ASM Lithography

Annual Report 1995

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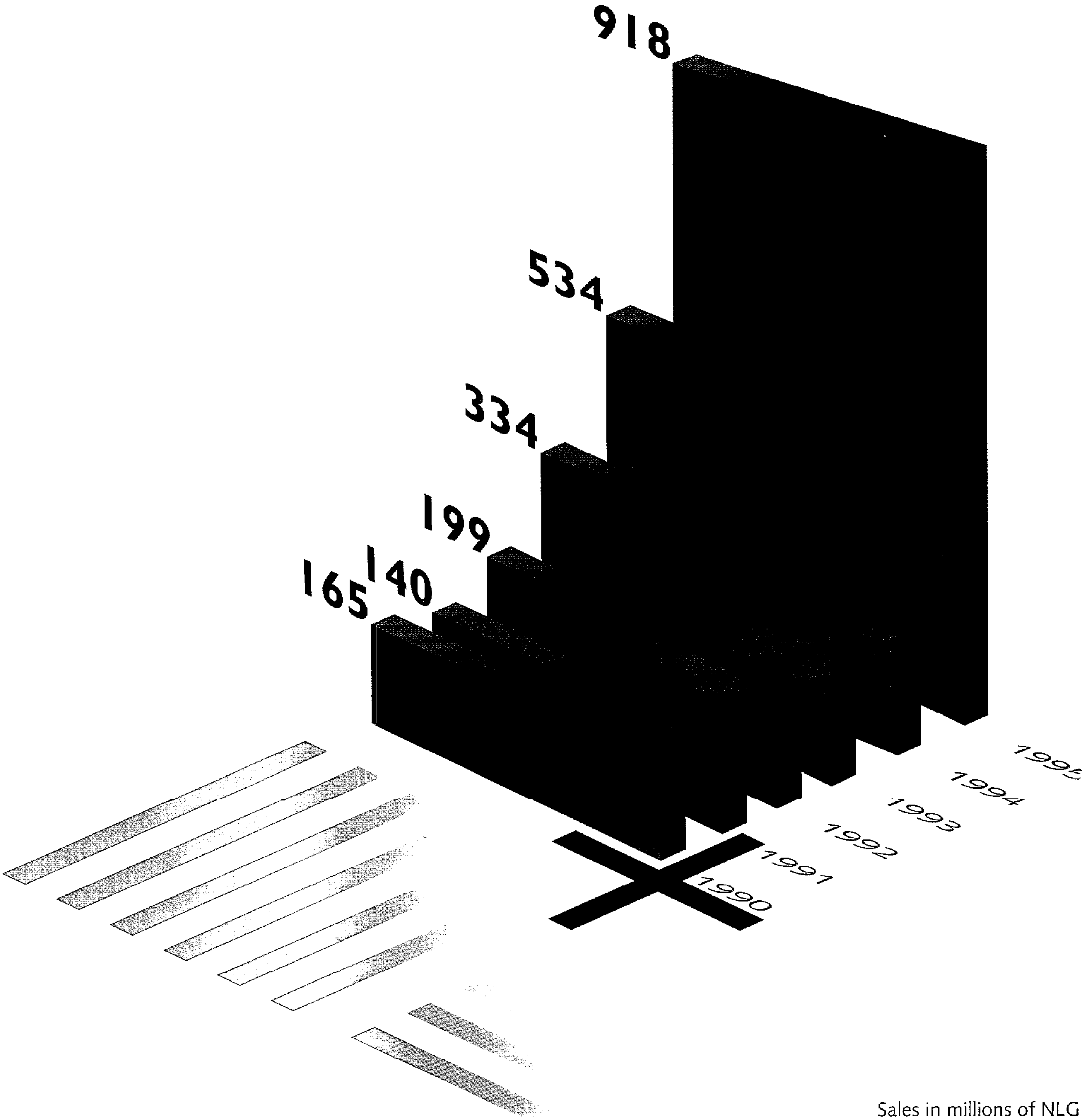


Sales in millions of NLG

Financial Highlights

for the year ended December 31,
(in millions, except per share data)

	1993 NLG	1994 NLG	1995 NLG	**1995* US$**
Consolidated Statement of Operations Data:				
Net sales	333.9	534.0	917.7	**572.3**
Gross margin	86.2	154.4	335.8	**209.4**
Research and development costs	37.8	49.4	85.3	**53.2**
Net income	28.5	40.0	131.4	**81.9**
Net income per Ordinary Share	0.95	1.33	4.06	**2.53**
Consolidated Balance Sheet Data:				
Working capital	50.8	86.1	249.9	**155.8**
Total assets	284.6	392.2	659.1	**411.0**
Total shareholders' equity (deficit)	(15.4)	85.9	303.6	**189.3**
Ratios and Other Data:				
Gross margin/sales	25.8%	28.9%	36.6%	
Increase in sales	68.2%	59.9%	71.9%	
Net income/sales	8.5%	7.5%	14.3%	
Equity (deficit)/total assets	(0.1)%	21.9%	46.1%	
Sales of wafer steppers (units)	72	107	177	
Number of employees at end of the year	602	808	1.123	
Number of employees in the Netherlands	469	635	895	

** Guilder amounts have been translated, solely for the convenience of the reader, at a rate of NLG 1,6035 to $ 1,00.*

Letter from the President

Dear Shareholders

I am happy to report that 1995 was a watershed year for ASM Lithography, a year marked by milestones such as our initial public offering and unprecedented sales success.

During the past year, the worldwide semiconductor market grew from annual sales of U.S. $100 billion to U.S. $155 billion, bringing with it positive consequences for stepper demand. ASM Lithography's 1995 financial results, with higher revenues, greater after-tax profits and earnings per share, reflect our participation in this burgeoning global market.

With ASM Lithography's strong market participation throughout the U.S., the Asia Pacific and Europe, we are well positioned to continue our growth trend. Our i-line lithography systems have proven themselves as productivity workhorses at 0.35- to 0.30 micron resolution.

Our new deep UV stepper is a highly cost-effective mass production tool for the new generation of 0.25 micron wafer fabs now coming on line. Continuing to look ahead, our scanning lithography systems, now in development, will enable volume manufacturing of 0.22 micron devices in the near future.

Our commitment to providing industry-leading productivity solutions to our customers hinges on the value of ownership that our products deliver.
ASM Lithography uses a comprehensive value-of-ownership model throughout all aspects of our business, product development and support services to ensure the productivity of our customers.

To serve our global market's growing demand, we undertook a large expansion effort and effectively doubled our production capacity in 1995.
All of our key suppliers, such as our optics partner Carl Zeiss, also have increased their capacities to meet the increased demand. In 1996, we will add a new production facility as well as a new office building to further increase our company's strenghts and capabilities.

Rather than just selling products, selling potential profits is the theme behind our new product development work as well as our customer support strategies.
In 1996, added emphasis will be given to supporting the start up of new wafer fabs. With the global semiconductor industry growing so fast, the market is facing a shortage of qualified technical personnel with wafer fab expertise. ASM Lithography sees this as an opportunity to provide more value-added products and services to our customers.

In this same spirit of providing real-time solutions, ASM Lithography's approach to customer support integrates a variety of disciplines - from technical process support to the ready availability of spare parts- to deliver profitability to our customers on time.

We have further extended our market presence to Thailand in 1996. We also will be expanding existing facilities in Korea, Taiwan and Singapore in response to high demand from those markets. ASM Lithography also has taken its first step into the Japanese market by recently signing an agreement with the Japanese company Nissei Sangyo.

From a financial standpoint, ASM Lithography is stronger than ever. Our equity position improved significantly as a result of the successful offering of shares in March 1995 and the net result over 1995. Philips' ownership in ASML will go down from 56.7% to 35.4% after a second successful offering in March 1996.
ASM Lithography offers 1.5 million shares in this combined offering and will use the proceeds to finance its ongoing growth.

To maintain the effectiveness of the organization as we grow, Total Quality Management is one of our focal points. Everyone in the company is involved in providing added value to our customers, and this has become one of ASM Lithography's major competitive strengths.

To succeed globally, we leverage ASM Lithography's core competencies, that is:

- Maintaining our competitive advantage in photolithographic technology by applying advanced product designs; integrating R&D results from our network of research partners, key customers and suppliers; and managing R&D investments at sustainable levels.
- Offering customers added value and improved competitiveness through continuous productivity improvements; an integrated, cost-effective approach to implementing current and developing photolithography technologies; and a full range of customer support services.
- Maintaining operational flexibility and low fixed costs by restricting the company's manufacturing activities to the assembly and testing of steppers using components and subassemblies manufactured by our strategic partners, and by using outside resources to perform specific functions such as product development activities.

These core competencies will enable ASM Lithography to fulfil its stated mission to provide leading-edge imaging solutions that continuously improve our customers' global competitiveness. With this charter and in the environment of our growing market, we expect to participate fully in the growth of the global semiconductor industry in terms of both shipment quantities and technological advancements.

Willem D. Maris
President and CEO
ASM Lithography Holding N.V.

Report of the Supervisory Board

The financial statements of ASM Lithography Holding N.V. for 1995, prepared by the Board of Management and adopted by the Supervisory Board, have been duly examined by Deloitte & Touche, independent public accountants.
Their report appears on page 22 of the Annual Report 1995. We recommend to the General Meeting of Shareholders to approve these financial statements in accordance with the proposal of the Board of Management which includes the proposal not to declare a dividend for 1995.

In connection with the Initial Public Offering of shares of the Company which took place in March 1995, the Company's legal structure was altered.
After Messrs. C.Kooij and Baron R.J. van Overstraeten were appointed members of the Supervisory Board, on February 7, 1995, ASM Lithography Holding B.V. (a private limited company) was converted into ASM Lithography Holding N.V. (a public limited company).

After the succesful conclusion of this Initial Public Offering on March 22, 1995, the General Meeting of Shareholders, held on June 27, 1995, appointed Deloitte & Touche for an indefinite period of time as the Company's auditors.

The Meeting of Priority Shareholders will propose to the General Meeting of Shareholders to be held on April 25, 1996, to increase the number of members of the Supervisory Board from five to six. Subject to objections by the General Meeting of Shareholders or Works Council, the Supervisory Board intends to appoint Dr. Ing. P.H. Grassmann as from April 25, 1996, to fill the resulting new position on the Supervisory Board.

We wish to express our gratitude to the customers and suppliers of the Company for their support and loyalty and our great appreciation to the Board of Management, the other members of the management and all employees for the excellent achievements in the past year.

Veldhoven, February 7, 1996

The Supervisory Board

ASML Profile

Market background

Photolithography, the process by which the complex patterns on today's advanced semiconductor devices are defined, has long been acknowledged as the enabling technology for advancing circuit design and manufacturing.

A photolithography system for semiconductor production contains a variety of complex components including an illumination source, a reduction lens, precise alignment and staging subsystems, and reticle and wafer-transfer robotics. All of these components are integrated into a sophisticated and complex system known as a stepper-so called because it makes an exposure of a circuit pattern on the wafer, then "steps" to the next area of the wafer and repeats the process until the circuit pattern is "printed" across the wafer's surface in an array of die, which will become individual, finished chips.

Today's 64-megabit dynamic random access memory (DRAM) chips are composed of circuit lines that measure 0.35 micron wide, or about 1/75,000 of an inch. Succeeding generations of logic and memory chips will require new levels of miniaturization, such as 0.25 micron linewidths for 256-megabit DRAMs and P6- and P7-generation microprocessors.

The ability to achieve these submicron linewidths is inextricably tied to lithography. Historically, stepper manufacturers achieved ever-smaller linewidths by increasing a stepper's numerical aperture (NA). However, as NA increases, depth of focus decreases and wafer processing becomes more complex. Costs go up. Today's approach is to use a combination of shorter wavelengths of light (for finer resolution) while maintaining high numerical apertures to create smaller, more precise circuit patterns. In addition to understanding the physics of the problem, stepper manufacturers must appreciate the market implications as well.

ASML's evolutionary product path

ASM Lithography's mission is to provide IC manufacturers worldwide with wafer steppers that offer both the cost effectiveness and the growth path to make our customers truly competitive in the long term.

To compete in global markets, IC manufacturers must continually invest in the development of new products which require more advanced fabrication technologies. They need equipment suitable for R&D work, but which also can be easily transferred into volume manufacturing. Managing the investment risk of this continuous product and process development is key to establishing a successful and competitive business.

Recognizing this need, ASM Lithography designed its newest generation of wafer steppers- the PAS 5500 series-to be able to produce multiple generations of advanced ICs on the same stepper. This extendibility substantially increases value of ownership.

The PAS 5500 series' modular design enables IC makers to upgrade the steppers as their technology requirements increase, adding a new dimension to our customers' growth paths. This modularity allows users to built upon their capital investments, process knowledge and manufacturing experience.

ASM Lithography has taken a long-term, market-oriented view and designed each successive generation of steppers to be compatible with its predecessors. Customers may "mix and match" ASM Lithography's steppers with any of our other steppers, or even with competitors' equipment, for the most cost-effective production of critical and non-critical circuitry layers. This flexibility helps users to achieve optimal value of ownership from our products.

ASML's company background

ASM Lithography was founded in 1984 to address lithography issues in manufacturing very-large-scale integrated (VLSI) circuits and ultra-large-scale integrated (ULSI) circuits. In March 1995, ASM Lithography held its initial public offering of 12.6 million shares. The company is publicly traded on both the Amsterdam Stock Exchange and NASDAQ under the symbols ASML and ASMLF.

ASM Lithography operates applications laboratories at its global headquarters in Veldhoven, the Netherlands, and at its U.S. headquarters in Tempe, Arizona. Sixteen local sales and service facilities are located worldwide. The company provides customers with a full range of support, from advanced process and product applications knowledge to complete around-the-clock service support with uptime performance guarantees.

ASM Lithography has technology agreements with leading IC manufacturers and R&D institutions in the U.S., Asia Pacific and Europe, including the Joint European Submicron Silicon Initiative (JESSI) and the European Support Program for Research & Development and Information Technology (ESPRIT). In addition, working with numerous technology centers such as Philips Research Laboratories, Philips Center for Fabrication Technology, the Carl Zeiss Foundation and Hewlett-Packard has enabled ASM Lithography to compete very effectively with other stepper makers in the international market place.

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

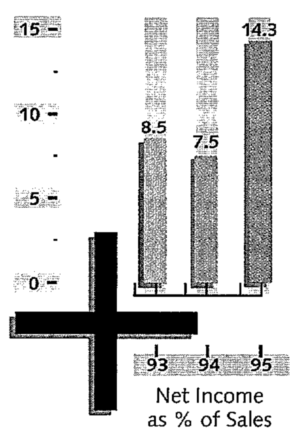
Results of operations

The following table sets forth combined statement of income data of the Company expressed as a percentage of net sales for the periods indicated:

year ended December 31,	1993	1994	**1995**
Net sales	100.0 %	100.0 %	**100.0 %**
Cost of sales (before repayment of TOKs)	74.2	67.1	**59.5**
Cost of sales (including repayment of TOKs)	74.2	71.1	**63.4**
Gross profit on sales (before repayment of TOKs)	25.8	32.9	**40.5**
Gross profit on sales (including repayment of TOKs)	25.8	28.9	**36.6**
Research and development costs	11.3	9.3	**9.3**
Research and development credits	(4.6)	(2.5)	**(1.7)**
Selling, general and administrative expenses	9.4	9.1	**6.3**
Other (income) and expenses, net	(0.5)	(0.4)	**(0.1)**
Operating income	10.2	13.5	**22.8**
Interest expense	3.6	1.4	**0.1**
Income before income taxes	6.6	12.1	**22.7**
Income taxes (benefit)	(1.9)	4.6	**8.4**
Net income	8.5	7.5	**14.3**

Net sales

Net sales consists of revenues from sales of wafer steppers, sales of equipment options and software upgrades, which may occur in conjunction with the initial sale of a wafer stepper or after its installation, and revenues from service contracts. Net sales increased from NLG 333.9 million in 1993 to NLG 534.0 million in 1994 and NLG 917.7 million in 1995. These increases were due primarily to an increase in the number of steppers delivered from 72 units in 1993 to 107 units in 1994 and 177 units in 1995, as well as by an increase in the average unit sales price (expressed in U.S. dollars) for wafer steppers of 7.6% from 1993 to 1994 and 16% from 1994 to 1995. The increase in average unit sales price in both years resulted from higher base prices and a change in sales mix, reflecting increased unit sales of the Company's more advanced wafer steppers and increased sales of units incorporating factory-installed options. Increases in net sales, which generally were denominated in dollars, were offset by a slight decline in the average guilder/dollar exchange rate used in translating sales revenues from NLG 1.870/$1.00 in 1993 to NLG 1.845/$1.00 (a 1.3% decrease) in 1994. This average exchange rate further declined to NLG 1.634/$1.00 (an 11.4% decrease) in 1995.

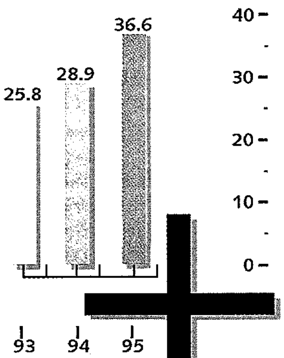


Net Income as % of Sales

The net sales figure for 1995 includes NLG 62.2 million relating to the sale of 23 older wafer steppers that were reacquired from existing customers (primarily Micron) and then immediately resold, primarily to other customers seeking to expand production capacity in areas requiring the less critical resolution capabilities provided by these machines. The volume of such resales in prior years was immaterial and the Company does not anticipate that the amount of such repurchase and resale transactions in the future will be material.

The increase in the number of steppers sold in each year was due primarily to a continuing high level of demand among semiconductor manufacturers for additional manufacturing capacity and was accompanied in each year by an increase in sales of equipment options and upgrades, both for new and existing systems.
The Company's ability to deliver additional wafer steppers in each year was limited, however, by the capacity of Zeiss to provide the Company with lenses and optical components to meet the larger than expected increase in the demand in the semiconductor market.
The increases in average unit sales price were related to the Company's successful introduction of its PAS 5500 family of steppers, which have a higher list price than the Company's PAS 2500 and PAS 5000 steppers, as well as to the continuing upgrade of models within the PAS 5500 family.
The increase in net sales in each period also reflected increases of 13.4% in 1994 as compared to 1993 and 48.7% in 1995 as compared to 1994 with respect to revenues from the provision of service for wafer stepper units manufactured and sold by the Company in prior periods, primarily reflecting the increasing size of the installed base of such units as the Company achieved additional wafer stepper sales.

In 1995, sales to one customer, Micron, accounted for NLG 99.7 million, or 10.9%, of the Company's total net sales for that year, down from NLG 114.7 million, or 21.5%, of total net sales in 1994. No other customer accounted for more than 10% of the Company's total net sales in 1995. The Company anticipates that Micron will continue to constitute approximately 10% of total net sales in 1996.



Gross Profit as % of Sales

Gross profit

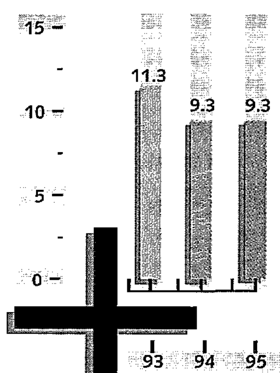
Gross profit increased from NLG 86.2 million in 1993 to NLG 154.4 million in 1994 and NLG 335.8 million in 1995, primarily reflecting increased sales of wafer steppers and related options, increases in the average selling price of steppers, and decreases in the Company's cost of sales per comparable wafer stepper unit as higher production volumes of the Company's PAS 5500 wafer steppers, combined with the benefits associated with increased experience in their manufacture, allowed the Company and its suppliers to realize production efficiencies and manufacturing economies of scale. These improvements were partially offset by the unfavorable exchange rate movements referred to above in the discussion of net sales, as well as

by the Company's repayment in 1994 and 1995 of NLG 21.3 million and NLG 36.3 million, respectively, in technical development credits ("TOKs"), the payment of which is contingent upon sales of the Company's wafer steppers and therefore is charged to the cost of sales of such systems.
The Netherlands government waived NLG 13.8 million of such repayments with respect to wafer steppers sold during 1993. This waived amount instead remained as part of the balance of TOKs contingently repayable based on future wafer stepper sales. The remaining balance of these contingently repayable TOKs as of December 31, 1995 was NLG 39.8 million, which is repayable at a rate of between 3% and 6% of the actual sales, if any, of the Company's wafer steppers and related products, depending upon the magnitude of such sales. The Company expects on the basis of anticipated 1996 wafer stepper sales to fully repay by year-end 1996 this remaining balance.

During 1994, the Company paid NLG 6.2 million in import duties on the shipment of wafer steppers and related equipment into the United States. As a result of the enactment in 1995 of legislation in the United States implementing the Uruguay Round multilateral trade agreement negotiated under the General Agreement on Tariffs and Trade (GATT), the level of import duties on the Company's wafer steppers and certain other equipment fell from 3.7% of dutiable value of the equipment to zero and the level of import duties generally applicable to the remainder of the Company's products fell from 5.7% to 2.9%, which rate will decline to zero in 1998. Had the reduced 1995 import duties been in place for all of 1994, the aggregate level of import duties paid by the Company for sales into the United States would have been reduced to approximately NLG 0.8 million.
The Company's major competitors (Nikon and Canon) also have experienced corresponding reductions in import duties as a result of the adoption of this legislation.

Research and development costs

Research and development costs increased from NLG 37.8 million in 1993 to NLG 49.4 million in 1994 and NLG 85.3 million in 1995. These amounts included NLG 3.6 million, NLG 9.5 million and NLG 19.9 million, respectively, charged by third parties (including Philips). The increase in research and development expenses from 1993 to 1994 resulted from an increase in staffing levels of approximately 100 employees (including increases in the number of contract employees) to accommodate the Company's enhanced efforts to upgrade its PAS 5500/100 series of wafer steppers and make available related i-line equipment technology upgrades for previous purchasers of those systems. The increased R&D staffing also reflects an increase in the Company's development efforts in the areas of DUV and step-and-scan technologies, including the enhancement of the Company's capabilities in the areas of computer aided design and manufacturing and computer



R&D Costs
as % of Sales

aided electronics. During 1994, the Company also assigned additional employees to support and maintenance related activities for the PAS 2500 and PAS 5500 series of wafer steppers. The increase in research and development expenses from 1994 to 1995 includes an increase in staffing levels of approximately 120 employees (including contract employees) in connection with the introduction of the Company's PAS 5500/200 and PAS 5500/300 wafer steppers and the development efforts in the area of step-and-scan technology. As a percentage of sales, research and development costs were 11.3%, 9.3% and 9.3% in 1993, 1994, and 1995, respectively.

Research and development credits

Research and development credits decreased 14.8% between 1993 and 1994, from NLG 15.5 million to NLG 13.2 million, and increased 15.2% between 1994 and 1995 to NLG 15.2 million. The decline from 1993 to 1994 primarily reflects the completion of the Company's participation in certain research and development aid programs sponsored by the government of The Netherlands and associated with the development of the Company's PAS 5500 family of wafer steppers, offset by increases in the aggregate technology subsidies made available to the Company under programs sponsored by the Netherlands government and the European Community (primarily "ESPRIT" and "JESSI," respectively). The increase in research and development credits between 1994 and 1995 primarily reflects additional subsidies paid to the Company under the JESSI program in connection with the Company's development work in the area of step-and-scan technology. Research and Development credits are expected to decline to approximately NLG 5 million in the aggregate in 1996 as the European Community winds down the JESSI program.

Selling, general and administrative expenses

Selling, general and administrative expenses increased from NLG 31.5 million in 1993 to NLG 48.5 million in 1994 and NLG 58.2 million in 1995 (NLG 41.0 million in 1994 and NLG 50.7 million in 1995 excluding the non-cash charge, described below, relating to the Company's Management Share Scheme). As a percentage of sales, selling, general and administrative expenses were 9.4%, 9.1% and 6.3% in 1993, 1994 and

1995, respectively. The increases in the absolute level of selling, general and administrative expenses reflect increased staffing levels in the Company's applications and sales support functions, as well as higher administrative costs at the Company's Veldhoven headquarters, primarily as the result of higher staffing levels to accommodate increased sales volumes. The increases also include a non-cash charge of NLG 7.5 million in each of 1994 and 1995 related to the Management Incentive Share Scheme, which the Company established as an award plan for the years 1994 through 1997. The Company will incur in each of 1996 and 1997 an additional non-cash charge of NLG 7.5 million in respect of compensation expense related to the Scheme. The charges will be allocated to selling, general and administrative expenses and will not be tax deductible for Netherlands corporate income tax purposes. Thereafter, the Company will not incur any further charges in connection with the Scheme.

Other (Income) and expenses

Other income was NLG 1.7 million in 1993, NLG 2.2 million in 1994 and NLG 1.4 million in 1995. In 1993, NLG 2.0 million of an NLG 2.5 million restructuring charge taken in 1992 was reversed because actual restructuring expenses associated with the termination of certain employment arrangements were lower than originally expected. This was caused by unanticipated improvement in the Company's business in 1993, resulting in reduction of the actual number of laid off employees eligible for unemployment benefits from 35 to 17, and by a shorter than anticipated unemployment period for those employees that were permanently laid-off. The improvement in the Company's business consisted primarily of substantial increases in customer orders for the Company's newly introduced PAS 5500/100 wafer stepper, commencing in September 1993.
Other income of NLG 2.2 million in 1994 consisted of a NLG 2.0 million gain reflecting the effect of exchange rate levels on the year-end guilder value of the Company's dollar denominated borrowings, and the release of the NLG 0.2 million remaining balance of the employee termination restructuring charge taken in 1992. In 1995, other income consisted of NLG 1.4 million reflecting the effect of exchange rate levels on the year-end guilder value of U.S. dollar borrowings.

Income taxes (benefit)

In 1992, pursuant to FAS 109 — Accounting for Income Taxes, the Company increased its valuation allowance by NLG 5.3 million to NLG 13.5 million in respect of net operating loss carryforwards accumulated for that year and prior periods. This allowance reflected the Company's estimate at that time of the likelihood of utilizing such losses in the then-foreseeable future. In 1993, the entire valuation allowance of NLG 13.5 million, including amounts set aside in years prior to 1992,

was released, reflecting a revision in the Company's estimate of the likelihood of such utilization. As a result, the Company recorded a net income tax benefit for 1993, despite the occurrence of income before income taxes for that year.
In 1994 and 1995 the Company recorded income tax expense of NLG 24.4 million and NLG 76.6 million, respectively, primarily reflecting higher levels of income before taxes due to higher sales volumes.

Foreign exchange management

The Company's sales revenues are generally denominated in dollars, as are most sales in the worldwide market for wafer steppers. Historically, however, the large majority of the Company's expenses have been denominated in guilders or deutsche marks (the latter with respect to the Company's purchases from Zeiss and other German suppliers), with only a small proportion of expenses being denominated in dollars (approximately $60.0 million in 1995). As a result, the Company's operating income and cash flow are significantly exposed to an appreciation in the guilder or the deutsche mark against the dollar. The Company actively attempts to fix the dollar/guilder exchange rate to which it is subject, by entering into foreign exchange hedging arrangements and contractual arrangements with its customers. The Company had considerable success in the latter half of 1995 and in respect of contracts for the delivery of wafer steppers in 1996 in having its customers agree to bear a portion of the risk of exchange rate movements, either by paying the difference between an agreed-upon exchange rate and the actual exchange rate at an agreed-upon date or by agreeing to be invoiced in guilders. The Company is seeking to enter into similar arrangements with respect to customer orders for 1997.
The Company was a party to forward contracts to purchase NLG 164 million at an average rate of NLG 1.8267/$1.00 and NLG 185.5 million at an average rate of NLG 1.6050/$1.00 at December 31, 1994 and 1995, respectively. A Philips Group company was the counterparty on forward contracts to which the Company was a party for the purchase of NLG 129.1 million as of December 31, 1994. No Philips Group entity was a counterparty to any such contracts at December 31, 1995.
At December 31, 1994, the Company and Philips also had entered into currency option arrangements, consisting of matched put and call currency option agreements, for a total value of $100 million at an exercise rate of NLG 1.70/$1.00 for the put options purchased by the Company and NLG 1.80/$1.00 for the call options sold by the Company. At December 31, 1995, the Company was not party to any option arrangements.
Historically, the rate of exchange between the guilder and the deutsche mark has been very stable. Consequently, the Company generally does not attempt to hedge its guilder/deutsche mark foreign exchange requirements. In the fourth quarter of 1994, however, in response to a market exchange rate for the deutsche mark that was slightly below the historical average, the Company entered into forward currency contracts with Commerzbank (Nederland) N.V. to purchase DM 72 million

during 1995 at a rate of DM 1.1211/NLG 1.00. These contracts expired between January 1995 and December 1995 and no such commitments existed at December 31, 1995.

Fluctuation in Operating Results

The Company's sales of its photolithography systems and the Company's results of operations depend in significant part upon the level of capital expenditures by semiconductor manufacturers, which in turn depends upon the current and anticipated market demand for ICs and for products utilizing ICs.
The semiconductor industry has historically been highly cyclical and has experienced recurring periods of oversupply, resulting in significantly reduced demand for capital equipment, including photolithography systems.
A principal element in the Company's strategy is to address this cyclicality by restricting the Company's manufacturing activities to the assembly and testing of wafer steppers using components and subassemblies manufactured by third parties and by using contract employees to perform certain functions, particularly product development activities. Management believes that the low level of fixed costs associated with assembly and testing operations, combined with careful management of inventory levels and supplier work-in-process and the Company's ability to vary contract employee staffing levels, strengthens the ability of the Company to decrease its costs in response to a market downturn.

Inflation

In recent years, inflation has not had a material impact on the Company's costs. However, increases in the prices of raw materials used in the subsystems and components purchased by the Company from its suppliers and in the prices of such subsystems and components themselves, due to general economic factors or otherwise, could have a significant impact on the Company's costs, which the Company may or may not be able to reflect fully in its pricing structure.

Liquidity and Capital Resources

The Company's balance of cash and cash equivalents was NLG 68.9 million at December 31, 1995, compared with NLG 23.4 million at December 31, 1994 and NLG 1.3 million at December 31, 1993. Net cash flows provided by operating activities were NLG 39.0 million, NLG 90.1 million and NLG 73.8 million in 1993, 1994 and 1995, respectively. Operating cash flow in 1993 was positively affected by the decision by the Netherlands government to waive during 1993 the repayment of NLG 13.8 million of TOKs that otherwise would have been payable

with respect to that period.
The increase in operating cash flow in 1993, however, was offset by an NLG 32.9 million increase in accounts receivable, due primarily to increased sales volumes. The increase in operating cash flows from 1993 to 1994 reflects the NLG 11.6 million increase in the Company's net income and non-cash charges in 1994 of NLG 24.4 million for deferred income taxes and NLG 7.5 million for the Management Incentive Share Scheme.
In addition, an aggregate increase of NLG 79.6 million in accounts receivable, inventories and other current assets was offset by an NLG 89.6 million increase in accounts payable and accrued liabilities (other than advances from customers and accrued pension liability), the increases reflecting higher business volumes.

The NLG 16.4 million decrease in operating cash flows from 1994 to 1995 primarily reflects an aggregate increases of NLG 185.9 million in the Company's accounts receivable and inventory levels, offset by increases in net income and accrued liabilities and income tax payable of NLG 218.5, in each case, reflecting higher business volumes. In addition to the offsets described above, the decrease in operating cash from 1994 to 1995 reflects a decrease in accounts payable of NLG 25 million that in part reflects an agreement between the Company and Zeiss to shorten payment terms to Zeiss from 90 to 30 days.

The Company used net operating loss carryforwards to offset income tax liability in each of 1993, 1994 and 1995. In addition, in 1993 and 1994 the Company did not pay taxes on the profits of its U.S. operations, which were reported in the tax return of the U.S. operations of the Philips Group. As a result, no cash payments in respect of income taxes were made by the Company in any of those years. In 1995 the Company paid NLG 4.6 million in taxes on the 1995 profits of its U.S. operations, which will be reported on the tax return of the Company's U.S. subsidiary, ASM Lithography Inc. As of December 31, 1995, the Company had current tax liabilities of NLG 67.1 million, which will be paid in 1996.

The Company's ratio of average accounts receivable to net sales was 22.7%, 20.4% and 20.3% in 1993, 1994 and 1995, respectively. The Company generally ships its wafer steppers on payment terms requiring 80% of the sales price to be paid within 30 to 60 days after shipment, depending on the customer. Since 1992, the Company has been successful in obtaining the agreement of a growing proportion of its customers to the shorter, 30-day payment terms. The remainder of the purchase price for the Company's wafer steppers is due after the completion of the installation process and subsequent customer testing, a process that can take an additional six to eight weeks. Payment terms for the remaining 20% of the purchase price generally reflect the same terms applicable to the original 80%.

The Company's ratio of average inventory to net sales was 40.4%, 27.5% and 21.6%, in 1993, 1994 and 1995, respectively. The declines in the ratio in 1994 and 1995 were caused by improvements in average production cycle time and a decrease in the cost of sales per comparable wafer stepper unit that were the result of higher production volumes of the Company's PAS 5500 wafer stepper, combined with the learning curve benefits associated with increased experience in their manufacture. In addition to production cycle time the Company's inventory levels are also affected by the need to maintain adequate customer spare parts and a limited quantity of surplus stocks of key components required in the manufacture of wafer steppers.

Net cash provided by investing activities of NLG 1.5 million in 1993 compared with NLG 25.1 million and NLG 51.8 million used by such activities in 1994 and 1995, respectively. The 1994 figure reflects NLG 26.7 million in capital expenditures, offset by proceeds from sales-type leases. The capital expenditures consisted of NLG 12 million in respect of the expansion of the Company's manufacturing facility in Veldhoven, The Netherlands, with the remainder consisting of investment in tools and equipment for manufacturing and development.

The Company incurred additional capital expenditures in 1995 of approximately NLG 14 million at its Veldhoven manufacturing facility, primarily relating to the installation of upgraded sprinkler and related safety systems. In addition, in response to the continuing high level of customer demand for wafer steppers, the Company has determined to expand manufacturing capacity significantly through the year 1997. To this end, the Company will lease a new combined module assembly and testing, training and storage facility in Veldhoven. This facility is expected to be ready for initial occupancy in the second half of 1996 and to be completed in 1997, with the cost to the Company for leasehold improvements and related expenditures for equipment expected to be approximately NLG 40 million.

Net cash used in financing activities was NLG 43.8 million in 1993 and NLG 40.7 million in 1994, compared with net cash provided by financing activities of NLG 23.9 million in 1995. The 1995 amount reflects the receipt by the Company of NLG 79.1 million in net proceeds from its March 1995 initial public offering offset by the repayment of certain loans from the Philips Group and from Zeiss, described below.

DM 9.6 million (NLG 10.8 million) in principal amount of a DM 20 million (NLG 22.6 million) loan to the Company from Zeiss was repaid in 1993 and the remaining principal amount was repaid in March 1995 with a portion of the proceeds of the Company's initial public offering.

In April 1995, the Company repaid NLG 36 million in floating rate subordinated loans from a Philips Group company. These loans were originally taken out in 1991 and 1992 and bore interest at the rate of 9% in 1993, 6.4% in 1994 and 7.44% in 1995.

In 1993, the Company entered into a $10 million working capital loan arrangement with Comdisco, Inc., a U.S. capital equipment leasing company, pursuant to which Comdisco retains a security interest in six of the total number of wafer steppers held in the Company's inventory at any one time. The loan bears interest at the rate of 7.44% and the entire principal amount thereof is repayable in 1998.

Also in 1993, the Company repaid NLG 24.5 million in respect of its NLG 140 million revolving credit line with Internationale Nederlanden Bank N.V. This facility expired in 1994 and the remaining balance of NLG 45.2 million was repaid. In December 1995, the Company entered into an NLG 100 million credit facility with each of Commerzbank (Nederland) N.V. and with ABN AMRO Bank (total facilities: NLG 200 million).

The lenders have certain contractual rights to secure the facilities by taking a pledge of the Company's accounts receivable. Furthermore, covenants in the agreement establishing each line of credit require that the Company maintain a ratio of guarantee capital to total assets of at least 40% and a minimum guarantee capital as of January 1, 1997 and 1998 of NLG 225 million and NLG 250 million, respectively (as of December 31, 1995 the Company's ratio of guarantee capital to total assets was 49% and its level of guarantee capital was NLG 321 million).

Guarantee capital is defined as the total of consolidated shareholders' equity, subordinated loans and provision for deferred taxes, less the total of receivables from subsidiaries and members of the Board of Management and intangible fixed assets.

The Company has agreed to grant to Zeiss during the first half of 1996 a loan having a principal amount of 30 million deutsche marks (approximately NLG 33.6 million) to facilitate expansion of lens manufacturing capacity by Zeiss. In addition, the Company has agreed to make a $2.4 million (approximately NLG 3.8 million) direct equity investment in Cymer during the first quarter of 1996.

Veldhoven, February 6, 1996
Board of Management

Independent Auditors' Report

To the Supervisory Board and Board of Management of
ASM Lithography Holding N.V. Veldhoven, The Netherlands.

We have audited the accompanying consolidated balance sheets of ASM Lithography Holding NV and its subsidiaries (collectively, the "Company") as of December 31, 1994 and 1995 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE
Registeraccountants

Eindhoven, The Netherlands
February 6, 1996

Summary of Significant Accounting Policies

Presentation — The accompanying consolidated financial statements include the accounts of ASM Lithography Holding NV ("ASM Lithography"), Eindhoven, The Netherlands, and its consolidated subsidiaries (collectively, the "Company"). (See Note 1 to the Consolidated Financial Statements). The Company follows accounting principles that conform with those generally accepted in the United States of America. The accompanying consolidated financial statements are stated in Netherlands guilders except that, for the convenience of the reader, Netherlands guilder amounts presented as at and for the period ended December 31, 1995 also have been translated into U.S. dollars using the exchange rate in effect on December 29, 1995 of U.S. $1.00 = NLG 1.6035. All amounts presented in currencies other than Netherlands guilders are expressed in thousands.

Principles of consolidation — The financial statements include the accounts of ASM Lithography and all of its subsidiaries (ASM Lithography BV (Eindhoven, The Netherlands), ASM Lithography, Inc. (Delaware, The United States of America), ASM Lithography SARL (Meylan, France), and Hasrode BV (Eindhoven, The Netherlands), each of which are wholly owned. All significant intercompany profits, transactions and balances have been eliminated in consolidation.

Foreign currency — The financial information for subsidiaries outside The Netherlands is prepared in local currencies. Transactions between the Company and its U.S. subsidiary relating to sales or products are denominated in U.S. dollars. All foreign currency amounts in the balance sheets have been translated into Netherlands guilders at the exchange rate in effect on the respective balance sheet dates. In the consolidated statements of operations, the amounts presented for income and expenses have been translated into Netherlands guilders based on the average rate of exchange for the corresponding period. Exchange rate differences resulting from the translation of the net investment in subsidiaries outside The Netherlands into Netherlands guilders are accounted for directly in the shareholders' equity section of the balance sheet. Exchange rate differences due to transactions in foreign currencies are reflected in the consolidated statements of operations. The Company enters into foreign exchange contracts as a hedge against accounts receivable and accounts payable denominated in foreign currencies. Gains and losses in market value are recognized as a credit or debit offsetting foreign exchange gains or losses on these accounts receivable or accounts payable. A change in the market value of a foreign exchange contract that is a hedge of a firm commitment is deferred and included in the valuation of the completed sales or purchase transaction. The measurement date for hedged sales transactions is the date when the sale is recognized and for hedged purchase transactions it is the date when the purchased goods are delivered. Premiums and discounts relating to forward exchange contracts that hedge foreign currency exposures are amortized over the term of the forward contracts and are charged to operating income.

The Company also attempts to enter into contractual arrangements with its customers whereby the customers agree to bear a portion of the risk of exchange rate movements in connection with purchases of the Company's products. (See Note 14 to the Consolidated Financial Statements).

Cash and cash equivalents — Cash equivalents consist primarily of highly liquid investments, such as bank deposits, with insignificant interest rate risk and original maturities of three months or less at date of acquisition.

Marketable Securities — On January 1, 1995, the Company adopted Statement of Financial Accounting Standards No. 115 — Accounting For Certain Investments in Debt and Equity Securities ("SFAS No. 115"). Prior to the adoption of this statement, no such securities were held by the Company. Management determines the proper classification of investments in obligations with fixed maturities at the time of purchase and reevaluates such designations as of each balance sheet date. At December 31, 1995, all securities covered by SFAS No. 115 were designated as available-for-sale securities. Accordingly, these securities are stated at fair value, with unrealized gains and losses reported in a separate component of shareholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statement of Operations.

Inventories — Inventories are stated at the lower of cost (first-in, first-out method) or market. Cost includes net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Allowances are made for slow moving, obsolete or unsaleable stock.

Deferred expenses — Deferred expenses are valued at the lower of cost or recoverable amount. (See Notes 5 and 8 to the Consolidated Financial Statements.)

Income taxes — The Company's income tax liability has been determined under the provisions of Statement of Financial Accounting Standards No. 109 —Accounting for Income Taxes. Deferred income tax assets and liabilities and income taxes (benefit) shown in the financial statements include the effect of the Company's valuation of net operating losses carried forward and of temporary differences between the book carrying amounts and the tax basis of assets and liabilities at the relevant balance sheet date. Deferred tax amounts are calculated at the rates of taxation applicable in the several jurisdictions in which the Company operates. Deferred tax assets are presented net of valuation allowances for amounts that are estimated to be unrecoverable.

Investment in sales-type leases — Under a sales-type lease the lease transaction is recognized as a sale whereby the Company's net investment in the lease consists of the gross rental payments to be received over the remaining term of the lease less unearned income. Unearned income is amortized as lease income over the life of the lease.

Property, equipment and leasehold improvements — Property, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets. In the case of leasehold improvements, the estimated useful lives of the related assets do not exceed the remaining term of the corresponding lease. The following table presents the assigned economic lives of the Company's property, equipment and leasehold improvements:

Category	Assigned economic life
Property under construction	None
Machinery and Equipment	2 - 5 years
Office furniture and equipment	3 - 5 years
Leasehold improvements	5 - 10 years

Long-term leases in which the Company retains substantially all of the benefits and risks incident to ownership are accounted for as capitalized leases. Capitalized lease assets are recorded at the present value of future lease obligations, using an appropriate discount rate. The Company also leases machinery and equipment under arrangements accounted for as operating leases.

Debt and other liabilities — Debt and other liabilities are stated at face value. An evaluation of the fair market value of the Company's debt and other liabilities does not result in a value significantly different from face value.

Recognition of revenues, income and expense — The Company's practice is to recognize revenues (and related cost of sales) from sales of products and post-development experimental models upon shipment. The risk of loss and rewards of ownership with respect to products transfer to customers at that time. Shipment occurs after a customer accepts the product at the Company's premises. The sale of the product to the customer is thereby considered complete. No significant obligations remain after the sale is completed and a customer's sole recourse against the Company is to enforce its obligations relating to installation and warranty. Costs for these obligations relating to installation, which are insignificant, and for warranty expense (see Cost of Sales, below) also are accrued when corresponding sales revenues are recognized, that is, at the time of shipment. Revenues from services are recognized when performed. Revenue from prepaid service contracts is recognized over the life of the contract. Advance payments received from customers are recorded as a liability until the products have been shipped. Operating expenses and other income and expense items are recognized in the income statement as incurred or earned.

Cost of sales — Cost of sales consists of direct product costs such as materials, labor, cost of warranty and depreciation. Cost of sales that relates to demonstration and post-development experimental models that can be sold to customers is depreciated over a period of three to five years and the remaining net book value is charged to cost of sales when sold. Repayments of certain technical development credits are also charged to cost of sales (see "Research and development credits," below). The Company accrues a fixed amount of warranty and installation expense for every wafer stepper shipped. The amount accrued is based on actual historical expenses incurred and on estimated probable future expenses related to current sales. In addition, the Company accrues for incidental expenses relating to specific customer issues that are not formally covered under the warranty provisions. Warranty costs are charged against this provision. Costs associated with service revenue are expensed as incurred.

Pension costs — Pension obligations have been funded with separate pension funds and with other third parties. Pension costs are calculated based upon Statement of Financial Accounting Standards No. 87 — Employers' Accounting for Pensions. The costs associated with pension benefits accumulated by employees participating in defined benefit plans are, in general terms, distributed equally over their years of service. Transition net amounts are amortized over the average remaining years of employee service. Net unrecognized gains or losses, generally resulting from changes in underlying actuarial assumptions, are amortized over the remaining service life of the affected employees.

Research and development costs — Costs relating to research and development are classified as research and development costs and are charged to operating income as incurred.

Research and development credits — Subsidies and other governmental credits to cover research and development costs relating to approved projects are recorded as research and development credits in the period when the research and development cost to which such subsidy or credit relates occurs. Technical development credits (Technische Ontwikkelingskredieten or "TOKs") received from the Netherlands government to offset the cost of certain research and development projects are contingently repayable to the extent sales of equipment developed in such projects occur. Such repayments are calculated as a percentage of sales revenue and are charged to cost of sales for the related product (see Note 17 to the Consolidated Financial Statements). No such repayments are required if such sales do not occur. TOKs claimed for the production of prototypes are used to reduce the capitalized cost of such prototypes. The remaining capital cost of such prototypes is then depreciated on a straight line basis. Prototypes are not intended for sale or for use in the Company's manufacturing process. If such sale or use occurs, however, the Company is obligated to repay the related TOKs, and such repayment amount is accrued in an amount based on the then-current net book value of the prototype sold or used.

Software costs — The Company accounts for software costs related to its products in accordance with Statement of Financial Accounting Standards No. 86 — Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed. There are no capitalized costs for computer software development because of the absence of significant additional costs occurring between the point of technological feasibility and the availability of the product for general release to customers.

Earnings per share — Earnings per share are computed by dividing earnings for the period by the weighted average number of ordinary shares outstanding during each period. The number of ordinary shares subject to the Company's management share incentive scheme are treated as outstanding for all periods presented.

Use of estimates — The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily require Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reported periods.

Recently issued accounting standards — In 1995, Statement of Financial Accounting Standards No. 123 — Accounting for Stock-Based Compensation was issued. This is an elective standard that the Company has decided not to adopt, instead continuing to apply the provisions of Accounting Principles Board Opinion No. 25 — Accounting for Stock Issued to Employees.

Consolidated Balance Sheets

as of December 31,
x1,000

	note
Assets	
Cash and cash equivalents	
Marketable securities	2
Accounts receivable, net	3,8
Other receivables	3,8
Inventories, net	4,8
Prepaid expenses	
Deferred tax assets	18
Total current assets	
Deferred expenses	5
Investment in sales-type leases	6,8
Property, equipment and leasehold improvements, net	7
Total assets	
Liabilities and Shareholders' Equity	
Short-term debt	8,9
Accounts payable	8
Accrued liabilities	11
Current tax liability	18
Deferred tax liability	18
Total current liabilities	
Long-term senior debt	8
Subordinated loans	9
Deferred tax liability	18
Commitments and contingencies	15
Ordinary shares, NLG 0.50 nominal value; 150,000,000 shares authorized; 30,000,000 shares issued at December 31, 1994; 33,000,000 shares issued at December 31, 1995.	26
Priority shares, NLG 100 nominal value; 10 shares authorized and issued at December 31, 1994 and 1995	25
Share premium	10,20
Accumulated earnings	
Deferred compensation expense	20
Net unrealized investment gains	2
Cumulative translation adjustment	
Total shareholders' equity	
Total liabilities and shareholders' equity	

1994 NLG	1995 NLG	1995 U.S. $
23,373	68,949	42,999
0	11,111	6,929
125,931	247,072	154,083
20,279	20,466	12,763
165,446	230,203	143,563
4,840	3,269	2,039
5,619	3,730	2,326
345,488	584,800	364,702
2,574	0	0
2,720	627	391
41,400	73,640	45,925
392,182	659,067	411,018
39,311	1,525	951
114,955	89,830	56,020
105,126	162,551	101,373
0	67,119	41,858
0	13,926	8,685
259,392	334,951	208,887
19,920	16,574	10,337
12,138	0	0
14,824	3,932	2,452
15,000	16,500	10,290
1	1	1
86,000	163,583	102,016
6,723	138,134	86,146
(22,500)	(15,000)	(9,355)
0	148	92
684	244	152
85,908	303,610	189,342
392,182	659,067	411,018

Consolidated Statements of Operations

for the year ended December 31,
x 1,000, except per share data

	note
Net product sales	
Net service sales	
Total net sales	19
Cost of product sales	
Cost of service sales	
Total cost of sales	16
Gross profit on sales	
Research and development costs	
Research and development credits	17
Selling, general and administrative expenses (including non-cash charges of NLG 7,500 in 1994 and 1995 for management share compensation)	20
Other (income) and expenses, net	23
Operating income	
Interest expense	
Income before income taxes	
Income taxes (benefit)	18
Net income	
Net income per ordinary share	1,26
Number of ordinary shares used in computing per share amount	1,26

1993 NLG	1994 NLG	**1995 NLG**	**1995 U.S. $**
300,897	496,545	**862,025**	**537,590**
33,036	37,457	**55,690**	**34,730**
333,933	534,002	**917,715**	**572,320**
220,488	346,248	**538,412**	**335,773**
27,246	33,314	**43,529**	**27,146**
247,734	379,562	**581,941**	**362,919**
86,199	154,440	**335,774**	**209,401**
37,799	49,409	**85,275**	**53,181**
(15,500)	(13,195)	**(15,237)**	**(9,502)**
31,529	48,532	**58,189**	**36,289**
(1,730)	(2,226)	**(1,400)**	**(874)**
34,101	71,920	**208,947**	**130,307**
11,874	7,453	**943**	**588**
22,227	64,467	**208,004**	**129,719**
(6,247)	24,427	**76,593**	**47,766**
28,474	40,040	**131,411**	**81,953**
0.95	1.33	**4.06**	**2.53**
30,000,000	30,000,000	**32,375,000**	**32,375,000**

Statement of Shareholders' Equity (Deficit)

for the year ended December 31,
NLG x 1,000, except share data

	note
Balance at January 1, 1993	
Net income	
Exchange rate changes for the year	
Balance at December 31, 1993	
Net income	
Conversion of subordinated loan from Philips Group	10
Contribution from Philips Group	20
Exchange rate changes for the year	
Balance at December 31, 1994	
Net income	
Issuance of Ordinairy Shares	26
Management share compensation	20
Net unrealized investment gains	2
Exchange rate changes for the year	
Balance at December 31, 1995	

Number of ordinary and priority shares	Issued share capital	Share premium	Accumulated earnings (deficit)	Deferred compensation expense	Net unrealized investment gains	Cumulative translation adjustments	Total shareholders' equity (deficit)
30,000,010	15,001	-	(61,791)	-	-	275	(46,515)
			28,474				28,474
						2,682	2,682
30,000,010	15,001	-	(33,317)	-	-	2,957	(15,359)
			40,040				40,040
		56,000					56,000
		30,000		(22,500)			7,500
						(2,273)	(2,273)
30,000,010	15,001	86,000	6,723	(22,500)	-	684	85,908
			131,411				131,411
3,000,000	1,500	77,583					79,083
				7,500			7,500
					148		148
						(440)	(440)
33,000,010	16,501	163,583	138,134	(15,000)	148	244	303,610

Consolidated Statements of Cash Flows

for the year ended December 31, x 1,000	note
Cash flows from operating activities:	
Net income	
Adjustment to reconcile net income to net cash flows from operating activities:	
Depreciation	
Translation of debt in foreign currency	8
Deferred income taxes (benefit)	18
Net periodic pension cost	12
Management share compensation	20
Effects of changes in assets and liabilities:	
Increase in accounts receivable	
Decrease (increase) in inventories	
Decrease (increase) in other current assets	
Increase in accrued liabilities	11
(Decrease) increase in accounts payable	8
Increase in income tax payable	18
Net cash provided by operating activities	
Cash flows from investing activities:	
Increase in marketable securities	2
Decrease (increase) deferred expenses	5
Proceeds from investment in sales-type leases	
Capital expenditures	
Net cash provided by (used in) investing activities	
Cash flows from financing activities:	
Proceeds from share issuance (net of expenses of NLG 1,514)	26
Proceeds from long-term debt	8
Payments on long-term debt	8
Payments on subordinated loans	9,13
Proceeds from (decrease in) advances from customers	
Payments on loans from supplier	8
Payments on bank lines of credit	8
Net cash provided by (used in) financing activities	
Effect of net unrealized investment gains	2
Effect of changes in exchange rates on cash	
Net cash flows	
Cash and cash equivalents at beginning of the year	
Cash and cash equivalents at end of the year	

	1993 NLG	1994 NLG	**1995 NLG**	**1995 U.S. $**
	28,474	40,040	**131,411**	**81,953**
	19,465	9,592	**13,331**	**8,314**
	1,000	(2,000)	**(1,400)**	**(873)**
	(6,247)	24,427	**4,923**	**3,070**
	671	594	**532**	**332**
	0	7,500	**7,500**	**4,677**
	(32,891)	(34,163)	**(121,141)**	**(75,548)**
	14,078	(37,433)	**(64,757)**	**(40,385)**
	330	(7,991)	**1,384**	**863**
	2,082	32,201	**60,002**	**37,419**
	12,028	57,374	**(25,125)**	**(15,669)**
	0	0	**67,119**	**41,858**
	38,990	90,141	**73,779**	**46,011**
	0	0	**(10,883)**	**(6,787)**
	0	(32)	**2,574**	**1,605**
	5,176	1,633	**2,093**	**1,305**
	(3,639)	(26,653)	**(45,570)**	**(28,419)**
	1,537	(25,052)	**(51,786)**	**(32,296)**
	0	0	**79,083**	**49,319**
	18,400	0	**0**	**0**
	(37,338)	(4,080)	**(4,167)**	**(2,599)**
	0	0	**(36,000)**	**(22,451)**
	10,454	8,541	**(3,337)**	**(2,081)**
	(10,846)	0	**(11,704)**	**(7,299)**
	(24,512)	(45,162)	**0**	**0**
	(43,842)	(40,701)	**23,875**	**14,889**
	0	0	**148**	**92**
	2,682	(2,273)	**(440)**	**(273)**
	(633)	21,115	**45,576**	**28,423**
	1,891	1,258	**23,373**	**14,576**
	1,258	23,373	**68,949**	**42,999**

Notes to the Consolidated Financial Statements

1. *General*

ASM Lithography was incorporated in The Netherlands on October 3, 1994 as a wholly owned subsidiary of Philips Electronics N.V. (together with its consolidated subsidiaries, the "Philips Group") to serve as the holding company for a world-wide business engaged in the development, production, marketing and sale of advanced photolithography systems for the semiconductor industry and operated under a single management. The Company's principal operations are in The Netherlands and the United States. The Netherlands operations are owned by ASM Lithography B.V., which was transferred in its entirety to ASM Lithography by the Philips Group on December 21, 1994. The United States operations historically comprised an unincorporated division of the Philips Group but on December 31, 1994 were contributed by the Philips Group to ASM Lithography, Inc., a wholly owned subsidiary of ASM Lithography.

On January 30, 1995 an increase in ASM Lithography's share capital was approved that resulted in an increase from 100 to 30,000,000 in the total number of Ordinary Shares, nominal value NLG 0.50 each, outstanding.
As part of the initial public offering in March 1995 the number of ordinary shares issued has been increased to 33,000,000.
As presented, shareholders' equity (deficit) accounts and the Statement of Shareholders' Equity (Deficit) give effect to these transactions for all previous periods presented. The transferred and contributed entities have been reflected in the financial statements at historical amounts, similar to a pooling-of-interests, for all periods presented.

At December 31, 1995, Philips owned 56.7% of the Company's shares. In addition, three of the five members of the Company's Supervisory Board are Philips' Group employees.

2. *Marketable securities*

Marketable securities classified as "available-for-sale" are summarized as follows:

December 31, 1995

	Cost	Gross unrealized investment gains	Gross unrealized investment losses	Market value
Commercial Paper (maturing between August 1999 and February 2000)	10,883	228	-	11,111

Differences between cost and market of NLG 228 (less deferred taxes of NLG 80) were credited to a separate component of shareholders' equity under the caption "Net Unrealized Investment Gains."

Gross realized gains from the sale of securities classified as available-for-sale securities were not material for the year ended December 31, 1995.

In January 1996, the Company sold all marketable securities it then held, resulting in a gain of NLG 269.

3. *Accounts receivable and other receivables*

Accounts receivable consist of the following:

December 31,	1994	**1995**
Accounts receivable	117,873	**218,122**
Accounts receivable — Philips Group	8,299	**29,191**
Allowance for doubtful accounts	(241)	**(241)**
Total accounts receivable, net	125,931	**247,072**

A summary of activity in the allowance for doubtful accounts is as follows:

December 31,	1994	**1995**
Balance at beginning of year	247	**241**
Provision for uncollectable accounts receivable	-	**-**
Accounts receivable written off	(6)	**-**
Balance at end of year	241	**241**

Other receivables consist of the following:

December 31,	1994	**1995**
VAT receivable	11,018	**10,594**
Subsidies receivable	6,526	**6,878**
Sales agent receivable	724	**-**
Interest receivable	-	**561**
Investment in sales type leases — current portion	1,186	**1,525**
Other	825	**908**
Total other receivables	20,279	**20,466**

4. *Inventories*

Inventories consist of the following:

December 31,	1994	**1995**
Raw materials	69,208	**90,729**
Work-in-process	75,814	**128,696**
Finished products	42,220	**40,682**
Allowance for obsolescence	(21,796)	**(29,904)**
Total inventories, net	165,446	**230,203**

A summary of activity in the allowance for doubtful accounts is as follows:

December 31,	1994	**1995**
Balance at beginning of year	15,330	**21,796**
Provision for loss on obsolete inventory	12,599	**12,472**
Inventory written off	(6,133)	**(4,364)**
Balance at end of year	21,796	**29,904**

5. *Deferred expenses*

Deferred tooling expenses have been incurred for the manufacturing of wafer handlers used in the Company's photolithography systems and are allocated to cost of sales rateably upon the purchase of these systems (see Note 8).

6. *Investment in sales-type leases*

The Company's leases to customers are sales-type leases. As of December 31, 1994 and 1995 these leases related to three wafer steppers.

7. Property, equipment and leasehold improvements

Property, equipment and leasehold improvements consist of the following:

December 31,	1994	**1995**
Property under construction	12,000	-
Machinery and equipment	48,908	**63,536**
Leasehold improvements	10,523	**37,401**
Office furniture and equipment	19,522	**34,701**
Accumulated depreciation	(49,553)	**(61,998)**
Total property, equipment and leasehold improvements — net	41,400	**73,640**

8. Debt and capitalized lease obligations

Debt and capitalized leases, other than the non-current portion of subordinated loans and subordinated convertible loans, (see Notes 9 and 10), consist of the following:

December 31,	1994	**1995**
Short-term debt		
ABN AMRO Bank N.V. and Commerzbank (Nederland) N.V. revolving line of credit at Netherlands Central Bank promissory discount rate ("PD") plus 1.25% (minimum of 5.00%) (6.25% at December 31, 1994 and 5.00% at December 31, 1995)	-	-
Short-term loan from the Carl-Zeiss-Stiftung, variable quarterly interest rate. (6.80% at December 31, 1994)	11,704	-
Current portion of long-term debt	27,607	**1,525**
Total short-term debt	39,311	**1,525**

In 1994, the Company entered into two new lines of credit with Commerzbank (Nederland) N.V. and with ABN AMRO Bank N.V. Both lines of credit amounted to NLG 40,000 (NLG 80,000 total), were obtained without a guarantee from the Philips Group and were secured by the pledge of the Company's accounts receivable. The Company did not draw on these facilities in 1995. In December 1995, the Company entered into two new lines of credit with Commerzbank (Nederland) N.V. and with ABN AMRO Bank N.V., effectively cancelling the lines of credit secured in January of that year. Both new lines of credit amounted to NLG 100,000 (NLG 200,000 total). The lenders have certain contractual rights to secure the facilities by taking a pledge of the Company's accounts receivable. Furthermore, covenants in the agreement establishing each line of credit require that the Company must maintain a ratio of guarantee capital to total assets of at least 40% and a minimum guarantee capital at January 1, 1997 and 1998 of NLG 225,000 and NLG 250,000, respectively. As of December 31, 1995 the Company was in compliance with the above described covenants. Guarantee capital is defined as the total of consolidated shareholders' equity, subordinated loans and provision for deferred taxes, less the total of receivables from subsidiaries and members of the Board of Management and intangible fixed assets.

In 1992, Carl-Zeiss-Stiftung, a major supplier of the Company ("Zeiss"), agreed to convert to a short-term loan an amount of DM 20,000 due from the Company for product purchases made earlier in that year. The loan was originally subject to a guarantee by the Philips Group that expired in April 1994. During 1993, the Company repaid DM 9,600 of this loan. The remaining principal amount was originally due in April 1993 but was extended by agreement of the parties and was repaid in March 1995 with the proceeds of the Company's initial public offering. Interest on the loan adjusted quarterly and accrued at an average per annum rate of 8.69% in 1993 and 6.61% in 1994 and the three-months period ending March 1995. In 1993 interest in an amount of NLG 800 was forgiven to reimburse the Company for additional expenses incurred due to the late shipment, by Zeiss, of lenses used in the manufacturing of the Company's wafer steppers.

Current portion of long-term debt includes the current portion of the Company's subordinated loans from the Philips Group (see Note 9).

NLG x 1,000

December 31,	1994	**1995**
Long-term senior debt		
A. Loan from Comdisco, Inc., interest rate at 7.44%	17,400	**16,000**
B. Loans with interest rates varying from 9.50% to 11.97%	4,269	**2,099**
C. Loan from Philips Group, interest rate at 10.00%	1,980	**-**
D. Other notes payable at various interest rates	16	**-**
	23,665	**18,099**
Less: current portion of long-term senior debt	3,745	**1,525**
Total long-term senior debt	19,920	**16,574**

A. The Comdisco, Inc. loan represents an interest-only loan (payable monthly) until September 1998 when the principal amount of $10,000 (December 31, 1995 equivalent to NLG 16,000) is due. The loan is secured by 6 of the total number of wafer steppers in the Company's inventory at any given time. Comdisco, Inc. is a U.S. capital equipment leasing company.

B. The Company's other loans are collateralized by assigned lease rentals under sales-type leases and equipment. The monthly payments from such lease rentals are $91 due monthly through 1996.

C. The loan from the Philips Group represented an obligation of the Company to pay for tooling investments made by the Philips Group during 1993 to manufacture and deliver a limited number of wafer handlers for sale to the Company. Repayment of the obligation was an additional charge to the cost of each wafer handler.
The amount was scheduled to be repaid in full after the purchase of 250 wafer handlers, of which 50 were purchased in 1993. In 1994, the Philips Group made additional investments that the Company agreed to repay under a similar agreement. Due to this investment, an additional 20 wafer handlers were required to be purchased to fulfill the repayment obligation. The Company purchased 100 wafer handlers in 1994 and the remaining 170 wafer handlers in 1995 to discharge its obligation (see Note 5).

The currency of denomination of the Company's long-term senior debt is as follows:

December 31,

	1994	1995
Including current portion:		
Netherlands guilders (NLG)	1,980	**-**
United States dollars (US$)	12,463	**11,312**

Total cash interest payments on debt were NLG 13,491 in 1993, NLG 13,099 in 1994 and NLG 2,463 in 1995. Aggregate required principal payments due on long-term senior debt for years subsequent to December 31, 1995, excluding the current portion of NLG 1,525 due in 1996, are:

	NLG
1997	**574**
1998	**16,000**
1999	**0**
2000	**0**
2001 and after	**0**
Total	**16,574**

9. Subordinated loans

In 1992, the Company received two subordinated loans from the Philips Group for a total amount of NLG 36,000, each bearing interest at a rate of 9.00% in 1993, 6.40% in 1994 and 7.44% for the first five months of 1995.
At December 31, 1994, NLG 23,862 of these loans were classified under short-term debt as current portion of long-term debt (see Note 8). The loans were repaid in April 1995.

10. Subordinated convertible loans

In December 1988 the Company received subordinated convertible loans from the Philips Group for a total amount of NLG 56,000. The loans were subordinated to the amounts payable for short-term borrowings from ING Bank. The subordinated convertible loans were converted into shareholders' equity in January 1994 and no interest expense was charged from December 31, 1993 to the date of conversion.

11. Accrued liabilities

Accrued liabilities consist of the following:

December 31,	1994	1995
TOK repayment (see Note 17)	21,293	**36,307**
Materials and costs to be paid (invoices not yet received)	18,620	**46,138**
Warranty and installation expenses	23,373	**25,299**
Advances from customers	24,851	**21,514**
Unearned revenue on service contracts	5,338	**10,650**
Interest	300	**-**
Current account Philips Group	2,252	**-**
Accrued pension liability	2,799	**3,275**
Accrued commission	2,113	**7,641**
Salaries and payroll related items	1,825	**7,183**
Taxes and social security	2,157	**4,008**
Other	205	**536**
Total accrued liabilities	105,126	**162,551**

12. Pension plans and related provisions

The Company sponsors a defined benefit pension plan for Netherlands employees who earn salaries exceeding a defined base amount. The pension benefit is based on a maximum 70% of the employee's last annual salary earned before retirement, subject to certain limitations on salary increases effected subsequent to the age of 55. The Company makes annual payments to the plan, which is administered and executed by the Pension Fund for the Metal Industry in The Netherlands ("Pensioenfonds voor de Metaalnijverheid"). The fund has to comply with the applicable Netherlands law on pension funds, which sets specific risk profiles standards for investments in assets. Upon entering the plan, pension rights of all employees are immediately vested.

For the Company's employer sponsored defined benefit pension plan, net periodic pension cost included in the statements of operations includes the following components:

NLG x 1,000

December 31,	1993	1994	**1995**
Employee service cost earned during the year	142	147	**122**
Interest on projected benefit obligation	404	389	**399**
Return on plan assets	(52)	(67)	**(83)**
Net amortization of deferred pension cost	177	125	**94**
Total net periodic pension cost	671	594	**532**

The following table sets forth the funded status of the defined benefit pension plan and the corresponding amounts recognized in the consolidated balance sheet at December 31,

	1994 Underfunded	**1995 Underfunded**
Accumulated benefit obligation	(1,492)	**(1,204)**
Projected benefit obligation	(5,827)	**(5,871)**
Plan assets at fair value	1,116	**1,179**
Deficit of plan assets over projected benefit obligation	(4,711)	**(4,692)**
Unrecognized net transition asset	2,829	**2,688**
Unrecognized net gain	(917)	**(1,271)**
Accrued pension cost	(2,799)	**(3,275)**

The accumulated benefit obligation for the defined benefit plan is equal to the vested benefit obligation because an employee's right to receive benefits vests immediately upon entry into the plan. For purposes of the above disclosure, the following assumptions were used:

	1993	1994	**1995**
Discount rate	8.0%	7.5%	**8.0%**
Assumed long-term rate of return on assets	8.0%	8.0%	**8.0%**
Rate of compensation increase	6.0%	5.5%	**5.0%**
Rate of compensation increase for employees over 55	4.0%	3.5%	**3.0%**

The Company also contributes to multi-employer pension plans covering its hourly and salaried employees in The Netherlands and to defined contribution plan for its U.S. employees. The basis for the contribution for The Netherlands plan is the total wages and salaries paid during the year. The contribution is calculated as a percentage of this total, using a maximum salary base per employee. Contributions to the U.S. plan range from 4 to 5 percent of the compensation of plan participants. The Company may make an additional contribution to the U.S. plan, in an amount determined at the sole discretion of the Company, if the Company meets certain financial performance criteria. No such contribution was made by the Company in 1993, 1994 and 1995. Pension costs for these plans were approximately NLG 1,830, NLG 1,762 and NLG 2,907 during 1993, 1994 and 1995, respectively.

13. Related parties

(see also Notes 1, 8, 9, 10, 14, 15, 17, 18, 19, 20 and 26)

Transactions between the Company and the Philips Group are effected at prices that are intended to reflect the market value of the products and services involved.

The Company historically has been provided with certain research and development services by various Philips Group companies in return for a fee. The total expense charged against earnings for these services amounted to NLG 4,213, NLG 8,542 and NLG 8,044 for 1993, 1994 and 1995, respectively.

Various departments within the Philips Group historically have provided the Company with administrative and other services from time to time or on a continuing basis. The services have included legal and tax advice. Philips corporate purchasing arrangements, sale and purchase of currency hedging instruments and incidental administrative services.

From time to time the Company purchases material and supplies under collective purchase agreements and purchase conditions negotiated by Philips for the benefit of its group companies. For this service the Company paid an annual fee amounting to NLG 125 in 1993, 1994 and 1995, which was charged to general and administrative expenses. The benefit for the Company of these arrangements can not be calculated precisely but Management believes that such benefits are in excess of the amounts paid. Management also believes that benefits relating to the arrangements between the Company and the Philips Group are immaterial to the Company's operating results when compared with similar arrangements which the Company could have entered into had the Company operated on a stand-alone basis.

In connection with the Company's initial public offering in March 1995, the Company entered into several agreements with the Philips Group for the purpose of defining their ongoing relationship. These agreements set forth the parties' respective responsibility for certain matters arising out of the historical operations of the Company and the formation of ASM Lithography as a holding company for the Company's operations; certain rights and obligations of the Company, Philips and their respective subsidiaries on a prospective basis afford the Company continued access to the research and development resources of the Philips Group in return for fees; provide for the parties' respective rights to certain items of intellectual property; and provide a framework under which the Philips Group will continue to provide certain administrative and other services that it has provided to the Company on an historical basis. Management believes that, had these agreements been in place on an historical basis, there would not have resulted any material change in the Company's historical financial position or results of operations.

In its ordinary course of business the Company engages in sales and purchase transactions with various companies within the Philips Group. The following table summarizes transactions between the Company and the Philips Groups: (see also Note 18):

December 31,	1993	1994	**1995**
Activities:			
Purchases by the Company of goods and services	36,590	58,447	**93,058**
Research and development expenses	4,213	8,542	**8,044**
Total purchases from Philips Group	40,803	66,989	**101,102**
Sales to Philips Group	7,064	22,446	**69,429**

December 31,	1994	**1995**
Balance sheet accounts		
Due from Philips Group:		
Trade and other receivables	8,299	**29,191**
Owed to Philips Group:		
Accounts payables and accruals	14,414	**11,852**
Long-term loans	1,980	**-**
Subordinated loans	36,000	**-**
Total owed to Philips Group	52,394	**11,852**

14. Financial instruments

The Company hedges accounts receivable denominated in foreign currency and identifiable firm foreign currency commitments relating to material sales and purchase transactions. To hedge these commitments, the Company enters into foreign currency forward contracts and foreign currency option combinations.
In addition, the Company had considerable success in the latter half of 1995 and in respect of contracts for the delivery of wafer steppers in 1996 in having its customers agree to bear a portion of the risk of exchange rate movements either by paying the difference between an agreed-upon exchange rate and the actual exchange rate at an agreed-upon date or by agreeing to be invoiced in guilders.

The Company was a party to forward contracts to purchase NLG 164,000 at an average rate of NLG 1.8267/U.S.$1.00 and NLG 185,500 at an average rate of NLG 1.6050/U.S.$1.00 at December 31, 1994 and 1995, respectively.
A Philips Group company was the counterparty for the purchase of NLG 129,100 in forward contracts as of December 31, 1994. No Philips Group entity was a counterparty on any of these contracts at December 31, 1995. Contracts held at December 31, 1995 expire from January 1996 through May 1996.

Additionally, at December 31, 1994, the Company had entered into forward currency contracts with Commerzbank (Nederland) N.V. to purchase DM 72,000 at a rate of DM 1.1211/NLG 1.00. These commitments expired from January 1995 through December 1995 and no such commitments existed at December 31, 1995.

The deferred gain on U.S. dollar foreign exchange forward contracts that relate to firm commitments not yet materialized into assets as at December 31, 1995 was immaterial.

There were no cash requirements in connection with foreign currency contracts held by the Company as at December 31, 1995, other than the agreed upon exchange of foreign currencies under the forward contracts.

In 1994 the Company purchased foreign exchange options, expiring from February, 1995 through June, 1995, that permitted but did not require the Company to exchange foreign currencies with another party at a contracted exchange rate. To cover premiums paid on such options, from time to time the Company also wrote offsetting options at exercise prices that limited but did not eliminate the effect of purchased options and forward contracts as a hedge.
At December 31, 1994, the Company and Philips also had entered into currency option arrangements, consisting of matched put and call currency option agreements, for a total value of U.S.$100,000 at an exercise rate of NLG 1.70/U.S.$1.00 for the put options purchased by the Company and NLG 1.80/U.S.$1.00 for the call options sold by the Company. There were no deferred gains or losses on put and call option contracts as at December 31, 1994. The Company was not a party to any such arrangements at December 31, 1995.

The fair value of foreign exchange forward contracts, which is estimated by using pricing models based on the discounted cash flow method, was approximately NLG 7,912 (gain) and NLG 1,035 (gain) at December 31, 1994 and 1995, respectively. The fair value of foreign exchange options, which is estimated using active exchange quotations (and pricing models for illiquid options) was approximately zero at December 31, 1994. The Company had no such options at December 31, 1995.

The Company attempts to minimize the counterparty credit risk associated with the foreign exchange forward contracts and currency option arrangements to which it is a party by selecting counterparties that it believes are creditworthy.

15. Commitments and contingencies

The Company leases its facilities and certain equipment under operating leases.
As of December 31, 1995, the minimum annual rental commitments are as follows:

As of December 31, 1995

1996	**20,371**
1997	**14,543**
1998	**9,449**
1999	**7,040**
2000 and after	**15,999**
Total	**67,402**

Rental expense was approximately NLG 9,711, NLG 13,984 and NLG 17,853 for the years ended December 31, 1993, 1994 and 1995 respectively. The Philips Group has issued a guarantee for certain of the Company's rental obligations, which expires at the expiration date of the rental contracts.

Although there are no pending lawsuits against the Company regarding infringement claims with respect to any existing patents or any other intellectual property rights, from time to time certain of the Company's customers have received notices of infringement alleging that the manufacture of semiconductor products and/or the equipment used to manufacture semiconductor products infringes certain patents. The Company has been advised that it could be obligated to pay damages to customers if use of the Company's wafer steppers by those customers were found to infringe any valid patents issued to third parties. Management believes that claims for patent infringement arising out of the foregoing matters, if successful, would not have a material adverse effect on the Company's business, financial condition or results of operations. In addition, Management is not aware of any other matters that could give rise to any material liability to the Company for patent infringement claims.

16. Cost of sales

Cost of sales includes the following:

	1993	1994	**1995**
Direct cost of sales.	247,734	358,269	**545,634**
TOK repayments (see Note 17)	0	21,293	**36,307**
Total cost of sales	247,734	379,562	**581,941**

17. Research and development credits

The Company receives subsidies and credits for research and development from various governmental sources as follows:

	1993	1994	**1995**
European Community technology (ESPRIT) subsidy	2,967	2,811	**280**
European Community/Dutch technology (JESSI) subsidy	6,999	10,309	**14,280**
Netherlands Ministry of Economic Affairs credits*	5,534	75	**677**
Total subsidies and credits received	15,500	13,195	**15,237**

**Included within the credits from the Netherlands Ministry of Economic Affairs are technical development credits (Technische Ontwikkelingskredieten or "TOKs") as well as other, non-repayable, government research and development subsidies and other minor amounts.*

The Company applies for subsidies under both the Joint European Submicron Silicon Initiative (JESSI) and the European Support Program for Research & Development (ESPRIT) in connection with specific development projects. Amounts received under these programs are not required to be repaid.

The Company has entered into research and development credit agreements (TOKs) with the Government of The Netherlands, Ministry of Economic Affairs. In 1986 and 1987, the credits were used to fund research and development projects for the Company's PAS 2500 wafer stepper. In 1988 through 1993, the credits were used to fund research and development of the PAS 5500 wafer stepper and the tooling of this machine. The majority of amounts received are contingently repayable to the extent sales of the products to which the aid was related occur (see Summary of significant accounting policies).
The amount of repayment as a percentage of the realized sales of the associated products is as follows:

Amount of realized sales of the related products (NLG)	Percentage
1 - 150,000	3%
150,000 - 250,000	6%
250,000 and above	4%

Actual and contingent amounts repayable accrue interest. The interest rate was 5% in 1993 and 1994. The remaining amount (including interest) contingently repayable was NLG 72,132 and NLG 39,789 at December 31, 1994 and 1995, respectively. In addition, the amount reflected in accrued liabilities at December 31 with respect to sales of wafer steppers in the year then ended was zero in 1993, NLG 21,293 in 1994 and NLG 36,307 in 1995. In 1993, a waiver for the repayment obligation with respect to the wafer steppers sold in that year was obtained from The Netherlands Ministry of Economic Affairs. Had this waiver not occurred, such 1993 repayment obligations would have amounted to NLG 13,800. This amount instead remained as part of the balance of TOKs contingently repayable based on future wafer stepper sales. No TOK repayments will be required to be made in the future in respect of sales of wafer steppers during 1993. The Company did repay in 1993 a portion of the TOKs received for the production of prototypes amounting to NLG 1,870 (see Summary of significant accounting policies).

A Philips Group company acts as surety with respect to the amounts that may become due under TOKs outstanding at December 31, 1995 based on future realized sales of associated products.

18. Income taxes

The components of income before income taxes are as follows:

	1993	1994	**1995**
Domestic	20,946	63,161	**196,639**
Foreign	1,281	1,306	**11,365**
Total	22,227	64,467	**208,004**

The Netherlands domestic statutory tax rate is 35%. The reconciliation between the income taxes (benefit) shown in the consolidated statement of operations, based on the effective tax rate and such (benefit) or expense if it were based on the domestic tax rate, is as follows:

	1993	1994	**1995**
Income tax expense based on domestic rate	7,779	22,563	**72,801**
Non-deductible management stock compensation	0	2,625	**2,625**
U.S. income tax absorbed by Philips Group	(448)	(457)	**0**
Different foreign tax rates	-	-	**690**
Other credits and non-taxable items	(116)	(304)	**477**
Effective tax expense before valuation allowance	7,215	24,427	**76,593**
Decrease in valuation allowance.	(13,462)	-	**-**
Provision for income tax (benefit) shown in the income statement	(6,247)	24,427	**76,593**

The Company's provision for income taxes (benefit) consisted of the following:

	1993	1994	**1995**
Current	-	-	**71,670**
Deferred	(6,247)	24,427	**4,923**
Total	(6,247)	24,427	**76,593**

In 1993 and 1994, the Company did not pay taxes on the profits of its U.S. operations, which were reported in the tax return of the U.S. operations of the Philips Group. Income before income tax attributable to the Company's U.S. operations for those years amounted to NLG 1,281 and NLG 1,306, respectively (see Note 1). For periods subsequent to December 31, 1994, the Company will pay taxes on the profits of its U.S. operations.

NLG x 1,000

The items giving rise to deferred tax assets (liabilities) were as follows:

December 31,	1993	1994	**1995**
Net operating losses carried forward	79,090	16,054	**0**
Netherlands domestic statutory tax rate	35%	35%	**35%**
Deferred tax assets — net operating loss carryforwards	27,682	5,619	**0**
Deferred tax asset — current	0	5,619	**0**
Deferred tax asset — non-current	27,682	0	**0**
Deferred tax assets (liabilities) relating to temporary differences on			
Tangible fixed assets	1,824	334	**0**
Research and development costs and credits	(13,860)	(15,750)	**(13,926)**
Warranty	0	0	**3,730**
Pensions	(1,878)	(84)	**(2,112)**
Other	1,454	676	**(1,820)**
	(12,460)	(14,824)	**(14,128)**
Deferred tax assets — current	0	5,619	**3,730**
Deferred tax assets — non-current	15,222	0	**0**
Deferred tax liabilities — current	0	0	**(13,926)**
Deferred tax liabilities — non-current	0	(14,824)	**(3,932)**

The valuation allowance as of December 31 was zero in 1993, 1994 and 1995. Pursuant to Statement of Financial Accounting Standards 109 —Accounting for Income Taxes, the valuation allowance of NLG 13,462 at the beginning of 1993 related primarily to the Company's estimate in prior periods of the likelihood of utilizing its operating losses in the then foreseeable future (see Summary of significant accounting policies).

The Company had no current tax liabilities at December 31, 1993 and 1994.
The current tax liability at December 31, 1995 amounted to NLG 67,119.
A breakdown of current foreign and domestic tax liabilities consist of the following:

December 31,	1993	1994	**1995**
Domestic	0	0	**(63,405)**
Foreign	0	0	**(3,714)**
	0	0	**(67,119)**

A breakdown of deferred foreign and domestic net tax assets (liabilities) consist of the following:

December 31,	1993	1994	**1995**
Domestic			
Current	-	5,619	**(13,926)**
Non-current	15,222	(14,824)	**(3,932)**
Foreign			
Current	-	-	**3,730**
Non-current	-	-	**-**
Valuation allowance for deferred assets	-	-	**-**
Deferred tax assets — current	0	5,619	**3,730**
Deferred tax assets — non-current	15,222	0	**0**
Deferred tax liabilities — current	0	0	**(13,926)**
Deferred tax liabilities — non-current	0	(14,824)	**(3,932)**

Total cash payments for income taxes were nil in 1993 and 1994 and NLG 4,550 in 1995.

19. Major customers and geographical information

The Company operates in one business segment, which is the design, production and marketing of photolithographic systems for the semiconductor industry.
The following table presents sales to specific customers for each of the years 1993, 1994 and 1995 that exceeded ten percent of total net sales in such year.

December 31,	1993	1994	**1995**
Customer			
A	35,063	-	-
B	50,090	-	-
C	41,742	114,682	**99,730**

The Company markets and sells its products in the United States and Europe principally through its direct sales organization and in Asia through independent sales agents. The Company makes all its sales into the United States through its U.S. operation. Inter-area sales are based on the sales price to unaffiliated customers less the sales commission the Company would allow its foreign unaffiliated agents.

The following table summarizes net sales, operating income and identifiable assets of the Company's operations in The Netherlands and the United States, the significant geographic areas in which the Company operates. All sales to the Philips Group in Europe were domestic sales by the Company's Netherlands operation with the exception of NLG 1,800 in 1994 and NLG 10,761 in 1995. These constitute the only sales into The Netherlands for the periods presented.

	Netherlands*	United States	Elimination	Consolidated
1993:				
Net sales to unaffiliated customers	136,428	190,441	-	326,869
Net sales to Philips Group	7,064	-	-	7,064
Intra-area sales	145,095	-	(145,095)	-
	288,587	190,441	(145,095)	333,933
Operating income	32,260	3,001	(1,160)	34,101
Identifiable assets	248,349	73,036	(36,763)	284,622
1994:				
Net sales to unaffiliated customers	182,594	328,962	-	511,556
Net sales to Philips Group	20,085	2,361	-	22,446
Intra-area sales	261,705	-	(261,705)	-
	464,384	331,323	(261,705)	534,002
Operating income	69,571	2,639	(290)	71,920
Identifiable assets	337,446	95,569	(40,833)	392,182
1995:				
Net sales to unaffiliated customers	**380,603**	**467,683**	**-**	**848,286**
Net sales to Philips Group	**56,391**	**13,038**	**-**	**69,429**
Intra-area sales	**409,225**	**-**	**(409,225)**	**-**
	846,219	**480,721**	**(409,225)**	**917,715**
Operating income	**199,438**	**11,269**	**(1,760)**	**208,947**
Identifiable assets	**609,511**	**164,200**	**(114,644)**	**659,067**

** Sales, operating income and asset amounts presented for The Netherlands reflect ASM Lithography Holding N.V., ASM Lithography B.V. and Hasrode B.V. on a consolidated basis.*

The following table represents export sales by the Company's Netherlands operation. The Company's U.S. operation has no export sales.

	Europe	Asia	Total
1993			
Net export sales to unaffiliated customers	58,554	77,874	136,428
1994			
Net export sales to unaffiliated customers	76,805	105,789	182,594
Net export sales to Philips Group	1,800	-	1,800
1995			
Net export sales to unaffiliated customers	**96,601**	**284,002**	**380,603**
Net export sales to Philips Group	**10,761**	**-**	**10,761**

20. Share incentive scheme

Philips and the Company have established an incentive scheme (the "Scheme") pursuant to which members of the Company's management and senior staff will be eligible to receive, at no cost to such employees, an aggregate amount of approximately 1,650,000 Ordinary Shares (the "Scheme Shares"), equivalent to approximately 5% of the Ordinary Shares (including such Scheme Shares) outstanding. The Scheme Shares were transferred by Philips at no cost to the Stichting Administratiekantoor Management Aandelen ASML Holding (the "Scheme Foundation"), a Netherlands foundation with a self-electing board consisting of members of ASM Lithography's Supervisory Board and Board of Management. The Scheme provides for the vesting on January 1, 1998 of the right of the participants in the Scheme to receive from the Scheme Foundation, a fixed number of the Scheme Shares. In general, participants in the Scheme whose employment with the Company is terminated prior to January 1, 1998 will be ineligible to receive Scheme Shares, ownership of which will be retained by the Foundation and will not be granted or awarded to other participants in the Scheme or to the Company. Under this arrangement, the Company recorded in 1994 a NLG 30,000 increase in its share premium and corresponding deferred charge of NLG 22,500 to the deferred compensation account in Shareholders' Equity and a non-cash, non-tax deductible charge of NLG 7,500 in respect of compensation expense allocated to selling, general and administrative expenses. The Company also incurred in 1995 and will incur in each of 1996 and 1997 a non-cash charge in respect of compensation expense equal to NLG 7,500 and a corresponding decrease in the deferred compensation account. As in 1994, charges will be allocated to selling, general and administrative expenses and will not be tax deductible for Netherlands corporate income tax purposes. The Company will not incur any further charges in connection with the Scheme after 1997.

21. Profit sharing plan

During 1995, the Company established a profit sharing plan (the "Plan") covering all employees. Under the Plan, employees will receive an annual profit sharing bonus, based on a percentage of net income to sales and their respective annual salary. The percentage used for calculating the profit sharing bonus ranges from 0 to 6% of their respective annual salaries. In 1995 a charge of NLG 3,467, representing the maximum 6%, was recorded as an expense on the Consolidated Statement of Operations. Employees who are eligible to participate in the stock option plan are given the option to either receive the profit sharing bonus in cash or use the profit sharing bonus to purchase options under the Stock Option Plan (see also Note 22).

22. Stock option plan

The Company has established an Ordinary Share Option Scheme, pursuant to which options covering up to 150,000 Ordinary Shares may be granted. The option period runs from February 8, 1996 to February 8, 2001. The Ordinary Share Option Scheme includes a feature whereby eligible employees will have the right to elect to receive options to purchase Ordinary Shares in lieu of distribution under the profit sharing plan. Options granted under the scheme are subject to certain minimum vesting requirements and have fixed exercise prices equal to the closing price of Ordinary Shares in the Company at the Amsterdam Stock Exchange on February 8, 1996. The Board of Management and the Supervisory Board of ASM Lithography have indicated their intention to establish comparable stock option plans in each of years 1997 through 2000.

23. Other income and expenses

In 1993, other income and expense included NLG 1,975 relating to the reversal of restructuring charges taken in 1992 because actual restructuring expenses associated with the termination of certain employment arrangements were lower than originally expected. This was caused by the unanticipated improvement in the Company's business in 1993, resulting in cancellation of proposed layoffs, and by the shorter than anticipated unemployment period for permanently laid-off staff. Included in the original restructuring charge were salary expenses required under Netherlands law payable to those employees identified for termination, severance payments, and other costs identified by the Company as necessary to terminate the employment of those specifically identified individuals.

In 1994, the charge to other income and expense consisted of income, in the amount of NLG 2,000, relating to the effect of exchange rate levels on the Comdisco, Inc. loan denominated in U.S. dollars (see Note 7), and other income in the amount of NLG 226, which resulted from the release of the remaining balance of the employee termination restructuring charge referred to above. In 1995, the charge to other income and expense consisted of income, in the amount of NLG 1,400, relating to the effect of exchange rate levels on the Comdisco Inc. loan denominated in U.S. dollars.

24. Vulnerability due to certain concentrations

The Company relies on outside vendors to manufacture the components and subassemblies used in its wafer steppers, each of which is obtained from a sole supplier or a limited number of suppliers. The Company's reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these subassemblies and components. In particular, the number of wafer steppers the Company has been able to produce has from time to time been limited by the production capacity of the Zeiss Group, the optics unit of Carl-Zeiss-Stiftung, a German foundation. Zeiss currently is the Company's only supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen, Germany. Any prolonged inability to obtain adequate deliveries, or any other circumstance that would require the Company to seek alternative sources of supply, could adversely impact the Company's future operating results.

25. Priority shares

The priority shares are held by a foundation, having an elected board that consists solely of members of the Company's supervisory board and board of management. The priority shares have a preferred right on the return of their nominal value in the case of winding up the Company. Holders of the priority shares of the Company have the effective power to control significant corporate decisions and transactions of the Company. These decisions and transactions encompass, but are not limited to, amendment of the Articles of Association, winding up of the Company, issuance of shares, limitation of preemptive rights and repurchase and cancellation of shares.

26. *Initial public offering*

In March 1995, ASM Lithography issued 3,000,000 ordinary shares as part of its initial public offering, resulting in an increase to 33,000,000 in the number of ordinary shares outstanding. ASM Lithography received NLG 79,083 in net proceeds from the offering after the payment of NLG 1,514 in related expenses. An additional NLG 1,959 of offering expenses was absorbed by Philips, which also sold shares in the offering. The net proceeds from ASM Lithography's sale of ordinary shares were used to repay a NLG 36,000 subordinated loan from Philips (See Note 9) and a short-term loan from Zeiss amounting to NLG 11,704 (see Note 8).

27. *Subsequent events*

The Company has agreed to grant to Zeiss during the first half of 1996 a loan having a principal amount of 30 million deutsche marks (approximately NLG 33,600). In addition, during the first quarter of 1996, the Company has made a $2.4 million (approximately NLG 3,800) direct equity investment in Cymer Laser Technologies, the major supplier of lasers to the Company.

Five-year Financial Summary

for the year ended December 31,
(in millions, except per share amounts)

Consolidated Statement of Operations Data:	
Net sales	
Cost of sales	
Gross profit on sales	
Research and development costs	
Research and development credits	
Selling, general and administrative expenses:	
Management share compensation expense	
Other selling, general and administrative expense	
Other (income) and expenses, net	
Operating income (loss)	
Interest expense	
Income (loss) before income taxes	
Income taxes (benefit)	
Net income (loss)	
Net income (loss) per Ordinary Share	
Consolidated Balance Sheet Data:	
Working capital	
Total assets	
Long-term debt, less current portion	
Total shareholders equity (deficit)	
Ratio and Other Data:	
Gross Margin (including repayment of TOKs)	
Operating Margin	
Depreciation (NLG/U.S.$ in millions)	
Sales of wafer steppers (in units)	
Number of customers purchasing wafer steppers	
Number of employees at year-end	

1991 NLG	1992 NLG	1993 NLG	1994 NLG	**1995 NLG**	**1995 U.S.$**
140.1	198.5	333.9	534.0	**917.7**	**572.3**
96.4	171.1	247.7	379.6	**581.9**	**362,9**
43.7	27.4	86.2	154.4	**335.8**	**209,4**
41.2	39.4	37.8	49.4	**85.3**	**53,2**
(20.1)	(20.0)	(15.5)	(13.2)	**(15.2)**	**(9.5)**
0	0	0	7.5	**7.5**	**4.7**
25.8	28.3	31.5	41.0	**50.7**	**31.6**
(3.8)	2.2	(1.7)	(2.2)	**(1.4)**	**(0.9)**
0.6	(22.5)	34.1	71.9	**208.9**	**130.3**
8.8	16.3	11.9	7.5	**0.9**	**0.6**
(8.2)	(38.8)	22.2	64.5	**208.0**	**129.7**
0	(9.0)	(6.2)	24.4	**76.6**	**47.8**
(8.2)	(29.8)	28.5	40.0	**131.4**	**81.9**
(0.27)	(0.99)	0.95	1.33	**4.06**	**2.53**
37.9	36.2	50.8	86.1	**249.9**	**155.8**
249.9	290.7	284.6	392.2	**659.1**	**411.0**
109.5	143.2	112.6	32.1	**16.6**	**10.4**
(17.0)	(46.5)	(15.4)	85.9	**303.6**	**189.3**
31.2 %	13.8 %	25,8 %	28.9 %	**36.6 %**	**36.6%**
0.4 %	(11.3) %	10.2 %	13.5 %	**22.8 %**	**22.8%**
10.2	11.4	19.5	9.6	**13.3**	**8.3**
36	49	72	107	**177**	**177**
17	20	23	35	**35**	**35**
639	608	602	808	**1,123**	**1,123**

ASML's Family of Wafer Steppers

ASM Lithography has three evoluationary families of wafer steppers:

The PAS 2500 Family

Incorporating stepper design advances developed at Philips during the 1970s, the PAS 2500 product line was ASM Lithography's first. Today, productivity enhancements continue to improve the performance of these g-line and i-line steppers.

- The PAS 2500/30 is a g-line stepper with working resolution of 0.8 micron.
- The PAS 2500/40 is an i-line system offering a working resolution of 0.7 micron.

The PAS 5000 Family

With the debut of the PAS 5000 family in 1989, ASM Lithography quickly extended its i-line product offerings, well ahead of all competitors, with the world's first 0.5 micron i-line stepper. Features include automatic calibration systems, laser-controlled automatic alignment and high-speed stage systems.

- The PAS 5000/50 is an i-line stepper with 0.5 micron working resolution, wich is still marketed today.

The PAS 5500 Family

The PAS 5500 product line, introduced in 1991, gives ASM Lithography the broadest, most cost-effective stepper capability in the industry. The series' modular architecture, designed for 0.25 micron production, allows IC makers to choose the optimal numerical aperture and wavelength for their applications.

- The PAS 5500/22 is a high-throughput, i-line stepper with a standard 5X lens optimized for printing less critical IC layers in mix-and-match applications. The stepper achieves 0.7 micron resolution with overlay of ≤125nm at a throughput of 70 eight-inch wafers per hour.

- The PAS 5500/60B is a sub-half-micron, i-line stepper delivering throughputs of 48 eight-inch wafers per hour while meeting design rules down to 0.45 micron.

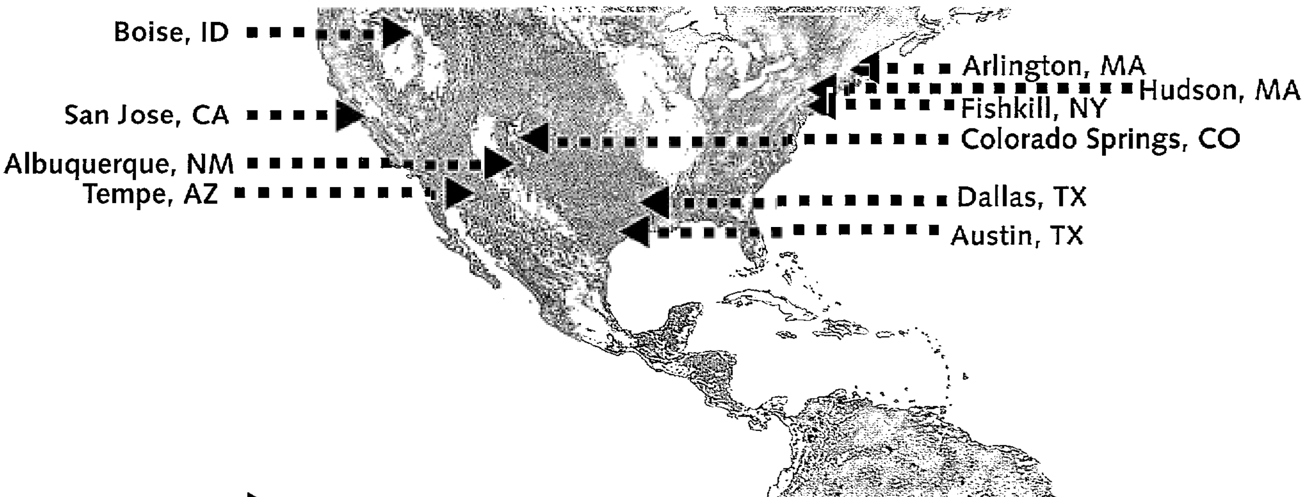
- The PAS 5500/90D is the first deep UV stepper based on this stable modular architecture. Its compatibility with the i-line systems and advanced 0.35 micron resolution allow this stepper to satisfy both today's production needs and provide for more advanced chip development in the future.

- The PAS 5500/100D achieves extremely high throughput while maintaining the utmost versatility with its variable numerical aperture (NA). This stepper extends i-line's capability for manufacturing multiple generations of sub-half-micron design rules by optimizing both depth of focus and resolution for critical process layers.

- The PAS 5500/200 is the first stepper to incorporate ASML's revolutionary AERIAL™ illuminator, a versatile component that provides both the flexibility to switch between conventional and off-axis illumination modes and the high intensity to enable economical mass production of next-generation devices. The i-line stepper combines 0.35 micron resolution with industry-leading overlay performance of ≤50nm, or ≤100nm in machine-to-machine matching.

- The PAS 5500/300 is the first deep UV stepper capable of processing more than 80 200mm wafers per hour with 0.25 micron resolution. The stepper, which incorporates ASML's AERIAL™ illuminator and a variable numerical aperture (NA), allows fab managers to build upon their i-line experience to quickly start up deep UV processes needed to fabricate high-density ICs, including shrink 64-megabit memory chips, 256-megabit DRAMs, and P6- and P7-generation microprocessors.

Corporate Information



Members of the Supervisory Board

Henk Bodt
Chairman of the Supervisory Board,
Member of the Audit Committee

Douglas J. Dunn
Vice-Chairman of the Supervisory Board

Cees Kooij
Member of the Supervisory Board,
Member of the Audit Committee

Prof. Dr. Baron Roger J. van Overstraeten,
Member of the Supervisory Board,
Member of the Audit Committee

Arie Westerlaken,
Member and Secretary of the Supervisory Board

Board of Management and other Members of Management

Willem D. Maris
President and Chief Executive Officer,
Chairman of Board of Management

Gerard S.A.J. Verdonschot
Vice President Finance / Administration and Chief Financial Officer, Member of Board of Mgmt.

Nico J.M. Hermans
Vice President Customer Support

Martin v.d. Brink
Vice President Research and Development

C. Douglas Marsh
Vice President Worldwide Sales

Arie Ouwerkerk
Vice President Manufacturing

Evert Polak
Vice President Marketing

Ton A.J.C.M. Willekens
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Chief Executive Scientist

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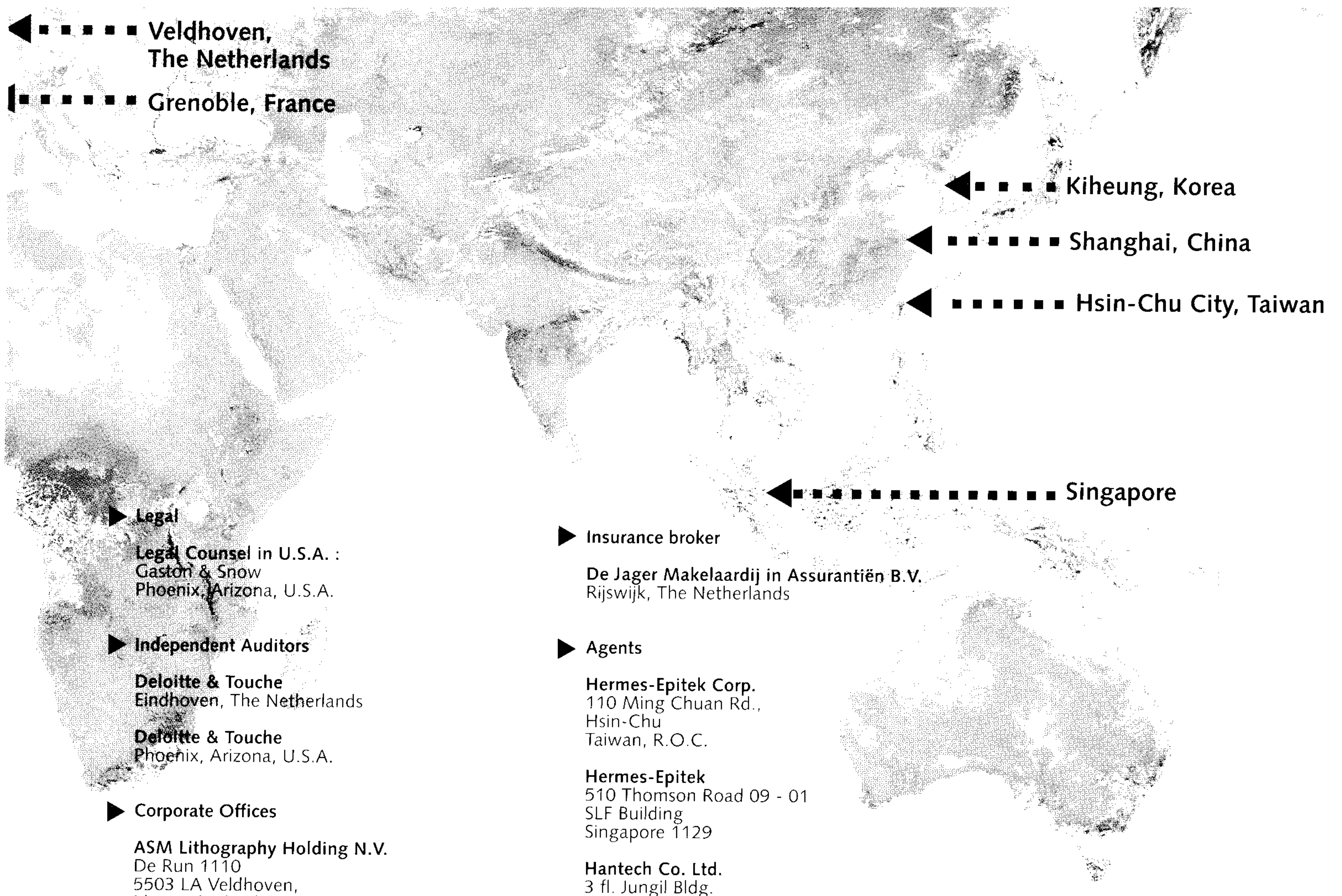

Legal

Legal Counsel in U.S.A. :
Gaston & Snow
Phoenix, Arizona, U.S.A.

Independent Auditors

Deloitte & Touche
Eindhoven, The Netherlands

Deloitte & Touche
Phoenix, Arizona, U.S.A.

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De Jager Makelaardij in Assurantiën B.V.
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Seoul, Korea

Primary Financial Statements
The primary financial statements of the Company are basically prepared in accordance with statutory requirements in the Netherlands.
Copies of these statutory financial statements are available to stockholders on written request.

Glossary of Terms

Deep Ultraviolet ("DUV")
: Output of light from an excimer laser centered at 248 nanometers.

Depth of Focus
: The range of distances from the wafer stepper's lens over which the image projected onto a wafer will have acceptable sharpness.

Die
: Each portion of a wafer on which a circuit pattern is printed in the photolithography process that, after further processing, will become an individual, finished IC or chip.

DRAMs
: Dynamic Random Access Memory, a type of IC.

Excimer laser
: Typical illumination source used in deep ultraviolet photolithography systems.

Field size
: The image area over which a lens performs to specification. Field size determines how many ICs or components can be exposed in a single exposure and how many steps will be needed to expose an entire wafer.

Geometries
: See resolution.

g-line
: Output of light energy from a mercury arc lamp centered at 436 nanometers.

i-line
: Output of light energy from a mercury arc lamp centered at 365 nanometers.IC Integrated Circuit or semiconductor.

Illuminator
: The source of light energy used in the photolithography process to develop the photoresist, typically a mercury arc lamp, in the case of g-line and i-line illumination technologies, or an excimer laser, in the case of deep ultraviolet illumination technology.

Mercury Arc Lamp
: Typical illumination source used in g-line and i-line lithography equipment.

Micron (µm)
: One millionth of a meter.

Nanometer (nm)
: One billionth of a meter.

Numerical Aperture
: A measure of the light gathering ability of a lens or, more formally, the ability of an optical system to form distinguishable images of objects separated by small angular distances.

Photolithography
: The production process that uses an illumination source to transfer the master image of a device layer from a reticle or mask to the actual substrate material. This process, repeated several times along with the other process steps including deposition and etching, results in the manufacture of a complete IC.

Photomask
: Glass mask or reticle used for photolithographic manufacture of ICs. Usually contains the master pattern of one of the circuit levels etched onto a chrome layer on the glass mask.

Photoresist
: Photo-active chemical also known as "resist". It is spun onto a substrate and reacts with light energy from the stepper to form a circuit or component pattern on the substrate.

Reduction Reticles
: Reticles that will be optically reduced (usually 5x) to make final circuit image.

Reduction Wafer Stepper
: Wafer steppers that reduce the image contained on the reticle X times, usually 5x, before exposing the wafer.

Resolution
: Refers to feature size, geometries or line widths being printed by the lithography tool on the substrate material. Resolution is expressed as a function of wavelength divided by numerical aperture, multiplied by a constant.

Reticle
: Photomask containing one or more of the die or component patterns used in step-and-repeat systems. Usually part of a reticle set - a series of reticles each of which contain the pattern to be imaged for a particular level of a process.

Scanner

The scanner was first introduced in the early 1970s to replace contact printers. This tool offers better resolution and alignment and high throughput capabilities.

Substrate

Base material for semiconductor production.

Throughput

Number of wafers that can be processed by the wafer stepper in a given period of time.

Wafer

Round, thin slices, typically composed of silicon, that form the base substrate for semiconductor processing. Current sizes range from 4 inches up to 8 inches in diameter.

Wafer Stage

Electro-mechanical stage that moves the wafer in the wafer stepper.

Wafer Stepper

Photolithography tool used in the production of semiconductors. Also referred to as step-and-repeat projection aligner. A wafer stepper works by transferring the image of a circuit or component from a master photomask image onto a small rectangular portion of the substrate surface. The substrate is moved or stepped and the process is repeated until the entire wafer is exposed.

Yield

The number of usable die produced by a wafer stepper, generally measured per hour.