corporate Units and Treasury Units,"
 - to substitute Debentures for the related qualifying treasury securities, as provided for under "Description of the Equity Units – Recreating Corporate Units," or
- upon the termination or early settlement of the related stock purchase contracts.

Under the security interest and the terms of the purchase contract agreement and the pledge agreement, each holder of Corporate Units is entitled to the purchase contract agent and the collateral agent to all of the proportional rights of a holder of the related Debentures or Treasury Units.

g voting and redemption rights. Each holder of Treasury Units retains beneficial ownership of the related qualifying treasury securities

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in respect of the related stock purchase contracts. We have no interest in the pledged securities other than our security interest.

as described in Certain Provisions of the Purchase Contract Agreement and the Pledge Agreement General, the collateral agent will, if payments, if any, on the pledged securities, distribute the payments to the purchase contract agent, which will in turn distribute those payments, together with contract adjustment payments received from us, to the persons in whose names the related Corporate Units or Treasury Units are registered at the close of business on the record date immediately preceding the date of payment.

Depository System

which we refer to along with its successors in this capacity as the depository, acts as securities depository for the Corporate Units and Treasury Units. The Corporate Units and Treasury Units were issued only as fully registered securities and have been and will be issued, except in the limited circumstances described below, in the form of global certificates registered in the name of Cede & Co., the depository's nominee. One or more global security certificates, representing the total aggregate number of Corporate Units and Treasury Units, have been issued and deposited with the depository or its custodian.

Laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in the Corporate Units and Treasury Units so long as the Corporate Units and Treasury Units are represented by global security certificates.

We advise that DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that investors deposit with DTC. DTC also facilitates the post-trade settlement among DTC participants of sales and other securities transactions in securities through electronic computerized book-entry transfers and pledges between DTC participants' accounts. This eliminates the physical movement of securities certificates. DTC participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC), the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Indirect access to the DTC system is also available to others such as non-U.S. brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The rules applicable to DTC and DTC participants are on file with the SEC.

event that:

the depository notifies us that it is unwilling or unable to continue as depository for the global security certificates and no successor depository has been appointed within 90 days after this notice,

the depository at any time ceases to be a clearing agency registered under the Exchange Act when the depository is required to be so registered to act as the depository and no successor depository has been appointed within 90 days after we learn that the depository has ceased to be so registered,

to the extent permitted by the depository, we, in our sole discretion, determine that the global security certificates shall be so exchangeable, or

there shall have occurred and be continuing an event of default with respect to the Debentures,

instructions for the Corporate Units or Treasury Units will be printed and delivered in exchange for beneficial interests in the global security certificates. Any global Corporate Unit or Treasury Unit, or portion thereof, that is exchangeable pursuant to the preceding sentence will be exchangeable for the corresponding Corporate Unit or Treasury Unit certificates, as the case may be, registered in the names directed by the depository. We expect that these instructions will be based upon directions received by the depository from its participants with respect to ownership of beneficial interests in the global security certificates.

tes.

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as the depositary or its nominee is the registered owner of the global security certificates, the depositary or its nominee, as the case may be, is deemed the sole owner and holder of the global security certificates and all Corporate Units and Treasury Units represented by these certificates, stock purchase contracts, Debentures and qualifying treasury securities that are components thereof for all purposes under the Corporate Units and the purchase contract agreement, pledge agreement and junior debt indenture. Except in the limited circumstances referred to herein, the depositary and its nominee are not entitled to have the Corporate Units or the Treasury Units represented by these global security certificates registered in their names, and the depositary and its nominee do not receive and are not entitled to receive physical delivery of Corporate Unit or Treasury Unit certificates in exchange for beneficial interests in global security certificates, and the depositary and its nominee are not considered to be holders of the global security certificates or any Corporate Units or Treasury Units represented by these certificates or any stock purchase contracts, Debentures or qualifying treasury securities that are components thereof for any purpose under the Corporate Units, Treasury Units or the purchase contract agreement, pledge agreement and junior debt indenture.

Transfers of Corporate Units and Treasury Units represented by the global security certificates and all transfers and deliveries of related securities, qualifying treasury securities, Treasury portfolio and common stock are made to the depositary or its nominee, as the case may be, and all transfers of the securities.

Beneficial ownership of beneficial interests in the global security certificates is limited to participants or persons that hold beneficial interests through participant accounts with the depositary or its nominee. Ownership of beneficial interests in global security certificates is shown only on, and the transfer of ownership interests will be effected only through, records maintained by the depositary or its nominee, with respect to participants' interests in the securities, with respect to interests of persons held through the participant. Procedures for settlement of stock purchase contracts on the settlement dates or upon early settlement are governed by arrangements among the depositary, participants and persons that may hold beneficial interests in the securities. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global security certificates are governed by various policies and procedures adopted by the depositary from time to time. None of us, the purchase contract agent or any agent of the purchase contract agent has any responsibility or liability for any aspect of the depositary's or any participant's records relating to, or for payment of, beneficial interests in global security certificates, or for maintaining, supervising or reviewing any of the depositary's records or any participant's records relating to these beneficial ownership interests or for the performance by the depositary or its direct participants or indirect participants under the rules and procedures governing the depositary.

Notwithstanding the depositary has agreed to the foregoing procedures in order to facilitate transfers of interests in the global security certificates among participants, the depositary is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time.

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CERTAIN PROVISIONS OF THE PURCHASE CONTRACT AGREEMENT AND THE PLEDGE AGREEMENT

Summary summarizes some of the terms of the purchase contract agreement and the pledge agreement. This summary does not purport to be complete and is qualified by the purchase contract agreement and pledge agreement, which contain the full legal text of the matters described in this summary. Such documents have been filed with the SEC or incorporated by reference as exhibits to the registration statement of which this document is a part. You should refer to these documents for more information.

Under this caption, Certain Provisions of the Purchase Contract Agreement and the Pledge Agreement, references to we, us, our or similar references mean American International Group, Inc., excluding, unless otherwise expressly stated or the context otherwise requires, our subsidiaries.

As described in Description of the Stock Purchase Contracts Book-Entry System, payments on the Equity Units will be made, stock purchase contracts (and documents relating to the Corporate Units, Treasury Units and stock purchase contracts) will be settled, and transfers of the Corporate Units and Treasury Units will be registrable, at the office of the purchase contract agent in the Borough of Manhattan, New York City. In addition, if the Equity Units and Treasury Units do not remain in book-entry form, payments on the Equity Units may be made, at our option, by check mailed to the holder entitled to payment as shown on the security register or, at our option, by a wire transfer to the account designated by the holder in a written notice.

If common stock will be delivered on each stock purchase date (or earlier upon early settlement), or, if the stock purchase contracts have not been settled, the related pledged securities will be delivered (potentially after a delay as a result of the imposition of the automatic stay under the Bankruptcy Code or the exercise of the bankruptcy court's power under Section 105(a) of the Bankruptcy Code, see Description of the Stock Purchase Contracts Termination) at the office of the purchase contract agent upon presentation and surrender of the applicable Equity Units (including by book-entry transfer).

Until the holder presents and (in the case of the third stock purchase date) surrenders (including by book-entry transfer) the Corporate Units or Treasury Units to the purchase contract agent on or prior to any stock purchase date, the shares of common stock issuable upon settlement of the related stock purchase contracts on such stock purchase date will be registered in the name of the purchase contract agent. The shares, together with any distributions, will be held by the purchase contract agent as agent for your benefit until the Equity Units are presented and surrendered or you provide satisfactory evidence that the applicable certificate has been destroyed, lost or stolen, together with any indemnity that may be required by the purchase contract agent.

If the stock purchase contract terminates prior to the third stock purchase date, the related pledged securities are transferred to the purchase contract agent for distribution to the holders, and if a holder fails to present and surrender (including by book-entry transfer) the holder's Corporate Units or Treasury Units to the purchase contract agent, the related pledged securities delivered to the purchase contract agent and payments on the pledged securities will be made by the purchase contract agent as agent for the benefit of the holder until the applicable Equity Units are presented or the holder provides satisfactory evidence and indemnity described above.

The purchase contract agent will have no obligation to invest or to pay interest on any amounts held by the purchase contract agent pending payment of the purchase contract.

No fee or charge will be made for any registration of transfer or exchange of the Corporate Units or Treasury Units, except for any tax or other governmental charge that may be imposed in connection with a transfer or exchange.

Information

urchase contract agreement and the pledge agreement contain provisions permitting us and the purchase contract agent, and in the case of
greement, the collateral agent, to modify the stock purchase contracts,

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purchase contract agreement or the pledge agreement without the consent of the holders for any of the following purposes:

to evidence the succession of another person to our obligations;

to add to the covenants for the benefit of holders or to surrender any of our rights or powers under those agreements;

to evidence and provide for the acceptance of appointment of a successor purchase contract agent or a successor collateral agent or securities intermediary;

to make provision with respect to the rights of holders pursuant to the requirements applicable to reorganization events;

to cure any ambiguity or to correct or supplement any provisions that may be inconsistent; or

to make any other provisions that do not materially adversely affect the interests of the holders of Equity Units.

The purchase contract agreement and the pledge agreement contain provisions permitting us and the purchase contract agent, and in the case of the pledge agreement, the collateral agent, with the consent of the holders of a majority of the Equity Units at the time outstanding to modify the terms of the stock purchase contracts, the purchase contract agreement or the pledge agreement. However, no such modification may, without the consent of each outstanding Equity Unit affected by the modification,

subject to our deferral rights, change any payment date for any contract adjustment payment,

change the amount or type of pledged securities related to the stock purchase contract, impair the right of the holder of any pledged securities to receive distributions on the pledged securities or otherwise adversely affect the holder's rights in or to the pledged securities,

change the place or currency of payment of or reduce any contract adjustment payments,

impair the right to institute suit for the enforcement of the stock purchase contract or payment of any contract adjustment payments,

reduce the number of shares of common stock or the amount of any other property or securities purchasable under the stock purchase contract, increase the price to purchase shares of common stock or any other property or securities upon settlement of the stock purchase contract, change any stock purchase date or the right to early settlement or cash merger early settlement or otherwise materially adversely affect the holder's rights under the stock purchase contract, or

reduce the above-stated percentage of outstanding stock purchase contracts the consent of the holders of which is required for the modification or amendment of the provisions of the stock purchase contracts, the purchase contract agreement or the pledge agreement.

An amendment or proposal referred to in the second preceding paragraph would adversely affect only the Corporate Units or the Treasury Units. The affected class of holders will be entitled to vote on the amendment or proposal, and the amendment or proposal will not be effective except if approved by the consent of the holders of not less than a majority of the affected class or of all of the holders of the affected classes, as applicable.

Consent to Assumption

The holder of Corporate Units or Treasury Units, by acceptance of these securities, has under the terms of the purchase contract agreement and the pledge agreement, as applicable, been deemed expressly to have withheld any consent to the assumption (i.e., affirmation) of the stock purchase contracts by us or our trustee if we become the subject of a case under the U.S. Bankruptcy Code or other similar state or federal law in reorganization or liquidation.

Contents**ation, Merger, Sale or Conveyance**

nant in the purchase contract agreement that we will not consolidate or merge with any other person or convey, transfer or lease our pro
 ts as an entirety or substantially as an entirety to another person, unless (1) the successor or transferee is a person organized and existing
 of the United States of America, a U.S. state or the District of Columbia and that successor or transferee expressly assumes our obligati
 e stock purchase contracts, the purchase contract agreement, the pledge agreement, the junior debt indenture, the Debentures and the
 ing agreement and (2) the successor or transferee is not, immediately after the transaction, in default of its payment obligations under th
 contracts, the purchase contract agreement, the pledge agreement, the junior debt indenture, the Debentures or the remarketing agreem

purchase contract agent and the collateral agent may treat the registered owner of any Corporate Units or Treasury Units as the absolute
 Corporate Units or Treasury Units for the purpose of making payment and settling the related stock purchase contracts and for all other pu

ment of Equity Unit Certificates

tion only applies to the Corporate Units and Treasury Units not held through DTC as described under Description of the Stock Purcha
 s Book-Entry System.

ilated Corporate Unit or Treasury Unit certificate will be replaced by us at the expense of the holder upon surrender of the certificate to
 e contract agent. Corporate Unit or Treasury Unit certificates that become destroyed, lost or stolen will be replaced by us at the expense
 pon delivery to us and the purchase contract agent of evidence of their destruction, loss or theft satisfactory to us and the purchase contr
 the case of a destroyed, lost or stolen Corporate Unit or Treasury Unit certificate, an indemnity satisfactory to the purchase contract ag
 be required at the expense of the holder of the Corporate Units or Treasury Units evidenced by the certificate before a replacement will l

not be obligated to issue any Corporate Unit or Treasury Unit certificates on or after the business day immediately preceding the third s
 e date (or after early settlement) or after the stock purchase contracts have terminated. The purchase contract agreement will provide tha
 delivery of a replacement Corporate Unit or Treasury Unit certificate following the stock purchase date (or early settlement), the purchase
 pon delivery of the evidence and indemnity described above, will deliver the shares of common stock issuable pursuant to the stock pur
 s included in the Corporate Units or Treasury Units evidenced by the certificate, or, if the stock purchase contracts have terminated prio
 ck purchase date, transfer the pledged securities included in the Corporate Units or Treasury Units evidenced by the certificate.

ng Law

hase contract agreement, the pledge agreement and the stock purchase contracts are governed by, and construed in accordance with, the
 of New York.

tion Concerning the Purchase Contract Agent

rk of New York Mellon is the purchase contract agent. The purchase contract agent acts as the agent for the holders of Corporate Units a
 Units from time to time. The purchase contract agreement does not obligate the purchase contract agent to exercise any discretionary a
 on with a default under the terms of the Corporate Units and Treasury Units or the purchase contract agreement. In addition, The Bank
 ellon is the trustee under the junior debt indenture and the principal paying agent and registrar for the Debentures. See Description of t
 res About the Trustee. We have entered, and from time to time may continue to enter, into banking or other relationships with The B
 rk Mellon or its affiliates.

hase contract agreement contains provisions limiting the liability of the purchase contract agent and providing for the circumstances un
 e purchase contract agent may resign or be replaced. Any resignation or replacement would be effective upon the acceptance of appoint

SOR.

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tion Concerning the Collateral Agent

ton Trust Company is the collateral agent and securities intermediary. The collateral agent acts solely as our agent and does not assume
n or relationship of agency or trust for or with any of the holders of the Corporate Units or Treasury Units, except for the obligations o
of property to the owner of the property under the pledge agreement and applicable law.

ge agreement contains provisions limiting the liability of the collateral agent and providing for the circumstances under which the colla
y resign or be replaced. This resignation or replacement would be effective upon the acceptance of appointment by a successor.

aneous

hase contract agreement provides that we will pay the fees and expenses of the collateral agent and the retention of the purchase contra

you elect to substitute the related pledged securities to create Treasury Units or recreate Corporate Units, you will be responsible for any
s payable in connection with that substitution, as well as any commissions, fees or other expenses incurred in acquiring the pledged secu
tuted, and we will not be responsible for any of those fees or expenses.

Contents**DESCRIPTION OF THE DEBENTURES**

tion is a summary of some of the terms of our Debentures and the junior debt indenture. This summary does not purport to be complete. The full legal text of the matters described in this section. Such documents have been filed with the SEC or incorporated by reference to the registration statement of which this document forms a part. You should refer to these documents and the Trust Indenture Act for more information.

Under this caption, Description of the Debentures, references to we, us, our and other similar references mean American International Group, Inc., excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries.

Debentures were issued under the junior subordinated debt indenture, dated as of March 13, 2007, between us and The Bank of New York as indenture trustee, as amended and supplemented by three supplemental indentures, dated as of May 16, 2008, between us and the indenture trustee, as amended and supplemented, the *junior debt indenture*). The Debentures were issued in three series:

Series B-1 Junior Subordinated Debentures initially due February 15, 2041 (the *Series B-1 Debentures*);

Series B-2 Junior Subordinated Debentures initially due May 1, 2041 (the *Series B-2 Debentures*); and

Series B-3 Junior Subordinated Debentures initially due August 1, 2041 (the *Series B-3 Debentures*).

The Series B-1 Debentures, the Series B-2 Debentures and the Series B-3 Debentures are referred to collectively as the *Debentures*. Each series has an aggregate principal amount of \$1,960,000,000.

We are a holding company that conducts substantially all of our operations through subsidiaries. As a result, we depend on dividends, distributions and payments from our subsidiaries to fund payments on the Debentures. Further, the majority of our investments are held by our regulated subsidiaries. In light of our current financial situation and the retained deficit resulting from the losses recorded in recent quarters, certain of our subsidiaries have been restricted from making dividend payments, or advancing funds, to us, and we expect these restrictions to continue. For subsidiaries not currently subject to these restrictions, these subsidiaries may be limited in their ability to make dividend payments or advance funds to us in the future because of the need to support their own capital levels.

The indenture trustee is the security registrar and the paying agent for the Debentures. Debentures forming a part of the Corporate Units were issued in registered certificated form, without coupons, and are in denomination of \$1,000 and integral multiples of \$1,000.

Debentures may be transferred or exchanged, without service charge but upon payment of any taxes or other governmental charges payable in connection with any registration of transfer or exchange of the Debentures, at the office described below. Principal and interest with respect to registered Debentures are payable, the transfer of the Debentures is registrable and Debentures are exchangeable for Debentures of a like aggregate amount in denominations of \$1,000 and integral multiples of \$1,000, at the office or agency maintained by us for this purpose in New York. We have designated the corporate trust office of the indenture trustee as that office for purposes of registering transfers and exchange of the Debentures.

Debentures are not subject to a sinking fund provision. The entire principal amount of the Debentures will mature and initially become due together with any accrued and unpaid interest thereon, on February 15, 2041 in the case of the Series B-1 Debentures, May 1, 2041 in the case of the Series B-2 Debentures and August 1, 2041 in the case of the Series B-3 Debentures. We may elect with respect to any series of Debentures during any applicable remarketing period start date to move the maturity date up to a date no earlier than the date two years after the applicable stock

date. As described below under Put Option Following a Failed Remarketing, holders of separate Debentures have the right to require the redemption of their Debentures under certain circumstances.

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our debt indenture does not contain any financial covenants or any restrictions on the payment of dividends, the making of investments, the incurrence of indebtedness, redemption or, except as set forth under Put Option Following a Failed Remarketing, repurchase of securities by us.

our debt indenture does not contain provisions that afford holders of the Debentures protection in the event we are involved in a highly leveraged transaction or other similar transaction that may adversely affect such holders. The junior debt indenture does not limit our ability to issue or incur additional debt or issue preferred stock.

The Debentures are our junior subordinated obligations. The Debentures are subordinated in right of payment to all senior debt as described in the Debenture Indentures. The Debentures rank *pari passu* with our:

\$1,000,000,000 aggregate principal amount of 6.25% Series A-1 Junior Subordinated Debentures,

£750,000,000 aggregate principal amount of 5.75% Series A-2 Junior Subordinated Debentures,

1,000,000,000 aggregate principal amount of 4.875% Series A-3 Junior Subordinated Debentures,

\$750,000,000 aggregate principal amount of 6.45% Series A-4 Junior Subordinated Debentures,

\$1,100,000,000 aggregate principal amount of 7.70% Series A-5 Junior Subordinated Debentures,

\$4,000,000,000 aggregate principal amount of 8.175% Series A-6 Junior Subordinated Debentures,

750,000,000 aggregate principal amount of 8.000% Series A-7 Junior Subordinated Debentures, and

£900,000,000 aggregate principal amount of 8.625% Series A-8 Junior Subordinated Debentures (collectively, the outstanding parity securities).

we may issue additional series of junior subordinated Debentures that rank *pari passu* with the Debentures.

The Debenture bears interest, from the issuance date, payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year beginning August 1, 2008, to the person in whose name the Debenture is registered at the close of business on the 15th day of the month prior to the date on which the relevant interest payment date falls (unless otherwise specified), at an annual rate of 5.67% in the case of the Series B-1 Debentures, 5.89% in the case of the Series B-2 Debentures and 5.89% in the case of the Series B-3 Debentures.

Upon the successful remarketing of any series of Debentures (other than any series that we elect to remarket as floating-rate Debentures), such Debentures will bear interest at the reset rate and be payable on a semi-annual basis.

The applicable interest rate on the Debentures may be reset to the reset rate upon successful remarketing as described above under Description of Remarketing and below under Market Reset Rate. The reset rate will become effective on the remarketing date if the Debentures are successfully remarketed. If the Debentures are not successfully remarketed, the interest rate on the Debentures will not be reset.

The amount of interest payable on the Debentures for any period is computed (1) for any full quarterly or semi-annual period on the basis of a 30-day month and (2) for any period shorter than a full quarterly or semi-annual period, on the basis of a 30-day month and, for any period less than a month, on the basis of the actual number of days elapsed per 30-day month. In the event that any date on which interest is payable on the Debentures is not a business day, then payment of the interest payable on such date will be made on the next day that is a business day (and

est or other payment in respect of any such delay), with the same force and effect as if made on such originally scheduled date. If we el
t the Debentures of any series as floating-rate Debentures, we may change these conventions effective on the remarketing settlement da
be consistent for Debentures that bear interest at a rate based on the applicable index.

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to Defer Interest Payments

elect at one or more times to defer payment of interest on each series of Debentures for one or more consecutive interest periods until the applicable stock purchase date. As of October 7, 2010, the day before commencement of the exchange offer, we have not deferred any payment of interest on any series of Debentures and we currently do not intend to exercise our option to defer interest on the Debentures.

Interest on each series of Debentures will bear interest at the interest rate then applicable to such series of Debentures, compounded on the applicable interest payment date, subject to applicable law. As used in this document, a deferral period refers to the period beginning on an interest payment date to which we elect to defer interest and ending on the earlier of (i) the applicable stock purchase date and (ii) the next interest payment date. We have paid all accrued and previously unpaid interest on such series of Debentures.

We will give the holders of the Debentures and the indenture trustee written notice of our election to begin a deferral period at least one business day before the applicable record date for the next interest payment date. However, our failure to pay interest on any interest payment date will itself constitute the commencement of a deferral period unless we pay such interest within five business days after the interest payment date, whether or not we provide notice of deferral. We may pay deferred interest in cash or in the form of additional Debentures in a principal amount equal to the aggregate amount of deferred interest at any time; *provided* that if any deferred interest has not been paid on or prior to the applicable stock purchase date, we must pay such interest in the form of additional Debentures in a principal amount equal to the aggregate amount of deferred interest on such date, to the holders of such Debentures, whether or not they participate in the applicable remarketing. We will set a special record date for the payment of any deferred interest, whether in cash or in the form of additional Debentures, that we make on a date that is not an interest payment date for the applicable series of Debentures. A failure to pay interest will not give rise to an event of default unless we fail to pay interest, including compounded interest, in cash on the applicable stock purchase date.

After we have paid all deferred interest on the Debentures, we can again defer interest payments on Debentures as described above. The junior debt covenant does not limit the number or frequency of interest deferral periods.

Events of Default and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances

We have agreed that:

we will not, and will not permit any of our subsidiaries to, make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of our debt securities that upon our liquidation rank *pari passu* with, or junior to, the Debentures, until the applicable stock purchase date for any series of Debentures,

if an event of default has occurred and is continuing;

we have given notice of our election to defer interest payments but the related deferral period has not yet commenced; or

a deferral period is continuing with respect to such series of Debentures;

we have given notice of our election to defer contract adjustment payments but the related deferral period has not yet commenced or a deferral period is continuing with respect to such contract adjustment payments; or

additional Debentures are outstanding,

we will not, and will not permit any of our subsidiaries to:

declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any shares of our capital stock;

make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of our debt securities that upon our liquidation rank *pari passu* with, or junior to, the Debentures; or

make any guarantee payments regarding any guarantee by us of securities of any of our subsidiaries if the guarantee ranks *pari passu* with, or junior in interest to, the Debentures.

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Restrictions listed above do not apply to:

purchases, redemptions or other acquisitions of shares of our capital stock in connection with:

any employment benefit plan or other compensatory contract or arrangement; or the Assurance Agreement, dated as of June 27, 2000, by AIG in favor of eligible employees and relating to specified obligations of Starr International Company, Inc. (as such agreement may be amended, supplemented, extended, modified or replaced from time to time); or

a dividend reinvestment, stock purchase plan or other similar plan;

any exchange or conversion of any class or series of our capital stock (or any capital stock of a subsidiary of AIG) for any class or series of our capital stock or of any class or series of our indebtedness for any class or series of our capital stock;

the purchase of fractional interests in shares of our capital stock in accordance with the conversion or exchange provisions of such capital stock or the security being converted or exchanged;

any declaration of a dividend in connection with any shareholders' rights plan, or the issuance of rights, equity securities or other property under any shareholders' rights plan, or the redemption or repurchase of rights in accordance with any shareholders' rights plan;

any dividend in the form of equity securities, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of the warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks on a parity with or junior to such equity securities;

any payment of current interest or deferred interest on *pari passu* securities during a deferral period that is made *pro rata* to the amounts due on *pari passu* securities and the Debentures;

any payment of deferred interest or principal on *pari passu* securities that, if not made, would cause us to breach the terms of the instrument governing such *pari passu* securities; or

the repayment or redemption of any security necessary to avoid a breach of the instrument governing the same.

Reset Rate

If the remarketing of any series of Debentures is successful and the rate is reset, the reset rate or the applicable index plus the reset spread will apply to all outstanding Debentures of that series, whether or not the holders participated in such remarketing, and will become effective on the applicable remarketing settlement date. The interest rate on each series of Debentures will be the reset rate or, if we have elected to remarket such series of Debentures as floating-rate Debentures, the applicable index plus the reset spread determined by the remarketing agent, in consultation with us, less the spread from such remarketing, net of the 0.25% remarketing fee, will be at least equal to 100% of the sum of the Treasury portfolio purchase price and the separate Debentures purchase price. The reset rate may be higher or lower than the current rate of interest on such series of Debentures. In addition, if we elect to purchase any series of Debentures in the applicable remarketing, it may adversely affect the reset rate and the liquidity of such series of Debentures.

If we elect that any series of Debentures will bear interest at a floating rate if successfully remarketed, interest will be payable semi-annually on the Series B-1 Debentures and the Series B-3 Debentures at the reset rate from and including the applicable remarketing settlement date on May 1 and November 1 of each year in the case of the Series B-1 Debentures and the Series B-3 Debentures and on February 1 and August 1 of each year in the case of the Series B-2 Debentures. Interest payment dates for any series of Debentures will not change if we elect that such series of Debentures will bear interest at a floating rate if successfully remarketed. If a successful remarketing of the Debentures does not occur, the interest rate will not be reset and the Debentures will bear interest at the initial interest rate, payable quarterly.

Contents**Redemption**

On or after the date two years after the applicable stock purchase date for any series of Debentures (or after such later date as we may determine prior to the remarketing period start date for such series of Debentures), we may redeem, at our option, the Debentures of such series, in part, at a price equal to the greater of \$1,000 per Debenture plus accrued and unpaid interest, if any, to the date of redemption and a whole redemption price, upon not less than 30 nor more than 60 days' notice. In connection with a remarketing, we may in our discretion exercise the terms of our right to redeem the Debentures of any series.

Redemption Procedures

We will mail, or cause the trustee to mail, every redemption notice to the holders of record of the Debentures to be redeemed at their respective addresses appearing on our books. Such mailing will be at least 30 days and not more than 60 days before the date fixed for redemption. Any Debentures redeemed pursuant to the notice will, on the date fixed for redemption, become due and payable at the redemption price. From and after such date, the Debentures will cease to bear interest. Upon surrender of any such Debentures for redemption in accordance with said notice, the Debenture holder will be paid by us at the redemption price. If any Debentures called for redemption are not so paid upon surrender thereof for redemption, the redemption price will, until paid, bear interest from the redemption date at the applicable interest rate for the Debentures.

Changes to the Terms of the Debentures in Connection with a Successful Remarketing

On or after the date 30 days prior to the remarketing period start date for any series of Debentures, without the consent of any of the holders of such series, in consultation with the remarketing agent, we may (but will not be required to) make any of the following elections:

move up the maturity date of the Debentures of such series to any date not earlier than the date two years after the applicable stock purchase date;

modify our right to redeem the Debentures by providing that we will not be entitled to redeem such Debentures prior to a later date or that the redemption price will equal the principal amount of such Debentures plus accrued and unpaid interest through the date of redemption; or

provide that the Debentures of such series will bear interest at a floating rate equal to an applicable index plus a reset spread to be determined in the remarketing, in which case we may also elect to modify the business day and day count convention to conform to market practice for floating-rate Debentures bearing interest at a rate determined by reference to such index.

Such elections shall be made by irrevocable notice to the indenture trustee, who will notify the holders of the Corporate Units and separate series of such series at least 15 days prior to the applicable remarketing period start date. Any such election to move up the maturity date or to change redemption terms will be effective when made, and any such election to provide for a floating rate will be effective on the applicable remarketing period start date.

In the event of any successful remarketing the following Debenture terms will be modified without any action by any person:

the Debentures will cease to be subject to the subordination provisions described under "Subordination"; and

we will no longer be able to defer interest as described under "Option to Defer Interest Payments."

Remarketing

On or after the second business day immediately preceding the remarketing period start date for any series of Debentures, but no earlier than the payment date immediately preceding such date, holders of Debentures of the applicable series that are not components of Corporate Units may have their Debentures remarketed in the same manner and at the same price as Debentures that are components of Corporate Units by the

default in the performance, or breach of any other covenant or warranty of the junior debt indenture for 60 days after we receive a notice of default stating we are in breach from either the indenture trustee or holders of 25% of the principal amount of Debentures of the affected series; or

certain events of bankruptcy, insolvency and reorganization involving AIG.

Contents

es If an Event of Default Occurs

...ties available upon the occurrence of an event of default under the junior debt indenture will be subject to the restrictions described below. Subordination for so long as they apply. If an event of default occurs, the indenture trustee will have special duties. In that situation, we will be obligated to use its rights and powers under the junior debt indenture, and to use the same degree of care and skill in doing so that a prudent person would use in that situation in conducting his or her own affairs. If an event of default of the type described in the first bullet point of that term has occurred and has not been cured, the indenture trustee or the holders of at least 25% in principal amount of the Debentures shall declare the entire principal amount of all the then Debentures to be due and immediately payable. This is called a declaration of acceleration. If an event of default involving the bankruptcy, insolvency and reorganization involving AIG has occurred, the principal amount of all outstanding Debentures will immediately become due and payable. In the case of any other default or breach of the junior debt indenture by AIG after its purchase date, including an event of default under the second bullet point in the definition of that term, there is no right to declare the principal amount of the Debentures immediately due and payable.

...holders of a majority in aggregate outstanding principal amount of Debentures of any series may, on behalf of the holders of all the Debentures of such series, waive any default or event of default, except an event of default under the second or third bullet point above or a default with respect to a term or provision which under the junior debt indenture cannot be modified or amended without the consent of the holder of each outstanding Debenture of such series.

...In cases of an event of default, where the indenture trustee has the special duties described above, the indenture trustee is not required to take any action under the junior debt indenture at the request of any holders unless the holders offer the indenture trustee reasonable protection from expense, called an indemnity. If indemnity reasonably satisfactory to the indenture trustee is provided, the holders of a majority in principal amount of all outstanding Debentures may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available under the junior debt indenture. These majority holders may also direct the indenture trustee in performing any other action under the junior debt indenture with respect to the Debentures.

...You may not bypass the indenture trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests under the junior debt indenture, the following must occur:

- a holder of the Debenture must give the indenture trustee written notice that an event of default has occurred and remains uncured;
- the holders of 25% in principal amount of all Debentures of the relevant series must make a written request that the indenture trustee take action because of the default, and they must offer reasonable indemnity to the indenture trustee against the cost, expenses and liabilities of taking that action; and
- the indenture trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.

...We will provide to the indenture trustee every year a written statement of certain of our officers certifying that to their knowledge we are in compliance with the terms of the junior debt indenture, or else specifying any default.

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...The holders of the Debentures should recognize that contractual provisions in the junior debt indenture may prohibit us from making payments on the Debentures. The Debentures are subordinate and junior in right of payment, to the extent and in the manner stated in the junior debt indenture, to all other debt, or debt, as defined in the junior debt indenture, including our senior secured debt.

...The junior debt indenture defines senior debt as all indebtedness and obligations of, or guaranteed or assumed by, us:

• for borrowed money;

evidenced by bonds, debentures, notes or other similar instruments; and

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that represent obligations to policyholders of insurance or investment contracts;

case, whether existing now or in the future, and all amendments, renewals, extensions, modifications and refundings of any indebtedness of that kind. Senior debt includes our senior secured debt under the FRBNY Credit Facility. Senior debt also includes any subordinated debt that by its terms is not expressly *pari passu* or subordinated to the Debentures; all guarantees of securities issued by an affiliate or other entity affiliated with us that is, directly or indirectly, our financing vehicle; and intercompany debt. The Debentures rank *pari passu* with all outstanding parity securities. The junior debt indenture does not restrict or limit in any way our ability to incur senior debt. As of September 30, 2018, we had approximately \$67.4 billion of outstanding senior debt.

Debt excludes:

trade accounts payable and accrued liabilities arising in the ordinary course of business; and

any indebtedness, guarantee or other obligation that is specifically designated as being subordinate, or not superior, in right of payment to the Debentures (including the outstanding parity securities).

The junior debt indenture provides that, unless all principal of and any premium or interest on the senior debt has been paid in full, no payment on the junior debt may be made with respect to any Debentures in the following circumstances:

in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization, assignment for creditors or other similar proceedings or events involving us or our assets; or

in the event of any event of default with respect to any senior debt for borrowed money having at the relevant time an aggregate outstanding principal amount of at least \$100 million has occurred and is continuing and has been accelerated (unless the event of default has been cured or waived or ceased to exist and such acceleration has been rescinded); or

in the event the Debentures have been declared due and payable prior to the final maturity date.

If the indenture trustee under the junior debt indenture or any holders of the Debentures receive any payment or distribution that is prohibited under the subordination provisions, then the indenture trustee or the holders will have to repay that money to the holders of the senior debt.

The subordination provisions do not prevent the occurrence of an event of default. This means that the indenture trustee under the junior debt indenture or any holders of the Debentures can take action against us, but they will not receive any money until the claims of the holders of senior debt have been satisfied.

Changes

There are four types of changes we can make to the junior debt indenture and the Debentures.

Requiring Approval of All Holders. First, there are changes that cannot be made to the Debentures without specific approval of each holder of the Debentures affected by the change. Affected Debentures may be all or less than all of the Debentures issued under that junior debt indenture or all of the Debentures of a series. Following is a list of those types of changes:

change the stated maturity of the principal or interest on a Debenture;

reduce any amounts due on a Debenture;

reduce the amount of principal payable upon acceleration of the maturity of a Debenture (including the amount payable on an original issue discount security) following a default;

change the currency of payment on a Debenture;

impair a holder's right to sue for payment;

reduce the percentage of holders of Debentures whose consent is needed to modify or amend the junior debt indenture;

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reduce the percentage of holders of Debentures whose consent is needed to waive compliance with certain provisions of the junior debt indenture or to waive certain defaults;

modify any other aspect of the provisions dealing with modification and waiver of the junior debt indenture;

modify the put right of holders of separate Debentures upon a failed remarketing;

modify the rate reset or remarketing provisions of the Debentures, it being understood that the elimination of the subordination and interest deferral provisions, any reset of the interest rate or modification of the maturity date or redemption provisions of the Debentures in connection with a successful remarketing is permitted under the junior debt indenture and does not require any modification to the provisions of the junior debt indenture.

, with the indenture trustee's consent, execute, without the consent of any holder of the Debentures, any supplemental indenture for the issuing any new series of junior subordinated debentures.

Requiring a Majority Vote. The second type of change to the junior debt indenture and the Debentures is the kind that requires a vote of holders of Debentures owning a majority of the principal amount of the particular series affected or, if so provided and to the extent permitted by the Trust Indenture Act, of particular Debentures affected thereby. Most changes fall into this category, except for clarifying changes and certain other changes that would not adversely affect in any material respect holders of the Debentures. We may also obtain a waiver of a past default from the holders of Debentures owning a majority of the principal amount of the particular series affected. However, we cannot obtain a waiver of a payment or any other aspect of the junior debt indenture or the Debentures listed in the first category described above under "Changes Requiring Holders' Consent" unless we obtain the individual consent of each holder to the waiver.

Not Requiring Approval. The third type of change does not require any vote by holders of the Debentures. This type is limited to clarifying and certain other changes that would not adversely affect in any material respect holders of the Debentures.

We may also make changes or obtain waivers that do not adversely affect in any material respect a particular Debenture, even if they affect other Debentures. In those cases, we do not need to obtain the approval of the holder of that Debenture; we need only obtain any required approvals from the holders of the affected Debentures.

Elimination of Subordination Provisions. We may not modify the subordination provisions of the junior debt indenture in a manner that would adversely affect in any material respect the outstanding Debentures, without the consent of the holders of a majority in principal amount of the particular series affected or, if so provided and to the extent permitted by the Trust Indenture Act, of particular Debentures affected thereby. Also, we may not modify the subordination provisions of any outstanding Debentures without the consent of each holder of our senior debt that would be adversely affected thereby. The term "senior indebtedness" is defined under "Subordination." However, the elimination of the subordination provisions of the Debentures in connection with a successful remarketing is permitted under the junior debt indenture and does not require any modification to the provisions of the junior debt indenture.

Waiver of Default; Satisfaction and Discharge

The provisions of the junior debt indenture that relate to the satisfaction and discharge of the junior debt indenture will apply to the Debentures of any series that bears interest at a rate determined by reference to the applicable stock purchase date. The satisfaction and discharge provisions of the junior debt indenture apply to the Debentures.

Waiver of Default

In the event of a change in U.S. federal tax law, as described below, we can legally release ourselves from any payment or other obligations on the Debentures, called full defeasance, if we put in place the following other arrangements for holders to be repaid:

We must deposit in trust for the benefit of all holders of the Debentures a combination of money and notes or bonds of the U.S. government or a U.S. government agency or U.S. government-sponsored entity (the

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obligations of which are backed by the full faith and credit of the U.S. government) that will generate enough cash to make interest, principal and any other payments on the Debentures on their various due dates.

There must be a change in current U.S. federal tax law or an IRS ruling that lets us make the above deposit without causing the holders to be taxed on the Debentures any differently than if we did not make the deposit and just repaid the Debentures ourselves. Under current federal tax law, the deposit and our legal release from the obligations pursuant to the Debentures would be treated as though we took back your Debentures and gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on the Debentures you give back to us.

We must deliver to the indenture trustee a legal opinion of our counsel confirming the tax law change described above.

No event or condition may exist that, under the provisions described above under **Subordination** above, would prevent us from making payments of principal, premium or interest on those Debentures on the date of the deposit referred to above or during the 90 days after that date.

er did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment on the Debentures. You can still look to us for repayment in the unlikely event of any shortfall.

Covenant Defeasance

Under current U.S. federal tax law, we can make the same type of deposit as described above and we will be released from some of the restrictive covenants under the Debentures. This is called covenant defeasance. In that event, you would lose the protection of these covenants but would gain the benefit of having money and U.S. government or U.S. government agency notes or bonds set aside in trust to repay the Debentures. In order to accomplish covenant defeasance, we must do the following:

We must deposit in trust for the benefit of all holders of the Debentures a combination of money and notes or bonds of the U.S. government or a U.S. government agency or U.S. government-sponsored entity (the obligations of which are backed by the full faith and credit of the U.S. government) that will generate enough cash to make interest, principal and any other payments on the Debentures on their various due dates.

We must deliver to the indenture trustee a legal opinion of our counsel confirming that under current U.S. federal income tax law we may make the above deposit without causing the holders to be taxed on the Debentures any differently than if we did not make the deposit and just repaid the Debentures ourselves.

To accomplish covenant defeasance, the events of default described under **Events of Default** would no longer apply.

Even if we accomplish covenant defeasance, you can still look to us for repayment of the Debentures if there were a shortfall in the trust deposit. In fact, if any of the remaining events of default occurred (such as a bankruptcy) and the Debentures become immediately due and payable, there may be a shortfall.

Future Debenture Repurchases

After the completion of the exchange offer, we may repurchase Debentures in a remarketing, in the open market, in privately negotiated transactions. Future purchases of Debentures may be on terms that are more or less favorable than those of the exchange offer. Future repurchases will depend on many factors, including market conditions and the condition of our business.

Governing Law

The debt indenture and the Debentures are governed by, and shall be construed in accordance with, the laws of the State of New York.

Contents**The Trustee**

Bank of New York Mellon is the trustee under the junior debt indenture and is the principal paying agent and registrar for the Debentures. The Bank of New York Mellon also acts as purchase contract agent in connection with the Equity Units. We have entered, and from time to time may continue to enter, into banking or other relationships with The Bank of New York Mellon or its affiliates. See Certain Provisions of the Purchase Contract and the Pledge Agreement Information Concerning the Purchase Contract Agent in this document for further information regarding the Bank of New York Mellon.

The Bank of New York Mellon is one of our lenders and from time to time provides other banking services to us and our subsidiaries.

Bank of New York Mellon serves as the trustee for our senior debt securities, our subordinated debt securities and the warrants under the warrant indenture, as well as the trustee under any amended and restated trust agreement and capital securities subordinated guarantee agreement in connection with the issuance of capital securities. Consequently, if an actual or potential event of default occurs with respect to any of our securities, trust agreements or subordinated guarantees, the trustee may be considered to have a conflicting interest for purposes of the Trust Indenture Act of 1939. In that case, the trustee may be required to resign under one or more of the indentures, trust agreements or subordinated guarantees and we may be required to appoint a successor trustee. For this purpose, a potential event of default means an event that would be an event of default if the requirements for giving us default notice or for the default having to exist for a specific period of time were disregarded.

Treatment by Purchasers of Certain Tax Treatment

The prospectus supplement provides that, by acceptance of the Debenture or a beneficial interest therein, you intend that the Debenture constitutes debt and you intend to treat it as debt for U.S. federal, state and local tax purposes in the manner described under Certain United States Federal Income Tax Consequences in the prospectus supplement dated May 12, 2008 relating to the Equity Units and its accompanying prospectus dated July 13, 2007.

Book-Entry System

Global securities which are released from the pledge following substitution or settlement of the stock purchase contracts will be issued in the form of global certificates, which are referred to as global securities, registered in the name of the depositary or its nominee. Except under the limited circumstances described below or except upon recreation of Corporate Units, Debentures represented by the global securities will not be exchangeable and will not otherwise be issuable as, Debentures in certificated form. The global securities described above may not be transferred except by delivery to a nominee of the depositary or by a nominee of the depositary to the depositary or another nominee of the depositary or to a successor nominee of the depositary or its nominee. For additional information concerning the depositary and its book-entry system, see Description of the Stock Purchase Contracts Book-Entry System above and Legal Ownership and Book-Entry Issuance in the prospectus dated July 13, 2007.

Some jurisdictions may require that some purchasers of securities take physical delivery of the securities in certificated form. These jurisdictions may impair the ability to transfer beneficial interests in such a global security.

As provided below, owners of beneficial interests in such a global security are not entitled to receive physical delivery of Debentures in certificated form and are not considered the holders (as defined in the junior debt indenture) thereof for any purpose under the junior debt indenture. A global security representing Debentures shall be exchangeable, except for another global security of like denomination and tenor to be registered in the name of the depositary or its nominee or a successor depositary or its nominee. Accordingly, each beneficial owner must rely on the procedures of the depositary, or if such person is not a participant, on the procedures of the participant through which such person owns its interest to exercise its rights as a holder under the junior debt indenture.

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ent that:

the depositary notifies us that it is unwilling or unable to continue as a depositary for the global security certificates, and no successor depositary has been appointed within 90 days after this notice,

the depositary at any time ceases to be a clearing agency registered under the Exchange Act when the depositary is required to be so registered to act as the depositary and no successor depositary has been appointed within 90 days after we learn that the depositary has ceased to be so registered,

to the extent permitted by the depositary, we in our sole discretion determine that the global securities shall be exchangeable, or

an event of default occurs and is continuing with respect to the Debentures;

es for the Debentures will be printed and delivered in exchange for beneficial interests in the global security certificates. Any global De exchangeable pursuant to the preceding sentence shall be exchangeable for Debenture certificates registered in the names directed by the ry. We expect that these instructions will be based upon directions received by the depositary from its participants with respect to owne al interests in the global security certificates. In addition, as noted above, interests in global securities may be exchanged for Debentures ted form in connection with the recreation of Corporate Units.

Contents**COMPARISON OF RIGHTS BETWEEN CORPORATE UNITS AND COMMON STOCK**

Following summarizes the material differences between the rights of holders of Corporate Units and of holders of the common stock to be issued in a public offering. The discussion below is a summary and is qualified by our amended and restated certificate of incorporation, our bylaws, the purchase contract agreement and the pledge agreement governing the Corporate Units, the junior debt indentures governing the Debentures, the Debenture Act of 1939, applicable Delaware law and other documents referred to herein, which contain the full legal text of the matters discussed herein. We urge you to read these documents for more information on the terms of the Corporate Units and the common stock.

Common Stock: In any liquidation, dissolution or winding up of AIG, our common stock would rank below all debt claims against us, including claims for the Corporate Units. As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation or dissolution until after our obligations to our debt holders have been satisfied. In addition, holders of our preferred stock will have priority over holders of our common stock with respect to the distribution of our assets in the event of our liquidation or dissolution.

Corporate Units: The Debentures and our obligations to make contract adjustment payments are unsecured, rank junior in payment to all of our other senior debt and are effectively subordinated to all liabilities of our subsidiaries. Senior debt means all indebtedness and obligations incurred or assumed by us (i) for borrowed money; (ii) evidenced by bonds, debentures, notes or other similar instruments; and (iii) that represent obligations to policyholders of insurance or investment contracts, in each case, whether existing now or in the future, and all amendments, renewals, modifications and refundings of any indebtedness or obligations of that kind. Senior debt includes our senior secured debt under the Credit Facility. Senior debt also includes any subordinated or junior subordinated debt that by its terms is not expressly *pari passu* or subordinated to our senior debt; all guarantees of securities issued by any trust, partnership or other entity affiliated with us that is, directly or indirectly, our financial institution and intercompany debt. Each series of Debentures rank *pari passu* with outstanding parity securities, as defined in Description of the Corporate Units Ranking.

Corporate Units Documents

Corporate Units: Holders of Corporate Units have their rights set forth in (i) the purchase contract agreement, dated as of May 16, 2008, between us and The Bank of New York Mellon (formerly known as The Bank of New York), as purchase contract agent; (ii) the pledge agreement, dated as of May 16, 2008, among us, Wilmington Trust Company, as collateral agent, custodial agent and securities intermediary, and The Bank of New York Mellon, as the purchase contract agent; (iii) the remarketing agreement, dated as of May 16, 2008, among us, Citigroup Global Markets Inc. and Morgan Securities Inc. and The Bank of New York Mellon, as the purchase contract agent; and (iv) the junior debt indenture.

Common Stock: Holders of shares of our common stock have their rights set forth in, and may enforce their rights under, our amended and restated certificate of incorporation, our bylaws and Delaware law.

Dividends

Corporate Units: Holders of Corporate Units are entitled to quarterly contract adjustment payments on stock purchase contracts, quarterly interest payments on Debentures, or both, as described under Description of the Equity Units Current Payments. These payments are subject to deferral under Description of the Equity Units Deferral of Payments on Equity Units and early settlement as described under Description of the Equity Units Early Settlement upon Cash Merger, and are subordinated to the senior debt as described under Description of the Equity Units Ranking.

Common Stock: Holders of shares of our common stock are entitled to receive ratable dividends only when, as and if declared by our board of directors out of funds legally available for such purpose. Under the FRBNY Credit Facility, we are currently restricted from declaring or paying dividends.

stock. Moreover, pursuant to

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s of each of our Series E Preferred Stock and our Series F Preferred Stock, we are not able to declare or pay any cash dividends on the o
 on any of our preferred stock ranking junior to such series of preferred stock for any period until dividends on each of the Series E Pref
 and Series F Preferred Stock have been paid for such period. We have not paid dividends on the Series E Preferred Stock and Series F Pre
 nce their issuance in 2009 and no dividends have been paid on our common stock since the third quarter of 2008. For a discussion of cer
 ns on the payment of dividends to AIG by some of its insurance subsidiaries, see our 2009 Annual Report on Form 10-K, our Quarterly
 10-Q for the quarterly period ended June 30, 2010 and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 20
 are incorporated by reference herein.

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te Units: The Debentures of each series are redeemable at our option, in whole or in part, at any time, on or after the date two years aft
 le stock purchase date at a price equal to the greater of their principal amount, plus accrued and unpaid interest, if any, to the date of red
 ke-whole redemption price. The make-whole redemption price will be calculated based upon the present value determined in accordanc
 ry financial practice of the principal amount and interest that would have been payable from the redemption date to the maturity date of
 Debentures to be redeemed. This amount will be discounted on a quarterly basis at the rate per annum equal to the yield to maturity of t
 security having a maturity comparable to the relevant debenture, plus 0.25%. Not later than 30 days prior to the remarketing period sta
 eries of Debentures, we have the right to (i) modify our right to redeem the Debentures of such series so that it commences on a date la
 two years after the applicable stock purchase date and (ii) change the formula for determining the make-whole redemption price or char
 on price to equal the principal amount of the Debentures, plus accrued and unpaid interest, if any, to the date of redemption. See Des
 entures Optional Redemption.

Stock: The shares of our common stock are not subject to redemption.

te Units: The Corporate Units are listed on the NYSE under the symbol AIG-PrA . The exchange offer is subject to, among other thi
 n that we determine in our reasonable judgment, based on consultation with the NYSE, that the NYSE is not likely to delist the Corpora
 ult of the consummation of the exchange offer.

Stock: Our common stock is listed on the NYSE under the symbol AIG . Our common stock is also listed on stock exchanges in Ire

Rights

te Units: Holders of stock purchase contracts that are part of the Corporate Units or Treasury Units, in such capacities, have no voting
 respect of the common stock.

Stock: Each holder of common stock is entitled to one vote for each share held of record on all matters submitted to a vote of shareho
 g the election of directors. In addition, the holders of the Series C Preferred Stock have the voting power to vote with the common stock
 submitted to our shareholders to the extent permitted by law. As of September 30, 2010, the holders of the Series C Preferred Stock had
 nately 79.8 percent of the total voting power of AIG s shareholders that are entitled to vote. See Description of Capital Stock Prefer
 escription of the voting power of the Trust and the Department of the Treasury as holders of our Series E Preferred Stock and the Series
 d Stock.

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te Units: The entire principal amount of the Debentures will mature and initially become due and payable, together with any accrued a
 nterest thereon, on February 15, 2041 in the case of the Series B-1 Debentures, May 1, 2041 in the case of the Series B-2 Debentures an
 1, 2041 in the case of the Series B-3

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res. We may elect with respect to any series of Debentures prior to the applicable remarketing period start date to move the maturity date earlier than the date two years after the applicable stock purchase date. As described under "Description of the Debentures - Put Option Remarketing," holders of separate Debentures will have the right to require us to purchase their Debentures under certain circumstances to a holder's early settlement right as described under "Description of the Stock Purchase Contracts - Early Settlement," and "Description of the Stock Purchase Contracts - Early Settlement upon Cash Merger," each stock purchase contract underlying a Corporate Unit or Treasury Unit will give the holder of the stock purchase contract to purchase, and us to sell, on each of February 15, 2011, May 1, 2011 and August 1, 2011, for \$25 in cash or the number of newly issued shares of our common stock equal to the settlement rate.

Common Stock: The concept of maturity is not applicable to our common stock.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

Following are the material U.S. federal income tax consequences of the exchange offer. This summary is based on interpretations of the Internal Revenue Code of 1986, as amended, or the Code, regulations issued thereunder, and rulings and decisions currently in effect (or in some cases, proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the U.S. federal income tax consequences described herein. Except where indicated otherwise, this discussion only applies to U.S. holders (as defined below) that hold their Corporate Units as capital assets. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors who do not receive special treatment under the U.S. federal income tax laws, such as:

- securities or currency dealers or brokers, or traders in securities electing mark-to-market treatment;
- banks, thrifts, or other financial institutions;
- insurance companies, regulated investment companies or real estate investment trusts;
- small business investment companies or S corporations;
- investors that hold their Corporate Units through a partnership or other entity that is treated as a partnership for U.S. federal income tax purposes;
- U.S. holders whose functional currency is not the U.S. dollar;
- retirement plans or other tax-exempt entities, or persons holding the Corporate Units in tax-deferred or tax-advantaged accounts;
- investors holding Corporate Units as part of a straddle or a conversion transaction for U.S. federal income tax purposes or investors holding Equity Units that are a hedge or that are hedged against interest rate or currency risks, or as part of some other integrated investment; or
- investors subject to the alternative minimum tax.

This summary also does not address the tax consequences to shareholders or other equity holders in, or beneficiaries of, a holder of Corporate Units in any state, local or foreign tax consequences of the exchange offer. Holders considering participating in the exchange offer should consult with tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the exchange offer arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, **U.S. holder** means a beneficial owner of Corporate Units that is:

- a citizen or resident of the United States;
- a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons (as determined for U.S. federal income tax purposes) have the authority to control all of its substantial decisions.

n of Corporate Units General

... treated each Corporate Unit for U.S. federal income tax purposes as consisting of (a) a 1/40, or 2.5%, undivided beneficial interest in a share from each of the three series and (b) a stock purchase contract, which represents the right to receive contract adjustment payments and the right to purchase, for \$25, on each of the three stock purchase dates, a number of shares of our common stock equal to the settlement rate. The remainder of this summary assumes this treatment will be respected for U.S. federal income tax purposes. Consequently, you were required to allocate the purchase price for the Corporate Units among the components described above in

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on to their respective fair market values at the time of purchase. This allocation established your initial U.S. federal income tax basis in the underlying debentures and stock purchase contract.

ed the initial fair market value of the interests in each of the three series of Debentures per each Corporate Unit as \$25 and the fair market value of the stock purchase contract as \$0 at the time of purchase. Holders of Corporate Units who purchased their Equity Units from the Company agreed to allocate the purchase price as described above. This allocation is not, however, binding on the Internal Revenue Service. The remainder of this summary assumes that this allocation of the purchase price will be respected for U.S. federal income tax purposes.

ed the Debentures as variable rate debt instruments that were issued with no more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes. The remainder of this summary assumes this characterization will be respected for U.S. federal income tax purposes.

Characterization of the Exchange Offer

In the advice of Sullivan & Cromwell LLP, counsel to the Company, we intend to treat the exchange offer as (1) a repurchase of your interests in the Debentures in exchange for common stock and an amount of cash, which, when added to the fair market value of the common stock received, will equal the principal amount of your 1/40 interests in the Debentures plus any accrued but unpaid interest to but excluding the settlement date of the exchange offer, and (2) a cancellation of the stock purchase contract forming part of your Corporate Units in exchange for a cash payment to the Company. This characterization of the exchange offer is consistent with the form of the relevant documents. Except as otherwise noted, the remainder of this summary assumes that the exchange offer will be so treated.

Understanding the above, there is no clear authority governing the U.S. federal income tax treatment of the exchange offer and alternative characterizations are possible. In the absence of any exchange offer, for example, you would have received only cash for your Debentures and you could have used that cash to purchase common stock pursuant to a physical settlement of the stock purchase contract. You should consult your tax advisor about whether it might be reasonable to recharacterize the exchange offer in this manner (or whether the IRS might seek to so recharacterize the exchange offer). If such a recharacterization, you would not recognize any loss in respect of a cancellation of the stock purchase contract, but your initial tax basis in the Debentures would carry over into the basis of the common stock you received. See the section under the heading "Certain United States Federal Income Tax Consequences" Taxation of the Treasury Portfolio Acquisition and Taxation of the Common Stock Acquisition of Common Stock under the Exchange Offer in the prospectus supplement, dated May 12, 2008, to the prospectus, dated July 13, 2007, for a further description of this offer.

Characterization of the Repurchase of the Debentures

With respect to the repurchase of your interests in the Debentures pursuant to the exchange offer, you will recognize gain or loss in an amount equal to the difference between (i) the fair market value of the common stock and cash you receive in exchange for your interests in the Debentures (not including the portion therefore attributable to accrued but unpaid interest) and (ii) your adjusted tax basis in your interests in the Debentures. Your adjusted tax basis will generally be equal to the amount you paid for your interests in the Debentures, plus any market discount previously included in your tax basis with respect to your interests in the Debentures. If you purchased your Corporate Units at initial issuance at their original offering price, you will allocate your purchase price as described above in "Taxation of Corporate Units" General. You will therefore not recognize any gain or loss on the redemption of your Debentures, but you will include any accrued but unpaid interest in income. If you purchased your Corporate Units in the secondary market, the amount you paid for your interest in the Debentures will be the amount you allocated to your interests in the Debentures plus their fair market value at the time of purchase. Except to the extent attributable to accrued but unpaid interest or market discount, any gain or loss you recognize will generally be capital gain or loss, which will be long-term capital gain or loss if you held your interests in the Debentures for more than one year. Subject to certain exceptions, long-term capital gains of individuals are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

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Discount. You will be treated as if you purchased your interests in the Debentures at a market discount if the principal amount of your interests in the Debentures exceeds the amount you paid for your interests in the Debentures by more than a *de minimis* amount. The amount of any such market discount. Under the market discount rules of the Code, any gain recognized on the repurchase of your interests in the Debentures would be treated as ordinary income to the extent of accrued market discount, unless you elected to include market discount in income.

Effect of the Cancellation of the Stock Purchase Contract

If you purchased your Corporate Units at initial issuance at their original offering price, or when the stock purchase contract forming part of the offering had positive value, you will recognize a capital loss equal to the sum of (i) the amount that you are treated as paying to the Company under the stock purchase contract and (ii) your adjusted tax basis in the stock purchase contract. Such loss will generally be long-term capital loss if you held the stock purchase contract for more than one year. The deduction of capital losses is subject to limitations. If you purchased your Corporate Units at initial issuance at their original offering price, you agreed to allocate your purchase price as described above in **Taxation of Corporate Units**. If you allocated nothing to the stock purchase contracts. You will therefore recognize a capital loss equal to the amount you are treated as paying to the Company to cancel the stock purchase contract. If you purchased your Corporate Units at initial issuance at their original offering price, your adjusted tax basis should generally equal the excess of (i) your initial basis in the Corporate Units over (ii) the fair market value of the common stock plus the excess of amounts attributable to accrued but unpaid interest, that you retain pursuant to the exchange offer.

If you purchased your Corporate Units when the stock purchase contract had a negative value, the U.S. federal income tax consequences of the cancellation of your stock purchase contract are unclear. You should consult your tax advisor regarding the U.S. federal income tax consequences of the cancellation of your stock purchase contract under such circumstances.

Disposition and Taxation of Common Stock

Disposition of Common Stock Pursuant to the Exchange Offer. Your tax basis in a share of common stock received pursuant to the exchange offer will generally equal to the fair market value of the share on the date of the exchange offer. The holding period for shares of our common stock you receive pursuant to the exchange offer will begin on the day following your acquisition of the stock.

Distributions on the Common Stock. Any distribution with respect to common stock that we pay out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) on your common stock will constitute a dividend and will be includible in income by you. An individual will be eligible for the dividends-received deduction if you are an otherwise qualifying corporate U.S. holder that meets the holding period requirements for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits are treated as a taxable return of capital to the extent of your basis in the common stock, and then as capital gain.

Disposition of Common Stock. Upon the disposition of your common stock, you generally will recognize capital gain or loss equal to the difference between the amount realized and your adjusted tax basis in your common stock. Your adjusted tax basis in the common stock at the time of any disposition should generally equal your initial tax basis in the common stock, reduced by the amount of any cash distributions that are not treated as dividends. Such capital gain or loss generally will be long-term capital gain or loss if you held the common stock for more than one year following the purchase date. Subject to certain exceptions, long-term capital gains of individuals are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

U.S. Holders

The following discussion applies only to non-U.S. holders. For purposes of this discussion, a *non-U.S. holder* is a holder that is a beneficial owner of the Corporate Units that is not a United States person and is not a partnership for U.S. federal income tax purposes. If you are a non-U.S. holder subject to the rules, such as a controlled foreign

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ion or passive foreign investment company, you should consult your own tax advisor to determine the U.S. federal, state, local and other tax consequences that may be relevant to you in your particular circumstances. This discussion assumes, as noted above, that for U.S. federal income tax purposes, the stock purchase contracts and the Debentures will be respected as separate securities and the Debentures will be classified as indebtedness.

Statement of the Exchange Offer

Generally, any gain or income (other than gain treated as interest) realized in connection with the exchange offer generally will not be subject to U.S. federal income tax unless:

that gain is effectively connected with the conduct of a trade or business by the non-U.S. holder in the United States; or

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other condition are met.

Interest.

For a discussion of accrued interest on the Debentures, see the section under the heading "Certain United States Federal Income Tax Consequences for U.S. Holders" in the prospectus supplement, dated May 12, 2008, to the prospectus, dated July 13, 2007. The 30% U.S. federal withholding tax will be applied to any amount attributable to accrued but unpaid interest received in the exchange offer, provided that you are a non-U.S. holder and that:

you do not actually (or constructively) own 10% or more of the total combined voting power of all classes of our voting stock within the meaning of the Code and the United States Treasury Regulations;

you are not a controlled foreign corporation that is related to us through stock ownership;

you are not a bank whose receipt of interest on the Debentures is described in section 881(c)(3)(A) of the Code; and

you provide your name and address on IRS Form W-8BEN (or other applicable form), and certify, under penalties of perjury, that you are not a United States person, or if Corporate Units are held through certain foreign intermediaries or foreign partnerships, the certification requirements of applicable United States Treasury Regulations are satisfied.

Taxation of Dividends on Our Common Stock

We generally withhold tax at a 30% rate on dividends paid (including any deemed dividends as a result of a constructive distribution) on our common stock acquired in the exchange offer or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and where a tax treaty applies, are attributable to a United States permanent establishment of the non-U.S. holder) are not subject to the withholding tax, *provided* that the holder satisfies the usual certification requirement, but instead are subject to U.S. federal income tax as described below.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate for dividends will be required to furnish an IRS Form W-8BEN (or an acceptable substitute form) to claim such reduced rate. A non-U.S. holder of our common stock who wishes to claim an exemption from the 30% withholding tax for dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder in the United States will be required to furnish an IRS Form W-8ECI (or an acceptable substitute form) stating that such payments are not subject to withholding tax because they are effectively connected with the non-U.S. holder's trade or business in the United States. A non-U.S. holder who, for a reduced rate of or an exemption from U.S. federal withholding tax on payments, as described above, may obtain a refund of any excess tax withheld by filing an appropriate claim for refund with the IRS.

Contents***U.S. Holders Engaged in a U.S. Trade or Business***

A U.S. holder is engaged in a trade or business in the United States and dividends on our common stock are effectively connected with the conduct of that trade or business, such holder will be subject to U.S. federal income tax on the interest or dividends on a net income basis (after the 30% withholding tax) in the same manner as if the holder were a United States person as defined under the Code. The non-U.S. holder must satisfy certain certification and disclosure requirements (as described above) in order to establish its exemption from withholding on its effectively connected income. In addition, a non-U.S. holder that is a foreign corporation may be subject to a branch profits tax equal to 30% (or lower applicable rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with the conduct by the holder of a trade or business in the United States. For this purpose, dividends on our common stock will be included in earnings and profits.

Information with respect to Foreign Financial Assets

Under recently enacted legislation, individuals that own specified foreign financial assets with an aggregate value in excess of \$50,000 in taxable years beginning after March 18, 2010 will generally be required to file an information report with respect to such assets with their tax returns. Specified foreign financial assets include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if the assets are in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments held for investment that have non-United States issuers or counterparties, and (iii) interests in foreign entities. United States holders of the notes are urged to consult their tax advisors regarding the application of this legislation to their ownership of the notes.

Withholding and Information Reporting

U.S. Holders. In general, you will be subject to backup withholding with respect to payments you receive in the exchange offer and with respect to proceeds made on your shares of common stock and the proceeds received from the sale of your shares of common stock unless you are an entity exempt from backup withholding and, when required, demonstrate this fact or:

- you provide your Taxpayer Identification Number, or TIN, which, if you are an individual, would be your Social Security Number;
- you certify that (i) the TIN you provide is correct, (ii) you are a U.S. person and (iii) you are not subject to backup withholding because (A) you are exempt from backup withholding or (B) you have not been notified by the IRS that you are subject to backup withholding due to underreporting of interest or dividends or (C) you have been notified by the IRS that you are no longer subject to backup withholding; and
- you otherwise comply with the applicable requirements of the backup withholding rules.

Non-U.S. holders, such payments or proceeds received by you if you are not a corporation or tax-exempt organization will generally be subject to information reporting requirements.

Under recently enacted legislation, certain payments made on our common stock to corporate U.S. holders after December 31, 2011 may be subject to information reporting and backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your federal income tax liability and may entitle you to a refund, *provided* that you furnish the required information to the IRS.

Non-U.S. Holders. In general (except as described below), backup withholding and information reporting will not apply to payments received by a non-U.S. holder in the exchange offer and to dividends on our common stock paid to a non-U.S. holder, or to proceeds from the disposition of our common stock to a non-U.S. holder, in each case, if the holder certifies under penalties of perjury that it is a non-United States person and neither we nor the issuer has actual knowledge to the contrary.

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ounts withheld under the backup withholding rules will be allowed as a credit against the non-U.S. holder's U.S. federal income tax liability if the required information is timely furnished to the IRS. In general, if your Corporate Units or common stock are not held through a qualified intermediary, the amount of payments made in the exchange offer and the amount of dividends on our common stock, the name and address of the beneficial owner and the amount, if any, of tax withheld may be reported to the IRS.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF THE EXCHANGE OFFER, INCLUDING THE TAX CONSEQUENCES UNDER FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

Contents**EMPLOYEE RETIREMENT INCOME SECURITY ACT**

ary of a pension, profit-sharing or other employee benefit plan subject to the U.S. Employee Retirement Income Security Act of 1974, a (ERISA) (each, a Plan), should consider the fiduciary standards of ERISA in the context of the Plan s particular circumstances including an investment in the securities offered hereunder. Among other factors, the fiduciary should consider whether the investment would comply with the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under ERISA or the U.S. Internal Revenue Code (the Code).

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as individual retirement accounts, Keogh plans and any other plans that are subject to Section 4975 of the Code (also Plans), from engaging in certain transactions involving plan assets with persons who are parties to the Plan, ERISA or disqualified persons under the Code with respect to the Plan. A violation of these prohibited transaction rules may result in civil penalties under ERISA or the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) (Non-ERISA Arrangements) are not subject to the provisions of Section 406 of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local or other laws (Similar Laws).

The exchange of Corporate Units for our common stock and other exchange consideration by a Plan or any entity whose underlying assets include securities of the issuer by reason of any Plan s investment in the entity (a Plan Asset Entity) with respect to which we or certain of our affiliates is or becomes a party to the Plan or disqualified person may result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those securities are acquired by the Plan to an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or PTCEs, that may provide relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of a security offered hereby. The exemptions are PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers), PTCE 90-1 (for transactions involving insurance company pooled separate accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 95-60 (for transactions involving certain insurance company general accounts), and PTCE 96-23 (for transactions managed by in-house advisors). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of the securities of the issuer hereby, provided that neither the issuer of the securities offered hereby nor any of its affiliates have or exercise any discretionary authority to buy or sell securities or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays for the securities and receives no less than adequate consideration in connection with the transaction (the service provider exemption). There can be no assurance that the conditions of any such exemptions will be satisfied. The assets of a Plan may include the assets held in the general account of an issuer hereby that are deemed to be plan assets under ERISA.

Each person participating in the exchange offer will be deemed to have represented by participating in the exchange offer that it either (1) is not a party to the Plan, a Plan Asset Entity or a Non-ERISA Arrangement and is not purchasing the security on behalf of or with the assets of any Plan, a Plan Asset Entity or a Non-ERISA Arrangement or (2) the exchange of Corporate Units for our common stock and other exchange consideration, and subsequently holding of the common stock, will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or a similar violation under any applicable Similar Laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important for fiduciaries or other persons considering participating in the exchange offer on behalf of or with the assets of any Plan, a Plan Asset Entity or a Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or the potential consequences of participating in the exchange offer under Similar Laws, as applicable. Each participant in the exchange offer has exclusive responsibility for ensuring that its participating in the exchange offer and subsequently holding of the common stock does not constitute a prohibited transaction or fiduciary or prohibited transaction rules of ERISA or the Code or any similar provisions of Similar Laws. The issuance of common stock

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Exchange offer to a Plan, Plan Asset Entity or Non-ERISA Arrangement is in no respect a representation by us or any of our affiliates or representatives that such a transaction meets all relevant legal requirements with respect to investments by any such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement or that participating in the exchange offer is in the best interests of the participants in such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement.

VALIDITY OF THE COMMON STOCK

The validity of the common stock to be issued in the exchange offer will be passed upon for us by Kathleen E. Shannon, Senior Vice President and General Counsel of AIG, and Sullivan & Cromwell LLP, New York, New York. Ms. Shannon is regularly employed by AIG, participates in AIG employee benefit plans under which she may receive shares of AIG common stock and currently beneficially owns less than 1% of the outstanding shares of AIG common stock.

EXPERTS

The consolidated financial statements and the financial statement schedules incorporated into this document by reference to AIG's Current Report on Form 10-K dated August 6, 2010 and management's assessment of the effectiveness of internal control over financial reporting incorporated into this document by reference to AIG's Annual Report on Form 10-K for the year ended December 31, 2009 have been so incorporated in reliance upon the audit report which report contains an explanatory paragraph relating to AIG's dependence upon the continued financial support of the U.S. government by PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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The exchange agent for the exchange offer is:

Global Bondholder Services Corporation

By facsimile:
(For Eligible Institutions only):
(212) 430-3775/3779

Confirmation:
(212) 430-3774

Questions or requests for assistance may be directed to the dealer managers or the information agent at their respective telephone numbers as shown below. Any requests for additional copies of this document, the letter of transmittal or related documents may be directed to the information agent. You may also contact such holder's broker, dealer, commercial bank, trust company or other nominee for assistance concerning the exchange offer.

The information agent for the exchange offer is:

Global Bondholder Services Corporation

65 Broadway Suite 404
New York, New York 10006
Attn: Corporate Actions

Banks and Brokers call: (212) 430-3774
Toll free (866) 873-7700

The dealer managers for the exchange offer are:

BofA Merrill Lynch

Attn: Debt Advisory Services
214 North Tryon Street, 17th Floor
Charlotte, NC 28255

Toll Free: (888) 292-0070
Collect: (980) 683-3215

Citi

Attn: Liability Management Group
390 Greenwich Street, First Floor
New York, New York 10013

Toll Free: (800) 558-3745
Collect: (212) 723-6106

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Indemnification of Directors and Officers

ended and restated certificate of incorporation of AIG provides that AIG shall indemnify to the full extent permitted by law any person named or referred to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or her testator or intestate, is or was a director, officer or employee of AIG or serves or served any other enterprise at the request of AIG. Section 6.4 of AIG's by-laws contains a similar provision. The amended and restated certificate of incorporation of AIG also provides that a director, officer or employee of AIG or its shareholders for monetary damages for breach of fiduciary duty as a director, except to the extent that the exemption or limitation thereof is not permitted by the Delaware General Corporation Law.

Section 145 of the Delaware General Corporation Law permits indemnification against expenses, fines, judgments and settlements incurred by a director, officer, employee or agent of a company in the event of pending, threatened or completed civil, criminal, administrative or investigative actions, suits, claims, damages, if such person was, or was threatened to be, made a party by reason of the fact that he or she is or was a director, officer, employee or agent of the company. Section 145 also provides that the indemnification provided for therein shall not be deemed exclusive of any other rights to which such person may otherwise be entitled.

AIG has entered into indemnification agreements with each of its directors to the same effect as Section 6.4 of AIG's by-laws.

In addition, AIG and its subsidiaries maintain a directors' and officers' liability insurance policy.

Exhibits

AIG has filed an Exhibits Index which is incorporated herein by reference.

Undertakings

The undersigned Registrant hereby undertakes:

(1) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(a) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(b) to reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement; and (c) notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed the amount which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(d) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(e) not to file, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment to this registration statement is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the Registrant pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

on 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement or is contained in a form
us filed pursuant to Rule 424(b) that is part of the registration statement.

for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be
ion statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bo
thereof.

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remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termi
ing.

for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b)
stration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reli
DA, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; provided, ho
statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or
ated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time
of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part
ion statement or made in any such document immediately prior to such date of first use.

for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of t
s, in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting
sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communication
ned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

reliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the under
nt;

portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or
s provided by or on behalf of the undersigned Registrant; and

other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

for purposes of determining any liability under the Securities Act of 1933, each filing of AIG's annual report pursuant to Section 13(a)
15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new
ion statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bo
thereof.

as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons
nt pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange
ision such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the eve
r indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or
ng person of the Registrant in the successful defense of any action, suit or proceeding) is asserted against the Registrant by such directo
olling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has be
y controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public p
d in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this form, v
ness day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This inclu
ion contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the requ

apply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved there
the subject of and included in the registration statement when it became effective.

Contents**SIGNATURES**

to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement to be signed on behalf of the undersigned, thereunto duly authorized, in The City of New York, State of New York, on this 8th day of October, 2010.

American International Group, Inc.

By: /s/ Robert H. Benmosche

Robert H. Benmosche

Title: President and Chief Executive Officer

POWER OF ATTORNEY

ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert H. Benmosche, David L. Herzog, and each of them severally, his or her true and lawful attorneys-in fact, with full power of substitution and resubstitution, for himself or herself in his or her name, place and stead, in any and all capacities to sign this registration statement on Form S-4 of American International Group, Inc. and all amendments to such registration statement (including pre-effective and post-effective amendments thereto) and to file the same with the Securities and Exchange Commission, together with all exhibits hereto and thereto, and other documents in connection herewith, with the Securities and Exchange Commission, granting unto the undersigned, his or her attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing required and necessary to carry out the foregoing as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that the undersigned, his or her attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on the date indicated.

Signature	Title	Date
Robert H. Benmosche (Robert H. Benmosche)	President, Chief Executive Officer and Director (Principal Executive Officer)	October 8, 2010
David L. Herzog (David L. Herzog)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	October 8, 2010
Joseph D. Cook (Joseph D. Cook)	Vice President and Controller (Principal Accounting Officer)	October 8, 2010
Christine T. Koellner (Christine T. Koellner)	Director	October 8, 2010
William H. Layton (William H. Layton)	Director	October 8, 2010
Christopher S. Lynch (Christopher S. Lynch)	Director	October 8, 2010

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Signature	Title	Date
[Signature] (C. Martinez)	Director	October 8
[Signature] (L. Miles, Jr.)	Director	October 8
[Signature] (S. Miller)	Director	October 8
[Signature] (S. Miller)	Director	October 8
[Signature] (Nora Johnson)	Director	October 8
[Signature] (W. Offit)	Director	October 8
[Signature] (A. Rittenmeyer)	Director	October 8
[Signature] (S. M. Steenland)	Director	October 8

Contents**EXHIBITS INDEX**

Description	Location
Dealer Manager Agreement, dated as of October 8, 2010, between AIG and Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. Amended and Restated Certificate of Incorporation of AIG	Filed Herewith.
By-laws of AIG, amended August 10, 2009	Incorporated by reference to Exhibit 3.1(a) to AIG's Registration Statement on Form S-3, filed on July 17, 2009 (File No. 333-160645)
Specimen of certificate representing AIG's common stock, par value \$2.50 per share	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K, filed June 16, 2008 (File No. 1-8787).
Purchase Contract Agreement, dated as of May 16, 2008, between AIG and The Bank of New York Mellon (formerly known as The Bank of New York), as Purchase Contract Agent.	Incorporated by reference to Exhibit 4.1(a) to AIG's Registration Statement on Form S-3, filed on July 17, 2009 (File No. 333-160645)
Pledge Agreement, dated as of May 16, 2008, among AIG, The Bank of New York Mellon (formerly known as The Bank of New York) as the Purchase Contract Agent and Wilmington Trust Company, as Collateral Agent, Custodial Agent and Securities Intermediary	Incorporated by reference to Exhibit 4.7 to AIG's Current Report on Form 8-K, filed May 16, 2008 (File No. 1-8787).
Junior Subordinated Debt Indenture between AIG and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee, dated as of March 13, 2007, the Sixth Supplemental Indenture, dated as of May 16, 2008, the Seventh Supplemental Indenture, dated as of May 16, 2008, and the Eighth Supplemental Indenture, dated as of May 16, 2008, including the form of junior subordinated debt security in Article Two thereof	Incorporated by reference to Exhibit 4.9 to AIG's Current Report on Form 8-K, filed May 16, 2008 (File No. 1-8787).
Form of 5.67% Series B-1 Junior Subordinated Debenture	Junior Subordinated Debt Indenture, to AIG's Current Report on Form 8-K, filed March 13, 2007 (File No. 1-8787); Sixth, Seventh, and Eighth Supplemental Indenture incorporated by reference to Exhibits 4.1, 4.2 and 4.3, respectively, to AIG's Current Report on Form 8-K, filed May 16, 2008 (File No. 1-8787)
Form of 5.82% Series B-2 Junior Subordinated Debenture	Included in Exhibit 4.4.
Form of 5.89% Series B-3 Junior Subordinated Debenture	Included in Exhibit 4.4.
Remarketing Agreement, dated as of May 16, 2008, among the Company, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. and The Bank of New York Mellon (formerly known as The Bank of New York), as the purchase contract agent Validity Opinion of Kathleen E. Shannon, Esq., Senior Vice President and Deputy General Counsel	Included in Exhibit 4.4.
Tax Opinion of Sullivan & Cromwell LLP	Filed Herewith.
Securities Purchase Agreement, dated as of November 25, 2008, between AIG and United States Department of the Treasury	Filed Herewith.
	Filed Herewith. Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K, filed November 26, 2008 (File No. 1-8787).

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Description	Location
Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement, dated as of March 1, 2009, between AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury, and American International Group, Inc. Amendment No. 2, dated October 7, 2010, to the Series C Perpetual, Convertible Participating Preferred Stock Purchase Agreement, between AIG Credit Facility Trust and AIG Securities Exchange Agreement, dated as of April 17, 2009, between the United States Department of the Treasury and AIG Securities Purchase Agreement, dated as of April 17, 2009, between AIG and the United States Department of the Treasury Credit Agreement, dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York Amendment No. 2, dated as of November 9, 2008, to the Credit Agreement dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York Amendment No. 3, dated as of April 17, 2009, to the Credit Agreement, dated as of September 22, 2008, between AIG and Federal Reserve Bank of New York Amendment No. 4, dated as of December 1, 2009, to the Credit Agreement dated as of September 22, 2008 between AIG and the Federal Reserve Bank of New York Statement regarding computation of ratios of combined fixed charges and preference dividends to earnings	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K/A, filed March 13, 2009 (File No. 1-8787). Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on October 8, 2010 (File No. 1-8787). Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K, filed on April 20, 2009 (File No. 1-8787). Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K, filed on April 20, 2009 (File No. 1-8787). Incorporated by reference to Exhibit 99.1 to AIG's Current Report on Form 8-K, filed September 26, 2008 (File No. 1-8787). Incorporated by reference to Exhibit 10.4 to AIG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 1-8787). Incorporated by reference to Exhibit 99.1 to AIG's Current Report on Form 8-K, filed on April 20, 2009 (File No. 1-8787).
Subsidiaries of AIG	Incorporated by reference to Exhibit 10.3 to AIG's Current Report on Form 8-K filed with the SEC on December 1, 2009 (File No. 1-8787). Incorporated by reference to Exhibit 12 to AIG's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-8787) and Exhibit 12 to AIG's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (File No. 1-8787). Incorporated by reference to Exhibit 21 of AIG's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-8787).
Consent of PricewaterhouseCoopers LLP	Filed Herewith.
Consent of Kathleen E. Shannon, Esq., Senior Vice President and Deputy General Counsel	(Included in Exhibit 5.1.)
Consent of Sullivan & Cromwell LLP	(Included in Exhibit 8.1.)
Powers of Attorney	(Included in the signature pages of this Registration Statement)
Letter of Transmittal	Filed Herewith.
Form of Notice of Withdrawal	Filed Herewith.