



ASML

ANNUAL REPORT

I999

ASML Mission

Providing leading edge
imaging solutions
to continuously improve
customers' global
competitiveness



ASML
ANNUAL REPORT
1999

In this report the collective expressions 'ASML' and 'ASM Lithography' are sometimes used for convenience in contexts where reference is made to ASM Lithography Holding N.V. and/or any of its subsidiaries in general. Those expressions are also used where no useful purpose is served by identifying the particular company or companies.

'Safe Harbor' Statement under the U.S. Private Securities Litigation Reform Act of 1995: The matters discussed in this document include forward-looking statements that are subject to risks and uncertainties including, but not limited to, economic conditions, product demand and industry capacity, competitive products and pricing, manufacturing efficiencies, new product development, ability to enforce patents, availability of raw materials and critical manufacturing equipment, trade environment, and other risks indicated in filings with the U.S. Securities and Exchange Commission.

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Message to the shareholders



DOUG J. DUNN



WILLEM D. MARIS



PETER T.F.M. WENNINK



MARTIN A. VAN DEN BRINK



NICO I.M. HERMANS



DAVID P. CHAVOUSTIE



ANTON J.C.M. WILLEKENS

Dear Shareholders,

Results for the full year 1999 were a little above ASML's expectations and reflect the start of the industry recovery. Net sales amounted to EUR 1,197 million for the year ended December 31, 1999 compared to net sales of EUR 779 million in 1998. Net income for the year 1999 amounted to EUR 81 million or EUR 0.58 per share, compared to EUR 62 million or EUR 0.45 per share in 1998. Gross margin in 1999 was 33.4 percent compared to 38.2 in 1998.

The year had two very different periods. In the first months, the market was experiencing the end of a severe downcycle. As a consequence there was under-utilization of ASML's production facilities. Coupled with many new product introductions this led to a gross margin of 28 percent in the first half of the year and therefore almost breakeven net income of EUR 4 million. But the order flow improved which was the prelude to the industry upturn.

In the second half of the year the situation changed significantly. ASML was required to quickly ramp up production. A feature of these advanced systems is that initial shipments of newly introduced products involve significantly higher costs that decrease with the ramping up of volume production. This resulted in an improvement of gross margin to 36.1 percent and net income to EUR 77 million in the second half. The upturn in the semiconductor market continued throughout this period.

The 1999 annual results reflect both the upturn and ASML's strong position in leading edge products. Bookings amounted to 325 units compared with 55 in 1998. Orders for 192 systems were booked in the second half of 1999, resulting in a backlog of 159 systems with a value of EUR 968 million. At June 30 the backlog was 104 units with a value of EUR 616 million and at December 31, 1998 it consisted of 51 systems with a value of EUR 289 million.

The low breakeven point and flexible business model of ASML reduced the impact of low sales (80 systems) in the first half of 1999. The rapid response to the market upturn midyear resulted in 137 systems sold in the second half, an increase of more than 70 percent from the first half. Of these total 217 units, 152 were Step &

Scan systems. In April, ASML commenced shipping the PAS 5500/700, the system for the most advanced volume manufacturing, underlining ASML's technology leadership. By achieving 59 shipments of this system, ASML demonstrated its capability for a fast ramp up to volume. Customer interest is high for the whole product line, which is an indication of the strength of the product line and the new period of growth. This strong market demand is reflected in the high order intake during the second half of 1999. Based on preliminary data, ASML's market share (measured in USD) increased from 29 percent in 1998 to approximately 37 percent in 1999. This increase was as a result of a greater penetration at existing customers and engaging with several new customers.

This market share gain is driven by ASML's Value of Ownership concept. This combines the latest technology available for volume production at the time the market needs it, the support of a network of strategic partners, each leading in its own area of expertise, products that can be installed and ramped up to production quickly and an extensive customer and application support network.

This Value of Ownership concept enables ASML to continue to win new customers and increase market share. As part of its long-term, market-oriented product strategy, ASML designs each successive generation of systems based on a family. This enables fast and relatively easy installation at the customer site, and thus fast production ramp up of the latest technology. Additionally, the ability to process more wafers per hour, combined with flexible solutions for leading-edge imaging, helps to lower the overall production cost per chip. To extend and exploit its technology leadership, ASML maintains and will reinforce strategic partnerships with world-class partners.

In the current environment, just generating and bringing to the market the newest imaging technology alone is not sufficient. Increasingly, customers request hands-on support for their imaging and process optimization activities. Therefore, ASML is strengthening its already impressive customer support operations and further enhancing its application support capabilities. The

founding of the U.S. Technology Development Center and the acquisition of ASML Masktools have been key initiatives in this respect. Both are focused on providing our customers whole imaging solutions and confirming ASML's leadership position in this field.

It is likely that market growth momentum will continue during the year 2000 and to respond to this, ASML will continue to increase production capacity. Given ASML's flexible business model, we expect that for each incremental sale, net profit growth will exceed net sales growth.

The current results and the growing market share are the result of ASML's strategy to continuously invest in infrastructure and research and development, even in the downcycle. In the coming years ASML will continue to invest heavily in technology to introduce new platforms to the market and to develop the next generation of lithography solutions. In addition, further investments in customer support will have a key focus. With these investments, ASML expects to employ more than 3,500 people world-wide by the end 2000. Integrating and effectively employing these employees requires continuing investments in facilities, infrastructure and training equipment. For 2000, nevertheless, ASML expects to further improve its financial performance.

Last year's result was achieved with the effort and help of all ASML's employees and suppliers. The ongoing demand for increased production will require the same achievement and the same commitment this year. The Board of Management is very grateful to everyone who contributed to this success and wishes to thank them for their efforts.

Doug J. Dunn

CEO and Chairman of the Board of Management

ASM Lithography Holding N.V.
Veldhoven, January 19, 2000

Five-year Financial Summary

Year ended December 31 (in millions, except per share data)	1995	1996	1997	1998	1999
	EUR	EUR	EUR	EUR	EUR
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales	416.4	604.2	817.9	779.2	1,197.5
Cost of sales	264.1	361.6	474.2	481.6	798.0
Gross profit on sales	152.3	242.6	343.7	297.6	399.5
Research and development costs	38.7	56.8	93.1	144.6	174.0
Research and development credits	(6.9)	(3.8)	(13.6)	(29.9)	(36.1)
Selling, general and administrative expenses	25.8	37.2	57.6	94.2	140.2
Operating income	94.7	152.4	206.6	88.7	121.4
Gain on sale of marketable securities	0	0	(14.1)	0	0
Interest (income) expense, net	0.4	0.2	(0.7)	(1.2)	3.1
Income before income taxes	94.3	152.2	221.4	89.9	118.3
Provision for income taxes	34.7	53.4	72.1	27.9	37.5
Net income	59.6	98.8	149.3	62.0	80.8
Basic net income per ordinary share*	0.46	0.72	1.08	0.45	0.58
Number of ordinary shares used in computing per share amount (in thousands)	129,500	136,900	138,000	138,167	138,733
CONSOLIDATED BALANCE SHEETS DATA					
Working capital	113.4	227.5	368.2	626.1	1,162.3
Total assets	299.1	487.0	664.0	937.8	1,703.5
Long-term debt, less current portion	7.5	0	0	272.3	789.0
Total shareholders' equity	137.8	292.3	437.6	500.2	611.3
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Capital expenditures	20.7	36.8	41.4	98.6	126.8
Depreciation and amortization	6.0	9.2	16.1	34.0	42.5
Net cash provided by (used in) operating activities	33.5	36.1	(16.1)	(53.6)	38.1
Net cash used in investing activities	(23.5)	(33.6)	(12.9)	(102.3)	(120.0)
Net cash provided by financing activities	10.8	25.3	3.8	272.9	535.4
Net increase (decrease) in cash and cash equivalents	20.7	28.4	(24.7)	116.0	452.1
RATIOS AND OTHER DATA					
Increase (decrease) in net sales (in percent)	71.9	45.1	35.4	(4.7)	53.7
Gross profit on sales as a percentage of net sales	36.6	40.1	42.0	38.2	33.4
Operating income as a percentage of net sales	22.8	25.2	25.3	11.4	10.1
Net income as a percentage of net sales	14.3	16.4	18.3	8.0	6.7
Shareholders' equity as a percentage of total assets	46.1	60.0	65.9	53.3	36.0
Backlog of systems (in units) at year-end	176	94	158	51	159
Sales of systems (in units)	177	205	211	162	217
Number of employees at year-end	1,123	1,423	2,019	2,364	2,983

Prior year balances were restated from guilders into euros using the fixed exchange rate as of January 1st 1999 (EUR 1.00 = NLG 2.20371). See Note 1 of the Notes to the Consolidated Financial Statements.

* All net income per ordinary share amounts have been retroactively adjusted to reflect two-for-one stock split in both May 1997 and May 1998.

Highlights 1999

Technology highlights

- In April, ASML commenced shipping the PAS 5500/700, the system for the most advanced volume manufacturing, underlining ASML's technology leadership. By achieving 59 shipments of this system in the remainder of 1999, ASML demonstrated its capability for a fast ramp up to volume.
- After shipping the 100th Step & Scan system in August, ASML shipped more than 100 Step & Scan systems in the second half of 1999 only, underlining ASML's position as premier supplier of Step & Scan systems in the industry.
- The development of a new platform, suitable to process 200 and 300 mm wafers, with improved imaging capabilities is on track.
- ASML shipped the first 193 nm Step & Scan systems, the PAS 5500/900. In July IMEC announced its 193nm lithography process development program for which one PAS 5500/900 has been installed in the IMEC product line
- ASML has positioned itself for the future:
 - ASML announced its 157 nm program with its strategic technology partners,
 - After an agreement reached with the U.S. Department of Energy on the conditions, ASML is now participating in the EUV-LLC program,
 - ASML and Applied Materials announced their joint venture e_Lith to develop and commercialize electron projection lithography based on the SCALPEL technology of Lucent's Bell Labs.

Corporate highlights

- Market share grew further in 1999 to about 37 percent (measured in USD) from 29 percent in 1998.
- The customer base expanded with several new customers.
- ASML strengthened its financial position by a USD 520 million convertible notes issue, five times overwritten, thus enhancing ASML's ability to continue investing in the future.
- ASML acquired the privately held Masktools, creating a wholly owned subsidiary ASML Masktools Inc. focusing on providing its patented OPC solutions to customers. This further strengthens ASML's capability to provide whole imaging solutions for resolution performance below the wavelength of the light used.
- The ASML U.S. Technology Development Center was formed to research, develop and commercialize advanced image-processing techniques for future generations of semiconductor devices.
- A wholly owned subsidiary, ASML Hong Kong, was created to manage ASML's regional business activities throughout the Asia-Pacific markets
- Worldwide, ASML's dedicated workforce grew to 2,984 in 1999.
- ASML Special Applications gained new customers that use ASML's systems for gallium arsenide applications, thin film heads and other specific market applications.

Management*

BOARD OF MANAGEMENT

Doug J. Dunn (1944)
President, Chief Executive Officer, Chairman of the Board of Management (as of January 1, 2000)
Appointed as Board Member in 1999
British nationality

Willem D. Maris (1939)
President, Chief Executive Officer, Chairman of the Board of Management (until December 31, 1999)
Appointed in 1990
Dutch nationality

Peter T.F.M. Wennink (1957)
Executive Vice President Finance and Chief Financial Officer
Appointed in 1999
Dutch nationality

Martin A. van den Brink (1957)
Executive Vice President Marketing & Technology
Appointed in 1999
Dutch nationality

Nico I.M. Hermans (1951)
Executive Vice President Worldwide Customer Support
Appointed in 1999
Dutch nationality

OTHER MEMBERS OF MANAGEMENT

David P. Chavoustie (1943)
Executive Vice President Sales
Appointed in 1998
U.S. nationality

Anton J.C.M. Willekens (1944)
Executive Vice President Goodsflow
Appointed in 1991
Dutch nationality

Evert B. Polak (1944)
Corporate Vice President Strategic Business Development
Appointed in 1986
Dutch nationality

William B. Arnold (1954)
Chief Executive Scientist
Appointed in 1998
U.S. nationality

As per January 1, 2000, Willem Maris was succeeded by Doug Dunn as President, Chief Executive Officer and Chairman of the Board of Management. Willem Maris also resigned as member of the board as per January 1, 2000. During 1999, Peter Wennink succeeded Gerard Verdonshot as Executive Vice President Finance and Chief Financial Officer and Martin van den Brink and Nico Hermans were appointed as additional Board Members.

* situation as at December 31, 1999

Report of the Supervisory Board

Financial Statements

The Supervisory Board has reviewed the financial statements and the notes thereto of ASM Lithography Holding N.V. (the 'Company') for the financial year 1999, as prepared by the Board of Management.

Deloitte & Touche, independent public accountants, have duly examined these financial statements. Their report appears in this Annual Report.

The Supervisory Board has adopted these financial statements in accordance with article 38, paragraph 5 of the Company's Articles of Association. The Supervisory Board recommends 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 1999.

Composition of the Board of Management

In 1999, Mr. W. Maris, President, Chairman of the Board of Management and Chief Executive Officer of the Company, announced that he would retire as of January 1, 2000. The Supervisory Board wishes to express its sincere gratitude to Mr. Maris for the remarkable achievements the Company has made during the decade that Mr. Maris was in office. After a transition period of several months, Mr. Maris was succeeded by Mr. D. Dunn, effective January 1, 2000.

The Supervisory Board will announce at the coming General Meeting of Shareholders its intention to appoint Mr. Maris as member of the Supervisory Board effective April 1, 2000 (see also Composition of the Supervisory Board).

The announced succession of Mr. G. Verdonshot, Vice President Finance/Administration and Chief Financial Officer by Mr. P. Wennink as well as the appointment of M. van den Brink and N. Hermans as additional Board members, became effective as of July 1, 1999 and April 1 1999 respectively. The Supervisory Board will also announce at the coming

General Meeting of Shareholders that effective April 1, 2000, Mr. D. Chavoustie, Executive Vice President Worldwide Sales, will be appointed as member of the Board of Management.

Supervision

The Supervisory Board met five times in the course of 1999. Topics of discussion at the meetings included, amongst others things, the Company's general strategy and business plan, the internal division of tasks of the Board of Management, strategic alliances and acquisitions and the risks associated with the Company. The Supervisory Board was also kept informed on the course of the business through monthly reports and was consulted on a regular basis. The Supervisory Board was also represented in some of the discussions between the Board of Management and the Works Council.

One meeting of the Supervisory Board was held without the Board of Management present, to discuss amongst other things the functioning of the Supervisory Board itself, the relationship with the Board of Management and the performance, composition and succession of the Board of Management. In 1999 the Remuneration Committee met once; the Audit Committee met three times in the presence of the external auditor.

Composition of the Supervisory Board

On April 29, 1999 the Supervisory Board was saddened with the news of the death of Mr. R. Baron van Overstraeten who had resigned as member of the Supervisory Board as of March 3, 1999.

In 1999, Mr. A. Westerlaken was reappointed as member of the Supervisory Board.

At the coming General Meeting of Shareholders, the Supervisory Board intends to reappoint Mr. J. Dekker and Mr. P. Grassmann who will be retiring by rotation and who have made themselves available for

Members of the Supervisory Board



HENK BODT

reappointment. At the same occasion the Supervisory Board intends to appoint Mr. Maris, with his long-standing experience with the Company, as member of the Supervisory Board. The Supervisory Board considers it desirable to have adequate ASML experience among its ranks with a former member of ASML top management.



SYB BERGSMA

Finally, the Supervisory Board wishes to thank all involved for their contribution to the achievements of the Company in 1999.

Veldhoven, January 19, 2000
The Supervisory Board



JAN A. DEKKER



PETER H. GRASSMANN



ARIE WESTERLAKEN

Henk Bodt (1938)
(Chairman)
Former Executive Vice President of
Royal Philips Electronics
Dutch nationality
First appointed 1995;
current term until 2001
Additional functions:
Member of the Supervisory Board of:
DSM N.V.,
Delft Instruments N.V.,
Neo Post SA

Syb Bergsma (1936)
Professor of Financial Management at
the University of Amsterdam
and Former Executive Vice President
Financial Affairs of Akzo Nobel N.V.
Dutch nationality
First appointed 1998;
current term until 2001
Additional functions:
Chairman of the Supervisory Board of
UPM Holding B.V.,
Member of the Supervisory Board of:
Van der Moolen Holding N.V.,
Koninklijke ANWB B.V.,
European Assets Trust N.V.,
Generali Verzekeringsgroep N.V.,
Van Melle N.V.;
Member of:
Advisory Board ABN AMRO
Management Investment Funds B.V.,
Board of External Advisors
Ernst & Young

Jan A. Dekker (1939)
Chief Executive Officer of TNO
Dutch nationality
First appointed 1997;
current term until 2000
Additional functions:
Chairman of the Supervisory Board of
H.E.S. Beheer N.V.;
Member of the Supervisory Board of
Gamma Holding N.V.

Peter H. Grassmann (1939)
President and Chief Executive Officer
of Carl Zeiss
German nationality
First appointed 1996;
current term until 2000
Additional functions:
Member of the Supervisory Board
of Gambro AB;
Member of the Senate of
Max-Planck-Gesellschaft;
Member of the Advisory Board of:
Allianz,
the Deutsche Bank

Arie Westerlaken (1946)
(Secretary)
General Secretary and Chief Legal
Officer of Royal Philips Electronics;
Member of Group Management
Committee of Royal Philips Electronics
Dutch nationality
First appointed 1995;
current term until 2002
Additional functions:
none

THE SUPERVISORY BOARD HAS FORMED THE FOLLOWING COMMITTEES

Audit Committee
Members: Henk Bodt, Syb Bergsma,
Jan Dekker

Remuneration Committee
Members: Henk Bodt, Syb Bergsma,
Arie Westerlaken

The remuneration of the members
of the Supervisory Board does
not depend on the results of the
Company.

None of the members of the
Supervisory Board personally
maintains a business relationship
with the Company other than as
member of the Supervisory Board.

None of the members of the
Supervisory Board owns shares or
options on shares of the Company.

ASML worldwide

CORPORATE GOODSFLOW CENTER
VELDHOVEN, THE NETHERLANDS



ASML U.S. HEADQUARTERS
TEMPE, AZ USA



HEADQUARTERS ASML AGENT
HERMES EPITEK,
HSINCHU, TAIWAN ROC



HEADQUARTERS ASML KOREA,
KYUNGKI-DO, REP. OF KOREA

CORPORATE TECHNOLOGY CENTER,
VELDHOVEN, THE NETHERLANDS

**CORPORATE
HEADOFFICE
AND EUROPEAN
HEADQUARTERS**
De Run 1110
5503 LA Veldhoven
The Netherlands

US HEADQUARTERS
8555 S. River Parkway
Tempe, AZ 85284

ASIAN HEADQUARTERS
Suite 603, 6/F
One International Finance Center
1, Harbour View Street
Central, Hong Kong, SAR

**OTHER
SIGNIFICANT BUSINESS
OPERATIONS**

ASML France
33 Boulevard des Alpes
38240 Meylan
Immeuble CCE
Route de Trets
13790 ZI Rousset-Peynier

ASML Italy
Via Cavour 481-483-485
67051 Avezzano

ASML Austin
4401 Freidrich Lane, Ste 407
Austin, TX 78744, USA

ASML Boise
1081 Exchange Road
Boise, ID 83716, USA

ASML Colorado Springs
2808 Janitell Road
Colorado Springs, CO 80906, USA

ASML Fishkill
1123 Route 52 Suite 36
Fishkill, NY 12524, USA

ASML Portland OR
11871 NE Glenn Widing Drive
Portland, OR 97220, USA

ASML San Jose
2833 Junction Avenue,
Suite 101
San Jose, CA 95134, USA

ASML MaskTools, Inc.
Parkway Tower
4800 Great America Parkway, Ste 400
Santa Clara, CA 95054, USA

ASML Korea
372, Chung-Ri, Dongtan-Myun
Hwasung-Kun, Kyungki-Do

AGENTS

Hantech Co.
372, Chung-Ri, Dongtan-Myun
Hwasung-Kun, Kyungki-Do,
Rep. of Korea

Haedong Technology Co., Ltd.
137-072 #1806 Doosan-Bearstel 1319-11
Seocho-Dong, Seocho-Gu, Seoul,
Rep. of Korea

Nissei Sangyo Co. Ltd
24-14, Nishi-Shimbashi
1-Chome, Minato-ku
Tokyo, 105, Japan

Hermes Epitek Corp.
No. 18, Creation Road 1
Science Based Industrial Park
HsinChu, Taiwan ROC

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20 Jalan AFIFI #3-5
Cisco Centre
Singapore 409179

Silicon International, Ltd
Unit 4B, Jin Min Bldg.
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Shanghai 200335, PRC

Simco Co. Ltd
Simco House: 14 Bhawani Kunj
Behind Sector D, Pocket II,
Vasant Kunj.
New Delhi - 110070, India

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

EURO

On January 1st, 1999, The Netherlands and eight other member countries of the European Union adopted the euro ('EUR') as their new common currency. The Dutch guilder will also remain as legal tender for a transition period of three years until January 1st, 2002. During this period, the euro will not be usable for cash payments, but can be used for non-cash electronic money transfers between ASML and its business partners.

For external reporting purposes, effective January 1st, 1999, ASML adopted the euro as reporting currency. Prior year balances have been restated based on the fixed exchange rate as of January 1st, 1999 (EUR 1.00 to NLG 2.20371). The comparative balances reported in euros depict the same trends as would have been presented if ASML had continued to present balances in Dutch guilders.

BUSINESS STRATEGY

ASML's strategic objective is to realize profitable and sustainable growth by providing leading edge imaging solutions to the worldwide semiconductor industry that continually improve customers' competitiveness by enhancing the value of their ownership of ASML equipment.

The principal elements of ASML's value of ownership strategy are:

- Maintaining significant levels of research and development spending in order to offer customers, at the earliest possible date, the most advanced technology suitable for high-throughput, low-cost volume production.

- Offering customers continuing improvements in productivity and value by introducing advanced technology, based on the modular, upgradeable design of ASML's families of lithography tools.
- Pursuing continuing reductions in the cycle time between a customer's order of a lithography tool and the use of that tool in volume production at the customer site.
- Providing superior customer support services that ensure rapid and efficient installation, as well as continuing on-site support and training to optimize the imaging process and improve customers productivity.
- Expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world-class partners.

RESULTS OF OPERATIONS

The following discussion and analysis of results of operations should be viewed in the context of the risks affecting ASML's business strategy, described below.

Following is ASML's consolidated statements of operations data for the last three years expressed as a percentage of total net sales:

Year ended December 31	1997	1998	1999
Total net sales	100.0%	100.0%	100.0%
Cost of sales	58.0	61.8	66.6
Gross profit on sales	42.0	38.2	33.4
Research and development costs	11.4	18.6	14.6
Research and development credits	(1.7)	(3.8)	(3.0)
Selling, general and administrative expenses	7.0	12.0	11.7
Operating income	25.3	11.4	10.1
Gain on sale of marketable securities	(1.7)	0	0
Interest (income) expense	(0.1)	(0.1)	0.2
Income before income taxes	27.1	11.5	9.9
Income taxes	8.8	3.5	3.2
Net income	18.3	8.0	6.7
Sales of systems (in units)	211	162	217

Results of Operations 1999 compared with 1998 Net Sales

Net sales consist of revenues from sales of wafer steppers and Step & Scan systems, sales of equipment options and software upgrades, which may occur in conjunction with the initial sale of a system or after its installation, and revenues from service.

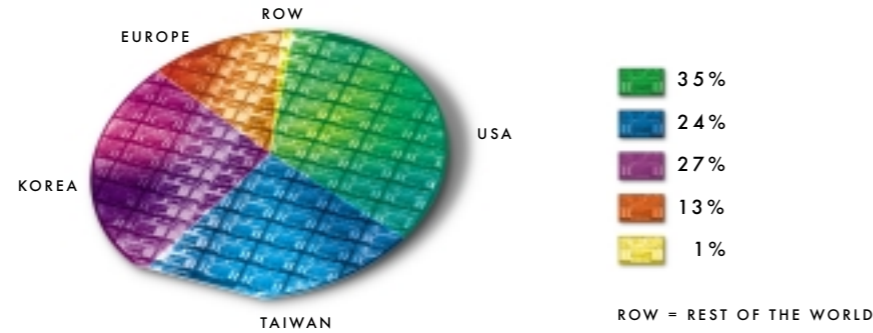
Total net sales increased from EUR 779.2 million in 1998 to EUR 1,197.5 million in 1999, an increase of EUR 418.3 million or 53.7 percent. The increase in sales was caused by an increase in shipments from 162 units in 1998 to 217 units in 1999 as well as an increase in the average unit sales price for new systems. The 34 percent increase in the number of systems shipped reflects the accelerated upturn in the semiconductor industry, and the equipment industry in particular, in the second half of 1999. The 23 percent increase in the average unit sales price of new systems was due to a continued shift in customer demand towards ASML's most advanced technology products, primarily ASML's PAS 5500 Step & Scan systems. Sales of these systems increased from 29 in 1998 to 152 in 1999. Generally,

ASML's latest generation of products sell at average sales prices that are considerably higher than the older generation of products. In 1999 the number of ASML's wafer steppers sold was 43, a decrease of 83 compared to 1998.

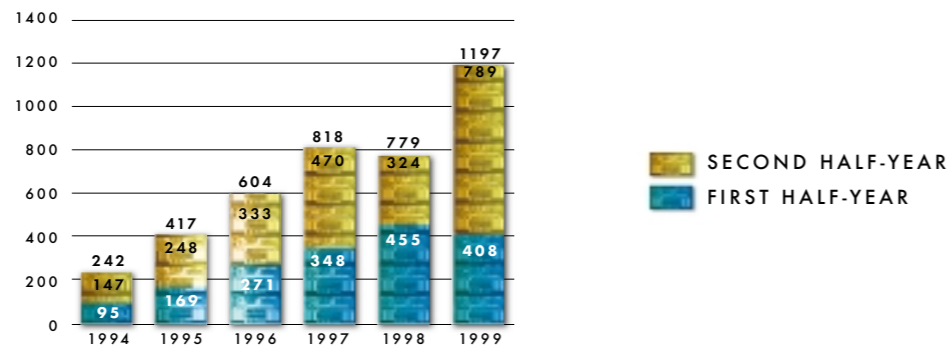
The increase in total net sales in 1999 included an increase in net service sales of 13.3 percent, reflecting the continued increase in the installed base of ASML's products at customer plants.

Total net sales for 1998 and 1999, respectively, include EUR 6.7 and EUR 40.4 million relating to the sale of 7 and 22 pre-owned wafer steppers. These steppers were reacquired from existing customers and then resold, primarily to other customers seeking to expand production capacity in areas requiring the less critical resolution capabilities provided by these machines. ASML will engage in similar repurchase and resale transactions in the future; however, it does not anticipate that the impact of those transactions will be significant.

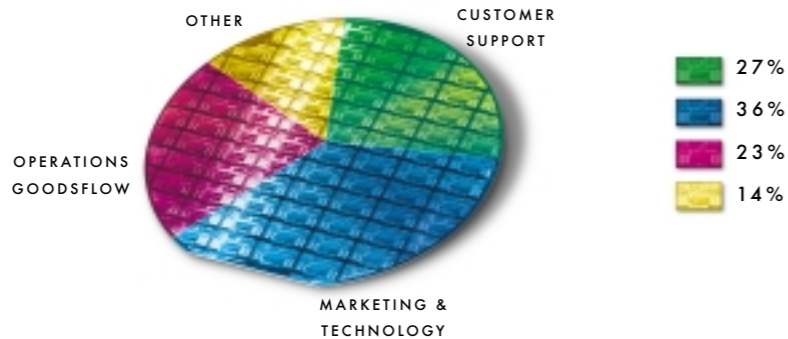
REVENUES BY GEOGRAPHICAL AREA



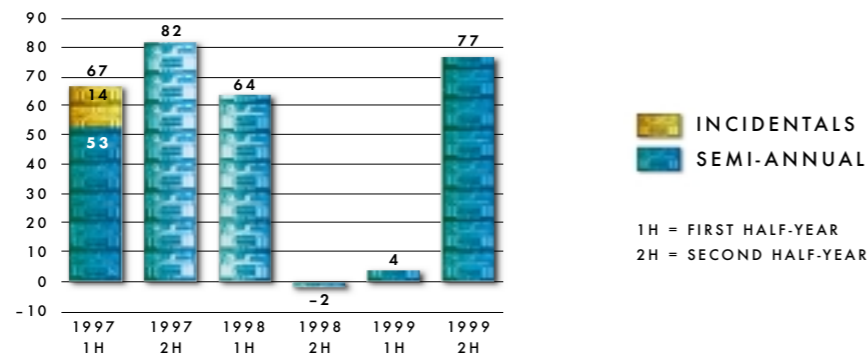
REVENUES (IN MILLION EUROS)



TOTAL EMPLOYEES



NET PROFIT (IN MILLION EUROS)



In 1999, sales to two customers accounted for EUR 238.8 million and EUR 164.7 million, or 19.9 and 13.8 percent of net sales, respectively. In 1998 sales to four customers accounted for EUR 132.0 million, EUR 115.5 million, EUR 108.1 million and EUR 98.0 million or 16.9, 14.8, 13.9 and 12.6 percent of net sales, respectively.

of 1999, this roll-out continued to place pressure on gross margins as did. Furthermore the under-utilization of ASML's manufacturing capacity during the first half of 1999 affected the gross margin adversely. In the second half of 1999, the increased sales volumes, as well as increased learning curve benefits, significantly improved gross margins.

Gross Profit

Gross profit as a percentage of total net sales decreased from 38.2 percent in 1998 to 33.4 percent in 1999. Excluding the gross margin on service sales, gross margin on systems sales decreased by 5.7 percent to 35.1 percent. Generally, ASML experiences pressure on gross margins when new technology is introduced and shipped to customers. This reflects the additional costs relating to production, installation, warranty and other areas that are part of the new technology learning curve both for ASML and its suppliers. In 1998, the gross margin was negatively affected by the roll-out of ASML's advanced Step & Scan systems. In the first half

ASML anticipates that gross margins from its advanced Step & Scan systems will continue to improve in the year 2000.

However, ASML also anticipates that it will continue to experience periodic fluctuations in gross margins as it introduces and rolls out further new advanced technology systems.

Following is a summary of gross margins on a half-yearly basis reflecting the analysis discussed:

Year ended December 31	1998		1999	
	Jan - Jun	Jul - Dec	Jan - Jun	Jul - Dec
Total units shipped	98	64	80	137
Net sales (EUR million)	455	325	408	789
Gross margin (% of sales)	42.8	31.7	28.0	36.1
Average unit sales price for new systems (EUR million)	4.24	4.89	4.85	5.94

Research and Development Costs

Research and development costs increased from EUR 144.7 million (18.6 percent of total net sales) in 1998 to EUR 174.0 million (14.6 percent of total net sales) in 1999. The increase in research and development costs resulted from an increase in staffing levels from 800 at the end of 1998 to 977 at the end of 1999 and development costs of 193 nanometer lenses. The increase in research and development costs reflects ASML's continuing efforts to develop its 300 millimeter wafers platform and to upgrade its PAS 5500 family of Step & Scan systems generally and in particular its PAS 5500/700 deep UV system as well as its PAS 5500/900, a 193 nanometer system. The increase also reflects ASML's increasing efforts in research related to next-generation-lithography.

ASML foresees further long-term growth in research and development staffing and other costs, although these costs as a percentage of total net sales are expected to decrease as a result of the further upturn in the semiconductor industry.

Research and Development Credits

Research and development credits increased from EUR 29.9 million in 1998 to EUR 36.1 million in 1999. The increase in research and development credits in 1999 in comparison to 1998 primarily reflects additional credits received by ASML under European Union Technology subsidy programs (MEDEA) and similar programs of the Dutch Ministry of Economic Affairs (TOK and PBTS) in connection with ASML's development work for its new platform for 300 millimeter wafers.

Furthermore, the European Union Programs have been instrumental in the sale of ASML's products to European Research Institutes. ASML also received subsidies as part of the Ellipse II program to assist the development of the PAS 5500/900, ASML's

193 nanometer system. Finally, the increase in subsidies received also reflects ASML's share in the WBSO program, a subsidy program operated by the Dutch government to stimulate research and development activities in the industry in general.

Management anticipates receiving lower research and development credits in 2000 although the precise amount remains subject to further negotiation with the relevant granting authorities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from EUR 94.2 million in 1998 to EUR 140.2 million in 1999. The increase in the absolute level of selling, general and administrative expenses reflects higher staffing levels in ASML's sales and customer support functions, as well as higher costs of the information technology organization. This increase in staffing levels reflects ASML's efforts to support the development of new markets (particularly Asia) and expand its support to customers to increase the value of their ownership of more complex Step & Scan systems. The expansion of effort for the information technology organization is necessary to support research and development and increased customer services and accounted for an increase in selling, general and administrative expenses of approximately EUR 21.9 million. The increase of the customer support organization accounted for higher selling, general and administrative expenses of approximately EUR 15.7 million.

Income Taxes

Income taxes represented 31.1 and 31.7 percent of income before taxes in 1998 and 1999, respectively. In 1998 and 1999 ASML recorded tax rate benefits resulting from a program operated by the government of The Netherlands pursuant to which eligible companies may seek a reduction in their effective tax

rate. The implementation of this program reduced the effective tax rate by approximately 2.0 percent.

Furthermore, ASML recorded additional non-recurring permanent differences in the calculation of the income tax for the year 1998, which accounted for an additional 1.9 percent reduction in the 1998 effective tax rate.

In 1999 a new structure of ASML's activities in Asia became effective. In addition to organizational and managerial benefits, ASML recorded tax rate benefits from this new structure.

Results of Operations 1998 compared with 1997
Net Sales

Total net sales decreased from EUR 817.9 million in 1997 to EUR 779.2 million in 1998, a decrease of EUR 38.8 million or 4.7 percent. The decrease in sales was primarily caused by a decrease in shipments from 211 units in 1997 to 162 units in 1998, reflecting the sharp downturn in the semiconductor industry, and the equipment industry in particular, in the course of 1998. The effect of this 23 percent decrease in the number of systems shipped was mitigated by an increase in the average unit sales price for new systems, including options, by 20.4 percent in 1998. This was due to a continued shift in customer demand towards ASML's most advanced technology products, primarily ASML's lines of PAS 5500 Step & Scan systems and deep UV systems. Notwithstanding the downturn in the industry, sales of these systems increased from 76 in 1997 to 105 in 1998. In 1998 the number of ASML's PAS 5500 i-line systems sold was 50, a decrease of 67 compared to 1997.

The decrease in total net sales in 1998 included an increase in net service sales of 21 percent, reflecting the continued increase in the installed base of ASML's products at customer plants.

Total net sales for 1997 and 1998, respectively, include EUR 13.3 and EUR 6.7 million relating to the sale of 11 and 7 pre-owned wafer steppers. These steppers were reacquired from existing customers and then immediately resold, primarily to other customers seeking to expand production capacity in areas allowing the less critical resolution capabilities provided by these machines.

In 1998 sales to four customers accounted for EUR 132.0 million, EUR 115.5 million, EUR 108.1 million and EUR 98.0 million or 16.9, 14.8, 13.9 and 12.6 percent of net sales, respectively. In 1997 sales to two customers accounted for EUR 171.2 million and EUR 140.4 million or 20.9 and 17.2 percent of total net sales, respectively.

Gross Profit

Gross profit as a percentage of total net sales decreased from 42.0 percent in 1997 to 38.2 percent in 1998. Excluding the gross margin on service sales, gross margin on systems sales decreased by 3.3 percent to 40.8 percent. In 1997, the gross margin was negatively affected by the introduction of the PAS 5500/300 deep UV systems. Generally, ASML experiences pressure on gross margins when new technology is introduced and shipped to customers. This reflects the additional costs relating to installation, warranty and other areas that are part of the new technology learning curve both for ASML and its suppliers.

Apart from costs related to new product introduction, the decrease in gross margin in 1998 was also attributable to ASML's increase in its production capacity and related cost base. Because of the unexpected and sharp downturn in demand, ASML was not able to utilize this expanded production capacity as efficiently as it had anticipated.

Research and Development Costs

Research and development costs increased from EUR 93.1 million (11.4 percent of total net sales) in 1997 to EUR 144.7 million (18.6 percent of total net sales) in 1998. The increase in research and development costs resulted from an increase in staffing levels from 681 at the end of 1997 to 800 at the end of 1998, as well as from an increase in amounts charged by third parties (including Royal Philips Electronics) from EUR 40.1 million in 1997 to EUR 73.7 million in 1998.

Research and Development Credits

Research and development credits increased from EUR 13.6 million in 1997 to EUR 29.9 million in 1998. The increase in research and development credits in 1998 in comparison to 1997 primarily reflects additional credits received by ASML under European Union Technology subsidy programs (MEDEA) and similar programs of the Dutch Ministry of Economic Affairs (TOK and PBTS) in connection with ASML's development work for its new platform for 300 millimeter wafers.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from EUR 57.6 million in 1997 to EUR 94.2 million in 1998. The increase in the absolute level of selling, general and administrative expenses reflects increased staffing levels in ASML's applications and sales support functions, as well as higher administrative costs at ASML's Veldhoven headquarters. This increase in staffing levels reflects ASML's efforts to support the development of new markets (particularly Asia) and expand its sales support organization to accommodate the increased sales of more complex wafer steppers and Step & Scan systems. The extension of ASML's regional offices and sales support organization accounted for an

increase in selling, general and administrative expenses by approximately EUR 8 million. Expenses with respect to new demonstration and application equipment, facilities, tools and consumables also increased as a result of these developments.

General and administrative expenses increased due to the cost of new facilities and leases, which accounted for an increase of approximately EUR 8 million, and the implementation of ASML's new Enterprise Resource Planning ('ERP') information system which accounted for an increase of approximately EUR 5 million.

Income Taxes

Income taxes represented 32.6 and 31.1 percent of income before taxes in 1997 and 1998, respectively. In 1997, ASML realized a non-taxable gain on the sale of marketable securities and had recurring non-taxable items which decreased the effective tax rate in 1997 by 2.2 and 1.0 percent, respectively. Without these two items, the effective tax rate would have been 35.8 percent. In 1998 ASML recorded tax rate benefits resulting from a program operated by the government of The Netherlands pursuant to which eligible companies may seek a reduction in their effective tax rate. The implementation of this program reduced the effective tax rate of 1998 by approximately 2.0 percent.

Furthermore, ASML recorded additional non-recurring permanent differences in the calculation of the income tax for the year 1998, which accounted for an additional 1.9 percent reduction in the effective tax rate.

FOREIGN EXCHANGE MANAGEMENT

Except for U.S. service sales, ASML's sales are primarily denominated in Netherlands guilders, ASML's functional currency, thus eliminating its currency exposure for sales in foreign currency. The exposure

from U.S. sales denominated in U.S. dollars is naturally hedged by the related U.S. dollar-denominated costs. Currency exposure relating to participating member Economic and Monetary Union ('EMU') countries has been eliminated as of January 1, 1999 with the introduction of the euro. ASML is reviewing the potential impact of the introduction of the euro on product pricing, human resources (i.e. payroll, pensions), contracts and other legal matters. Although ASML does not expect that the introduction will have a material adverse effect on ASML's results of operations, cash flows or financial condition it will continue to monitor closely developments with respect to the introduction of the euro.

In November 1999, ASML completed an offering of U.S. dollar 520 million principal amount of 4.25 percent Convertible Subordinated Notes. The currency exposure from this loan was naturally hedged by the related U.S. dollar-denominated assets.

ASML was not a party to any open forward contracts at December 31, 1999.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The following discussion and analysis of financial condition should also be viewed in the context of the risks affecting ASML's business strategy, described below.

ASML's balance of cash and cash equivalents was EUR 151.0 million and EUR 603.1 million at December 31, 1998 and 1999, respectively. Net cash flows provided by operating activities were EUR 38.1 million in 1999. Net cash flows used by operating activities were EUR 53.6 million in 1998.

The increase in accounts receivable, of EUR 245.7 million reflected the accelerated upturn in shipments of systems towards the end of the second half year of 1999 and was mitigated by the effect of increasing short-term liabilities and a decrease of inventories as compared to 1998.

Positive cash flows from operating activities came from net income, depreciation and other non-cash items.

The decreased inventory level reflects the reduction in work in process due to the increased shipments of systems towards the end of the second half of 1999.

In 1998 and 1999 ASML paid EUR 33.7 million and EUR 23.9 million in taxes, respectively. As of December 31, 1999, ASML had current tax liabilities of EUR 21.6 million, which will be paid in 2000.

ASML's ratio of average accounts receivable to total net sales was 30.8 and 27.7 percent in 1998 and 1999, respectively. The ratio for 1998 includes the effect of some extended payment terms to certain customers, which decreased during 1999. ASML generally ships its wafer steppers and Step & Scan systems on payment terms requiring 90 percent of the sales price to be paid within 30 to 60 days after shipment. The remainder of the purchase price for ASML's wafer steppers and Step & Scan systems 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 10 percent of the purchase price generally reflect the same terms applicable to the original 90 percent.

Consistent with the sales increases and inventory reductions described above, ASML's ratio of average inventory to total net sales was 41.3 percent in 1998, decreasing to 31.9 percent in 1999. ASML's inventory

requirements are increased by the need to maintain adequate customer spare parts for regional expansion, the increasing size of its installed base.

Net cash used in investing activities was EUR 102.3 million and EUR 120.0 million in 1998 and 1999, respectively. The 1998 amount primarily reflects the expansion of ASML's production and office facilities and the related investments in property, plant and equipment.

The 1999 amount primarily reflects the further expansion of these facilities as well as investments in own equipment (including prototypes, training and demonstration systems).

ASML expects capital expenditure in 2000 to be approximately EUR 200 million, of which approximately EUR 30 million relates to the further expansion of ASML's research and development, manufacturing and office facilities.

Net cash provided by financing activities was EUR 272.9 million and EUR 535.5 million in 1998 and 1999, respectively. In 1999, ASML issued 4.25% Convertible Subordinated Notes with net proceeds of EUR 503.7 million. In 1998, ASML issued 2.5 percent Convertible Subordinated Bonds with net proceeds of EUR 265.5 million. In addition, ASML received proceeds from the exercise of stock options and the issuance of shares of EUR 31.6 million, in 1999.

ASML has two lines of credit with two banks. Each line provides up to EUR 113.4 million in available credit, totaling EUR 226.8 million at December 31, 1999. There were no outstanding borrowings on these facilities at December 31, 1998 and 1999. ASML intends to expand its credit facilities. Management believes that its operating cash flows together with existing cash balances and the availability of existing

and expanded credit facilities will be sufficient to finance its scheduled capital expenditures for 2000 and to fund its working capital for the next few years. In addition, ASML may seek to obtain additional financing in the public or private capital markets. ASML does not foresee any difficulty in obtaining such additional financing facilities on commercially acceptable terms.

YEAR 2000 READINESS

General

The year 2000 issue refers to the potential threat to all computers, equipment-embedded microprocessors and software if these systems were not properly modified to recognize date-sensitive information when the year changed to 2000. ASML has made significant efforts to minimize the impact of the year 2000 issue on its products, facilities, information technology systems and infrastructure. ASML did not experience significant problems when the year changed to 2000. However because of the complexity and the long term effects of some of the possible failures, ASML will continue to actively monitor the situation in this area.

RISKS AFFECTING ASML'S BUSINESS STRATEGY

In conducting its business, ASML faces many risks that may interfere with its business objectives as defined in ASML's strategy. Some of those risks relate to the operational processes of ASML, others are more inherent to ASML's business environment. It is important to understand the nature of these risks and the impact they may have on ASML's business and results of operations. Some of the most relevant risks are described hereafter.

Cyclical Nature of the Semiconductor Industry
Historically, the semiconductor industry has been highly

cyclical and has experienced recurring periods of oversupply, resulting in significantly reduced demand for capital equipment, including wafer steppers and Step & Scan systems. ASML believes that demand for any particular future period is therefore difficult to predict.

Downturns in the semiconductor industry and related fluctuations in the demand for capital equipment could materially adversely affect ASML's business and operating results. However, because ASML believes that the long-term trend for the semiconductor industry is positive, it is determined to maintain a significant level of research and development spending in order to maintain its competitive position. Management does not intend to reduce this level of spending in response to the short to medium term cyclical nature of the semiconductor industry.

Sole or Limited Sources of Supply

ASML relies on outside vendors to manufacture the components and subassemblies used in its wafer steppers and Step & Scan systems. Generally, these components and subassemblies are obtained from a single supplier or a limited number of suppliers. In particular, the number of systems ASML has been able to produce from time to time has been limited by the production capacity of Zeiss, the optics arm of Carl Zeiss-Stiftung, a German foundation. Zeiss is ASML's sole supplier of lenses and other critical components and is capable of producing these lenses only in limited numbers. ASML believes that there are no alternative suppliers for these components in the short to medium term.

In addition to Zeiss' position as ASML's sole supplier of lenses, the excimer laser illumination systems for deep UV steppers and Step & Scan systems are available from only a very limited number of suppliers.

Technological Change; Importance of Timely New Product Introduction

The semiconductor manufacturing industry is subject to rapid technological change and new product introductions and enhancements. The success of ASML in developing new and enhanced lithography systems and in enhancing its existing products depends upon a variety of factors, including successful management of its research and development program and timely completion of product development and design relative to its competitors. ASML's ability to remain competitive will depend in part upon its ability to develop these new and enhanced lithography equipment and to introduce these systems at competitive prices on a timely basis that will enable customers to integrate these systems into the planning and design of their new fabrication facilities.

ASML's development and initial production and installation of its systems and enhancements thereof generally are accompanied by design and production delays and related costs of a nature typically associated with the introduction and full-scale production of very complex capital equipment. While ASML expects and plans for a corresponding learning curve effect in its product development cycle, the time and expense required to overcome these initial problems cannot be predicted with precision.

Competition

ASML experiences intense competition worldwide, particularly from Nikon Corporation ('Nikon') and Canon Kabushika Kaisha ('Canon'), both of which are diversified manufacturing companies that may have substantially greater financial, marketing, technical and other resources than ASML. These greater resources may enable Nikon and Canon to expand more rapidly. ASML also believes that Nikon and Canon have a further competitive advantage because of their dominance in the Japanese market segment, which

represents a significant proportion of worldwide IC production. Historically it has been difficult for non-Japanese companies to penetrate this market. In addition, adverse market conditions, industry over-capacity or a decrease in the value of the Japanese yen in relation to the euro can lead to intensified price-based competition in those markets where ASML is most active, thus affecting ASML's results of operations and financial position.

Intellectual Property Matters

Although there are no pending lawsuits against ASML regarding infringement claims with respect to any existing patents or any other intellectual property rights, certain of ASML's customers have received notices of infringement from third parties alleging that the manufacture of semiconductor products and/or the equipment used to manufacture these products infringe certain patents issued to those parties. ASML has been advised that it could be obligated to pay damages to customers if use of ASML's lithography systems by those customers were found to infringe any valid patents issued to those parties. If these claims were successful, ASML could be required to indemnify its customers for some or all of any losses incurred as a result of that infringement.

Although ASML attempts to protect its intellectual property rights through patents, copyrights, trade secrets and other measures, there can be no assurance that ASML will be able to protect its technology adequately, that competitors will not be able to develop similar technology independently, that any of ASML's pending patent applications will be issued, or that intellectual property laws will protect ASML's intellectual property rights. In addition litigation may be necessary in order to enforce ASML's intellectual property rights to determine the validity and scope of the proprietary rights of others or to defend against

claims of infringement. Any litigation could result in substantial costs and a diversion of resources and could have a material adverse effect on ASML's business and results of operations. ASML also may incur substantial licensing or settlement costs where doing so would strengthen or expand its intellectual property rights or limit its exposure to intellectual property claims of others.

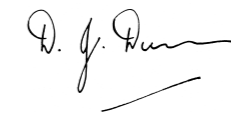
Dependence on Manufacturing facilities

All of the manufacturing activities performed by ASML currently take place in two separate clean room facilities located in Veldhoven, The Netherlands. While a range of disaster prevention measures have been installed to ensure continued operation of these Facilities, a major catastrophe could result in significant interruption of ASML's business operations and affect the Company's result of operations and financial position.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities', which establishes accounting and reporting standards for derivative instruments and requires that all derivatives be recognized generally at fair value in the statements of financial position. This pronouncement will become effective for the Company for the year ending December 31, 2001. The Company has not yet completed its analysis of the specific additional information that may be required under this new standard.

Doug J. Dunn



CEO and Chairman of the Board of Management

ASM Lithography Holding N.V.

Veldhoven, January 19, 2000

Lithography, the artist innovating the world



As in the creation of art the artist is key in obtaining the end result. When in the 19th century the Dutch artist De Koningh was creating his lithos he was producing patterns in wax such that an etching process could transfer the picture into stone. Since stone is mostly silicon the principles of lithography for art or for semiconductor are not all that different - the differences are mostly matters of implementation. Today the artists for the most diverse applications are the lithography systems, patterning the structures in silicon to create integrated circuits.



A.K. DE KONINGH (1825-1867), WINDMILL NEAR DORDRECHT, STONE ETCH, RIJKSMUSEUM, AMSTERDAM

But let's start at the beginning

Society today is seeing rapid innovation in the electronics industry with many new products and services coming on to the market every year. The rapid improvements in the performance of these devices are made possible by revolutions in the IC industry. Since the beginning of IC production tremendous improvements have been achieved in the performance and cost per function of these devices.

TABLE 1

	Minimum feature size most advanced devices	DRAM Price/Bit in USD millicents	DRAM Performance in bit capacity	Micro processor Price/Transistor in USD cents	Micro processor performance in system speed
1970	10 Micron	492	1 Kbit	50	0.5 MHz
1980	1.3 Micron	15	64 Kbit	3.5	5 MHz
1990	0.5 Micron	0.48	4 Mbit	0.25	50 MHz
2000	0.18 Micron	0.015	256 Mbit	0.018	1 GHz
2010*	0.05 Micron	0.00047	64 Gbit	0.0013	10 GHz

K = Kilo = thousand
M = Mega = million
G = Giga = billion
* forecast

1000 Nanometer = 1 Micron = 0.001 millimeter
1 DRAM chip of 64 Mbit consists of 64,000,000 bits
1 Bit is one memory element



Those improvements have allowed electronics applications to boom as can be seen around us every day.

The structure of an IC resembles that of a building with multiple floors. Rooms compare to functional components like transistors, the corridors and the stairs to the interconnections between the components. A further analogy exists in building the ICs as they are built layer after layer (floor after floor). Lithography plays the key role in defining the precise structures to form the layers and hence the components.

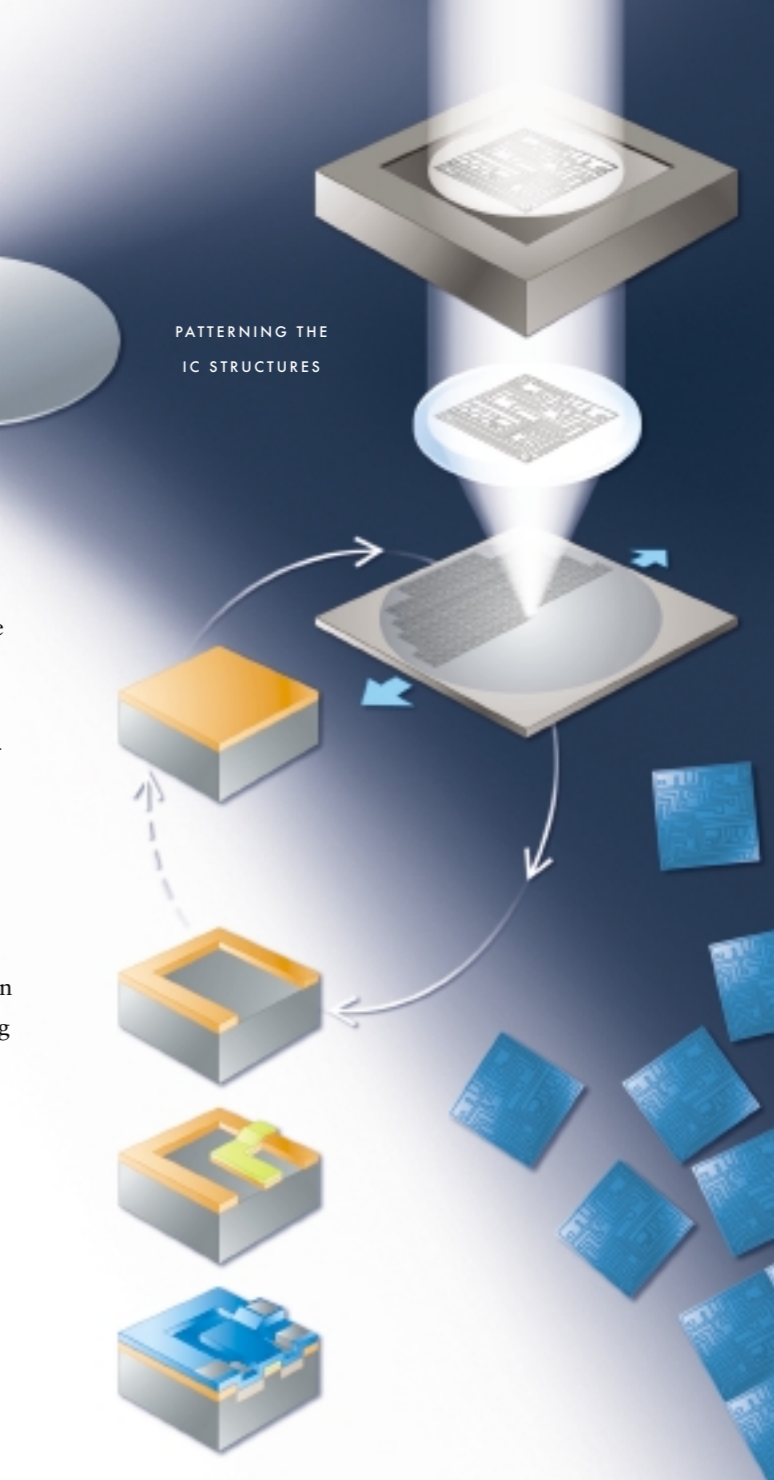
FROM END PRODUCTS TO THE SMALLEST DETAILS IN THE ICs

The reason why the IC industry is able to innovate as rapidly as it is lies in the reduction of the size of the structures. This has caused the tremendous increase in integration, as it became possible to pack more functions in the same space. The reduction of size also brought about an increase in performance (for instance the speed of microprocessors). Last but not least, the reduction helped lower cost price as shown in table 1.

To build the integrated circuit components, numerous layers of patterns have to be superimposed on top of each other to obtain a three-dimensional structure. Since this has to be done with an almost unimaginable accuracy, extremely accurate positioning overlay is required from the lithography systems. These accuracies are expressed in nanometers, which is a one-thousandth of a micron or one-millionth of a millimeter.

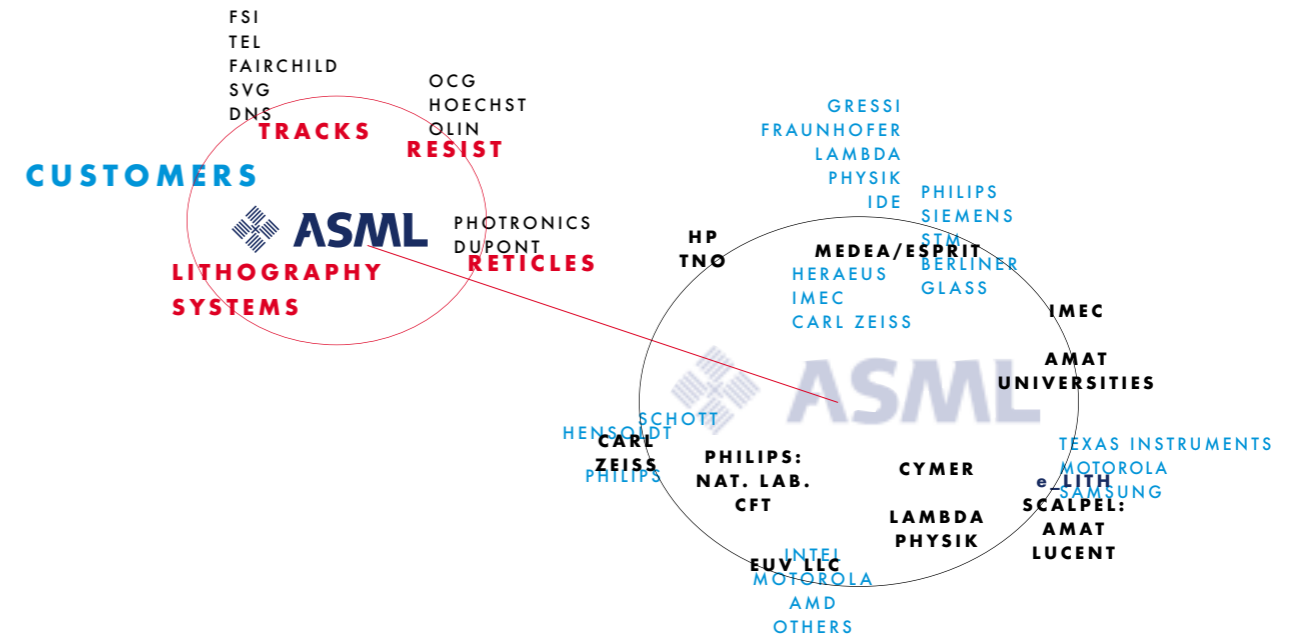
To achieve economic viability in IC manufacturing, this printing of the structures has to take place at a very high speed. This means that basically all fields of a silicon wafer have to be positioned and exposed in slightly more than half a minute. One silicon wafer can contain between 100 and 1000 identical ICs depending on the device type and size.

In short, a lithography system has to combine the following key requirements: imaging of small structures; overlay with the ability to accurately place the structures; and productivity, which in fact means high throughput and processing speed.



To achieve this, lithography systems employ the most advanced techniques with respect to optics, servo systems, measurement systems and real-time control software and hardware. As mentioned earlier, future lithography systems will have to enable further reductions of the device structures down to 0.05 micron or even 0.035 micron for the most advanced manufacturers. Using light with shorter wavelengths, like a painter who uses smaller brushes to paint the smaller details, will accomplish this. Today, the most advanced devices are made using light of wavelengths that are invisible to the human eye, and the trend to further shorten wavelengths will continue in the years ahead.

High-Tech Network: Technology Flow



The rapid innovations in lithography systems require the generation of a huge volume of new technology, which cannot be generated by one company alone. Broad access is needed to a diverse technology base. To this end, ASML is working in and managing a technology network to provide access to the technology needed to introduce new systems every year, which in turn are the enablers of the rapid succession of IC innovations.

As a supplier for the IC industry, time to market with new technology is key.

OPC IN PRACTICE:



MODIFIED IMAGE ON THE MASK



CORRECT IMAGE PATTERNED ON THE WAFER

Besides using smaller wavelengths of light, light is manipulated to facilitate the definition of smaller structures. The name for this set of optical 'tricks' is RET (Resolution Enhancement Techniques). The two most important ones are OPC (Optical Proximity Correction) and PSM (Phase Shift Masks). Without going into details, these techniques correct incomplete or incorrect imaging by making modifications at the source of the image (the reticle). This is the reason why, in 1999, ASML acquired Masktools, the market leader in OPC.

Volume to market

From the moment that new technology qualifies to be used in the process of IC manufacturing, a fast ramp up is needed.

Today, investments to build new waferfabs amount to up to USD 2 billion per fab. Therefore, bringing such

a fab with new technologies into volume production as fast as possible is of prime importance in order to generate return on investment. For lithography suppliers, this means that shortly after the introduction of new systems on the market, they have to be able to deliver in volume. For this reason ASML has located the goodsflow center next to the R&D facilities. Here too, operating in and managing a goodsflow network is necessary to obtain the desired flexibility.



CORPORATE GOODSFLOW CENTER



ASSEMBLING THE SYSTEMS



FULLY AUTOMATED WAREHOUSE



ASML, the spider in the web of strategic partners

Supporting the customers

From the moment the lithography tools are up and running in the customer's environment it is essential that these machines generate as much output as possible. Therefore efficient customer support should first be focused on keeping the machines up and running. Secondly, the focus should be on helping the customers to optimize the use of the machines on the typical

process-machine interface. This application support is becoming more and more important as the complexity of machines and processes increases. This requires a worldwide network of service offices and communication links to the central headquarters with the machine specialist. In this way customer support operates as a worldwide web.



Broad Market Coverage

Broad Market Coverage

ASML Special Applications focuses on industries with lithography requirements differing from those of mainstream applications such as DRAM and microprocessor production and provides customized imaging solutions utilizing ASML's technology base. The focus areas include GaAs, Thin Film Head and Analog IC lithography applications, which enables cost efficient production of consumer devices such as handheld phones, hard disk storage units in personal computers, and devices to optimize battery usage of mobile devices.

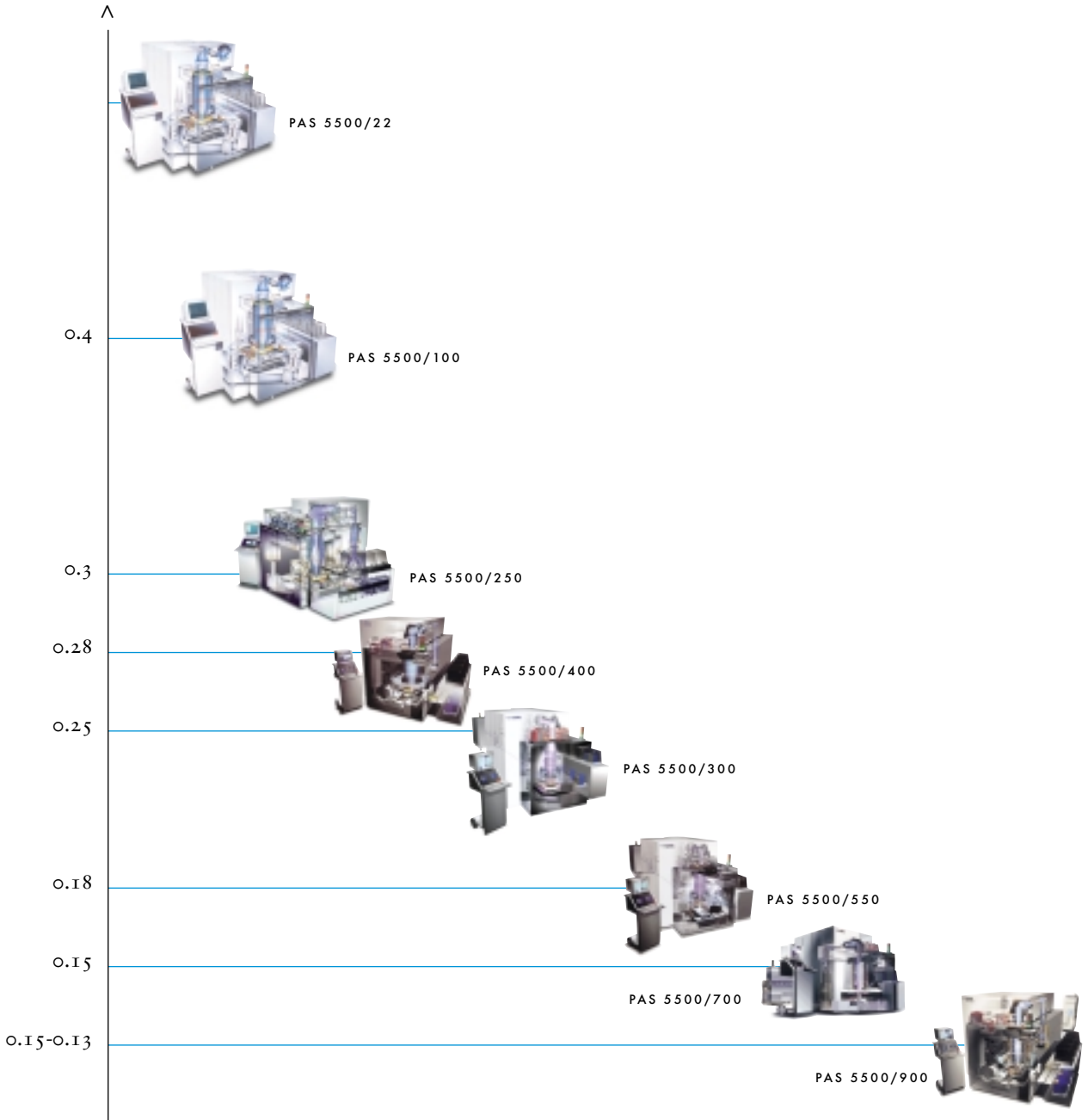
High value is given to the need of customers who operate mature lithography equipment and want to extend the economic life of their production facilities. Options & accessories, upgrades, certified pre-owned ASML equipment, as well as financial and consulting services are offered to realize this.

Value of Ownership

All the above come together in ASML's superior Value of Ownership offer. Customers can improve their competitiveness using ASML products. ASML offers the customer the latest technology available for volume production at the time the market needs it, which is supported long term by a whole network of partners, each of which is leading in its own area of expertise. ASML products can be installed and ramped up to production quickly and ASML offers an extensive customer and application support network. Combine these factors and you have a Value of Ownership proposition that is hard to resist.

ASML's product family

Suitable for patterning structures with minimum feature size in microns





System Overview PAS 5500/900





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Consolidated Statements of Operations

For the year ended December 31	1997	1998	1999	1999
<i>(Amounts in thousands, except per share data)</i>	EUR	EUR	EUR	USD
Net product sales	771,044	722,308	1,133,042	1,140,111
Net service sales	46,908	56,888	64,448	64,850
Total net sales	817,952	779,196	1,197,490	1,204,961
Cost of product sales	431,370	427,344	735,178	739,764
Cost of service sales	42,890	54,244	62,862	63,255
Total cost of sales	474,260	481,588	798,040	803,019
Gross profit on sales	343,692	297,608	399,450	401,942
Research and development costs	93,136	144,651	173,967	175,052
Research and development credits	(13,613)	(29,965)	(36,128)	(36,353)
Selling, general and administrative expenses	57,611	94,210	140,182	141,056
Operating income	206,558	88,712	121,429	122,187
Gain on sale of marketable securities	14,130	-	-	-
Interest income	1,047	6,865	11,479	11,550
Interest expense	(332)	(5,647)	(14,629)	(14,720)
Income before income taxes	221,403	89,930	118,279	119,017
Provision for income taxes	72,109	27,930	37,529	37,763
Net income	149,294	62,000	80,750	81,254
Basic net income per ordinary share	1.08	0.45	0.58	0.58
Diluted net income per ordinary share	1.08	0.45	0.58	0.58
<i>Number of ordinary shares used in computing per share amounts (in thousands):</i>				
Basic	138,000	138,167	138,733	
Diluted	138,798	139,032	140,113	

Consolidated Statements of Comprehensive Income

For the year ended December 31	1997	1998	1999	1999
<i>(Amounts in thousands)</i>	EUR	EUR	EUR	USD
Net income	149,294	62,000	80,750	81,254
Foreign currency translation	1,454	(1,255)	(1,320)	(1,328)
RECLASSIFICATION ADJUSTMENTS:				
Gains included in net income	(8,856)	0	0	0
Deferred compensation expense	3,403	0	0	0
Comprehensive income	145,295	60,745	79,430	79,926

Prior year balances were restated from guilders into euros using the fixed exchange rate as of January 1st 1999 (EUR 1.00 = NLG 2.20371). See Note 1 to the Consolidated Financial Statements.

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

As of December 31	1998	1999	1999
(Amounts in thousands, except share and per share data)	EUR	EUR	USD
ASSETS			
Cash and cash equivalents	150,987	603,064	606,826
Accounts receivable, net	209,448	455,158	457,998
Inventories, net	389,096	375,859	378,204
Other current assets	35,854	21,701	21,836
Deferred tax assets	2,963	7,694	7,742
Total current assets	788,348	1,463,476	1,472,606
Other assets	12,884	17,891	18,003
Intangible assets	0	19,969	20,094
Property, plant and equipment, net	136,590	202,157	203,418
Total assets	937,822	1,703,493	1,714,121
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable	60,531	143,188	144,081
Accrued liabilities and other	78,734	117,947	118,683
Current tax liability	14,611	21,556	21,691
Deferred tax liability	8,363	18,437	18,552
Total current liabilities	162,239	301,128	303,007
Deferred tax liability	3,102	2,080	2,093
Convertible subordinated debt	272,268	789,033	793,956
Total liabilities	437,609	1,092,241	1,099,056
Cumulative Preference Shares, NLG 0.13 nominal value; 300,000,000 shares authorized; none outstanding at December 31, 1999	0	0	0
Priority Shares, NLG 0.13 nominal value; 7,700 shares authorized, issued and outstanding at December 31, 1998 and 1999	1	1	1
Ordinary Shares, NLG 0.13 nominal value; 300,000,000 shares authorized; 138,216,914 shares issued and outstanding at December 31, 1998 and 139,181,667 at December 31, 1999	8,154	8,211	8,262
Share premium	118,431	149,983	150,919
Retained earnings	372,771	453,521	456,350
Accumulated other comprehensive income	856	(464)	(467)
Total shareholders' equity	500,213	611,252	615,065
Total liabilities and shareholders' equity	937,822	1,703,493	1,714,121

Prior year balances were restated from guilders into euros using the fixed exchange rate as of January 1st 1999 (EUR 1.00 = NLG 2.20371). See Note 1 to the Consolidated Financial Statements.

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

As of December 31	1997	1998	1999	1999
(Amounts in thousands, except shares and per share data)	EUR	EUR	EUR	USD
PRIORITY SHARES				
Balance, end of year	I	I	I	I
ORDINARY SHARES:				
Balance, beginning of year	7,828	7,828	8,154	8,205
Issuance of ordinary shares	0	326	57	57
Balance, end of year	7,828	8,154	8,211	8,262
SHARE PREMIUM:				
Balance, beginning of year	116,927	116,927	118,431	119,170
Issuance of ordinary shares	0	1,504	31,552	31,749
Balance, end of year	116,927	118,431	149,983	150,919
RETAINED EARNINGS:				
Balance, beginning of year	161,477	310,771	372,771	375,096
Net income	149,294	62,000	80,750	81,254
Balance, end of year	310,771	372,771	453,521	456,350
DEFERRED COMPENSATION EXPENSE:				
Balance, beginning of year	(3,403)	0	0	0
Management share compensation	3,403	0	0	0
Balance, end of year	0	0	0	0
COMPREHENSIVE INCOME:				
NET UNREALIZED INVESTMENT GAINS:				
Balance, beginning of year	8,856	0	0	0
Change in net unrealized investment gains	(8,856)	0	0	0
Balance, end of year	0	0	0	0
CUMULATIVE TRANSLATION ADJUSTMENTS:				
Balance, beginning of year	657	2,111	856	861
Exchange rate changes for the year	1,454	(1,255)	(1,320)	(1,328)
Balance, end of year	2,111	856	(464)	(467)
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
Balance, beginning of year	6,110	2,111	856	861
Changes for the year	(3,999)	(1,255)	(1,320)	(1,328)
Balance, end of year	2,111	856	(464)	(467)
NUMBER OF ORDINARY SHARES OUTSTANDING (IN THOUSANDS):				
Number of ordinary shares beginning of year	138,000	138,000	138,217	
Issuance of ordinary shares	0	217	965	
Number of ordinary shares outstanding, end of year	138,000	138,217	139,182	

Prior year balances were restated from guilders into euros using the fixed exchange rate as of January 1st 1999 (EUR 1.00 = NLG 2.20371). See Note 1 to the Consolidated Financial Statements.

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the year ended December 31 (Amounts in thousands)	1997 EUR	1998 EUR	1999 EUR	1999 USD
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	149,294	62,000	80,750	81,254
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>				
Depreciation and amortization	16,066	34,014	42,516	42,781
Realized gain on sale of marketable securities	(14,130)	0	0	0
Deferred income taxes	3,715	(3,895)	4,322	4,349
Management share compensation	3,403	0	0	0
<i>Changes in assets and liabilities that provided (used) cash:</i>				
Accounts receivable	(96,775)	60,809	(245,710)	(247,243)
Inventories	(101,393)	(135,297)	13,237	13,320
Other assets	(9,697)	(13,404)	14,152	14,240
Accrued liabilities	(8,505)	2,963	39,213	39,458
Accounts payable	44,765	(58,990)	82,657	83,173
Income tax payable	(2,816)	(1,852)	6,945	6,988
Net cash provided by (used in) operating activities	(16,074)	(53,652)	38,082	38,320
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of marketable securities	15,964	0	0	0
Purchases of property, plant and equipment	(41,438)	(98,547)	(109,787)	(110,472)
Proceeds from sale of property, plant and equipment	12,531	3,056	2,889	2,907
Purchase of intangible assets	0	0	(21,020)	(21,151)
Disbursements for loans	0	(6,807)	0	0
Other investing activities	0	0	7,858	7,907
Net cash used in investing activities	(12,943)	(102,298)	(120,060)	(120,809)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of convertible subordinated loans	0	272,268	516,765	520,000
Payment of underwriting commission	0	(6,807)	(12,860)	(12,951)
Proceeds from (repayment of) advances from customers	(1,815)	1,375	0	0
Proceeds from advances to supplier	5,583	4,181	0	0
Proceeds from issuance of shares and stock options	0	1,833	31,609	31,806
Net cash provided by financing activities	3,768	272,850	535,514	538,855
Effect of changes in exchange rates on cash	511	(865)	(1,459)	(1,468)
Net increase (decrease) in cash and cash equivalents	(24,738)	116,035	452,077	454,898
Cash and cash equivalents at beginning of the year	59,690	34,952	150,987	151,928
Cash and cash equivalents at end of the year	34,954	150,987	603,064	606,826
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Purchase of intangible assets during fiscal year 1999				
Fair value of assets acquired through the issuance of Ordinary Shares			(21,020)	(21,151)
<i>Cash paid for:</i>				
Interest	333	887	6,807	6,849
Taxes	70,950	33,707	23,863	24,012

Prior year balances were restated from guilders into euros using the fixed exchange rate as of January 1st 1999 (EUR 1.00 = NLG 2.20371). See Note 1 to the Consolidated Financial Statements.

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements include the financial statements of ASM Lithography Holding N.V. Eindhoven, The Netherlands (the 'Company'), and its consolidated subsidiaries. ASML, operating under a single management, is a worldwide business engaged in the development, production, marketing, sale and servicing of advanced lithography systems, consisting of wafer steppers and Step & Scan systems for the semiconductor industry. ASML's principal operations are in The Netherlands, the United States of America and Asia. At December 31, 1998, Royal Philips Electronics ('Philips') owned 23.9 percent of the Company's shares and at December 31, 1999, Royal Philips Electronics owned 23.7 percent of the Company's shares. In addition, one of the five members of the Company's Supervisory Board is a Philips employee.

ASML follows accounting principles generally accepted in the United States of America ('U.S. GAAP'). Effective beginning of fiscal year 1999, ASML changed its reporting currency from Dutch guilders to euros. Prior year balances have been restated based on the fixed exchange rate as of January 1st, 1999 (EUR 1.00 to NLG 2.20371). The comparative balances reported in euros depict the same trends as would have been presented if ASML had continued to present balances in Dutch guilders. Balances for periods prior to January 1st, 1999 are not comparable to the balances of other companies that report in euros having restated amounts from a different currency than Dutch guilders. The accompanying consolidated financial statements are stated in thousands of euros ('EUR') except that, solely for the convenience of the reader, certain euro amounts presented as of and for the year ended December 31, 1999 have been translated into United States ('U.S.') dollars ('USD') using the exchange rate in effect on December 31, 1999 of USD 1.00 = EUR 0.9938. These translations should not be construed as representations that the euro amounts could be converted into U.S. dollars at that rate.

Additional disclosures have been included in the Notes to the Consolidated Financial Statements to conform these consolidated financial statements to requirements under the Netherlands Civil Code. Such disclosures are in addition to the disclosures presented under U.S. GAAP.

Principles of consolidation

The consolidated financial statements include the accounts of ASM Lithography Holding N.V. and all of its majority-owned subsidiaries. All significant intercompany profits, transactions and balances have been eliminated in consolidation.

Foreign currency

Foreign currency translation

The financial information for subsidiaries outside The Netherlands is measured using local currencies as the functional currency. Transactions between ASML and its U.S. subsidiary relating to sales of products are denominated in U.S. dollars. Assets and liabilities are translated into euros at the exchange rate in effect on the respective balance sheet dates. Income and expenses are translated into euros 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 euros 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.

Foreign currency management

ASML enters into foreign exchange contracts from time to time as a hedge against accounts payable denominated in foreign currencies. Changes in market value of foreign exchange contracts are recognized as gains or losses and are intended to offset foreign exchange gains or losses on these 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 purchase transaction. The measurement date for hedged purchase transactions 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. ASML attempts to minimize the counter-party credit risk associated with the foreign exchange forward contracts and currency option arrangements to which it is a party by selecting counter-parties that it believes are creditworthy.

The currency exposure relating to the US-dollar denominated convertible loan is naturally hedged by the related US-dollar assets.

Except for U.S. service sales, ASML's sales are primarily denominated in Dutch guilders, ASML's functional currency, thus eliminating its significant currency exposure for sales in foreign currency. The exposure from U.S. sales denominated in U.S. dollars is naturally hedged by the related U.S. dollar-denominated costs. Currency exposure relating to participating Economic and Monetary Union ('EMU') member countries has been eliminated as of January 1st, 1999 with the introduction of the euro.

Cash and cash equivalents

Cash and 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 the date of acquisition.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market value. 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.

Income taxes

Deferred income taxes are provided for the temporary differences between the carrying amounts used for financial reporting purposes 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 ASML operates.

Intangible assets

Intangible assets include intellectual property rights that are valued at cost and are amortized straight-line over the estimated useful life of 10 years. The company periodically reviews the carrying value of the intangible assets and impairments are recognized when the expected future operating cash flows derived from such intangible assets are less than their carrying value.



Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. 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 ASML's property, plant and equipment:

Category	Assigned economic life
Machinery and equipment	2 – 5 years
Office furniture and equipment	3 – 5 years
Leasehold improvements	5 – 10 years

ASML also leases certain buildings, machinery and equipment under arrangements accounted for as operational leases.

Internal and external costs associated with the purchase and/or development of internally used software are capitalized in accordance with Statement of Position No. 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use'. These costs are amortized straight-line over periods of related benefit ranging primarily from two to five years.

Recognition of revenues, income and expenses

ASML's practice is to recognize revenues (and related cost of sales) from sales of products when goods are shipped, the time at which the risks and rewards of ownership transfer to customers. Shipment occurs after a customer accepts the product at ASML's premises. No significant obligations remain after the sale is completed and a customer's sole recourse against ASML is to enforce its obligations relating to installation and warranty.

Costs for these obligations relating to installation, which are insignificant, and for warranty expenses (see Cost of sales, below) are also accrued at the time of shipment when corresponding sales revenues are recognized. 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 deferred and recognized when 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. Repayments of certain technical development credits are also charged to cost of sales (see Research and development credits, below). ASML accrues installation and warranty expenses for every system shipped. The amount accrued is based on actual historical expenses incurred and on estimated probable future expenses related to current sales. In addition, ASML accrues for incidental expenses relating to specific customer issues that are not formal-

ly covered under the warranty reserves. Warranty costs are charged against this reserve. Costs associated with service revenue are expensed as incurred.

Research and development costs

Costs relating to research and development are charged to operating income as incurred.

Research and development credits

Subsidies and other governmental credits for 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 Dutch government to offset the cost of certain research and development projects are contingently repayable as a percentage of the sales price to the extent future sales of equipment developed in such projects occur. Such repayments are charged to cost of sales at the time such sales are recorded (see Note 12 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 ASML's manufacturing process. If such a sale or use occurs, however, ASML is obligated to repay the related TOKs, and such repayment amount is accrued in an amount based on the net book value of the prototype sold or used.

Stock options

ASML applies Accounting Principles Board Opinion ('APB') No. 25, 'Accounting for Stock Issued to Employees', and related interpretations in accounting for its plans. Statement of Financial Accounting Standards ('SFAS') No. 123, 'Accounting for Stock-Based Compensations' allows companies to elect to account for stock options under the new accounting standard, or continue to account for stock option plans using the intrinsic method under APB No. 25, and provide pro forma disclosure of net income and earnings per share as if SFAS No. 123 were applied. ASML has elected to continue to account for its stock options under the provisions of APB No. 25 and disclose the pro forma effects of SFAS No. 123 in the Notes to the Consolidated Financial Statements.

Net income per ordinary share

Basic net income per share is computed by dividing net income by the weighted average ordinary shares outstanding. Diluted net income per share reflects the potential dilution that could occur if options issued under ASML's stock compensation plan were exercised.

Certain antidilutive options were excluded from the diluted net income per share calculations. The computation of diluted earnings per share did not assume conversion of convertible bonds, as such conversion would have had an antidilutive effect on earnings per share.

A summary of the weighted average number of shares and ordinary equivalent shares follows:

Years ended December 31 (Amounts in thousands)	1997	1998	1999
Basic weighted average shares outstanding	138,000	138,167	138,733
Weighted average ordinary equivalent shares	798	865	1,380
Diluted weighted average shares outstanding	138,798	139,032	140,113

Excluded from the diluted weighted average share outstanding calculation are Cumulative Preference Shares contingently issuable to the preference share foundation as they represent a different class of stock than the Ordinary Shares. See further discussion in Note 18 to the Consolidated Financial Statements.

Use of estimates

The preparation of ASML's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Comprehensive income

ASML has applied the requirements of SFAS No. 130, 'Reporting Comprehensive Income', in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity

Segment disclosure

In June 1997, FASB issued SFAS No. 131, 'Disclosures about Segments of an Enterprise and Related Information'. SFAS No. 131 has redefined how operating segments are determined and requires qualitative disclosures of certain financial and descriptive information about a company's operating segments. As ASML operates in only one segment, and in three general geographic locations, ASML defines its operational segment by geographical location (see Note 15 to the Consolidated Financial Statements).

Recent accounting pronouncements

In June 1998, the FASB issued SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities', which establishes the definition of derivative instruments and the related fair value reporting requirements. This additional reporting requirement will be adopted by ASML for the year ending December 31, 2001. ASML is currently investigating the impact and specific additional information that will be required under this new standard.

2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

December 31	1998	1999
Accounts receivable	208,685	428,552
Accounts receivable – Philips	763	26,606
Total accounts receivable, net	209,448	455,158

3. INVENTORIES

Inventories consist of the following:

December 31	1998	1999
Raw materials	147,674	163,575
Work-in-process	142,941	122,740
Finished products	122,615	131,209
Allowance for obsolescence	(24,134)	(41,665)
Total inventories, net	389,096	375,859

4. INTANGIBLE ASSETS

In July 1999 ASML obtained the intellectual proprietary rights relating to Optical Proximity Correction technology. This technology enhances leading edge lithography systems to accurately and reliably print line widths below 0.2 micron. These rights have been valued at cost and are amortized straight-line over the estimated useful live of 10 years.

	Intellectual Property
COST:	
Balance, January 1, 1999	0
Additions	21,020
Balance, December 31, 1999	21,020
ACCUMULATED DEPRECIATION:	
Balance, January 1, 1999	0
Amortization	(1,051)
Balance, December 31, 1999	(1,051)
NET BOOK VALUE:	
December 31, 1999	19,969

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consist of the following:

	Buildings & structures	Machinery and equipment	Leasehold improve- ments	Office furniture and fixtures	Total
COST:					
Balance, January 1, 1999	7,136	92,487	57,105	65,288	222,016
Additions	3,037	86,003	4,048	16,699	109,787
Reclassifications	19,148	(9,803)	(14,899)	5,554	0
Disposals	0	(5,341)	(1,575)	(1,204)	(8,120)
Effect of exchange rates	0	2,270	845	1,047	4,162
Balance, December 31, 1999	29,321	165,616	45,524	87,384	327,845
ACCUMULATED DEPRECIATION:					
Balance, January 1, 1999	0	42,631	15,600	27,195	85,426
Depreciation	0	17,967	6,289	18,886	43,142
Reclassifications	0	5,076	(2,669)	(2,407)	0
Disposals	0	(2,587)	(1,559)	(1,085)	(5,231)
Effect of exchange rates	0	1,229	606	516	2,351
Balance, December 31, 1999	0	64,316	18,267	43,105	125,688
NET BOOK VALUE:					
December 31, 1998	7,136	49,856	41,505	38,093	136,590
December 31, 1999	29,321	101,300	27,257	44,279	202,157

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consist of the following:

December 31	1998	1999
Unearned revenue	14,301	20,683
Warranty and installation	19,052	34,460
Materials and costs to be paid (invoices not yet received)	27,742	50,765
Advances from customers	11,001	3,370
Accrued compensation and related taxes	3,341	4,576
Accrued pension liabilities	2,776	969
Other	521	3,124
Total accrued liabilities and other	78,734	117,947

7. LONG-TERM DEBT AND BORROWING ARRANGEMENTS**Long-term debt**

In April 1998, ASML completed an offering of EUR 272 million principal amount of its 2.5 percent Convertible Subordinated Bonds due 2005, with interest payable annually commencing April 9, 1999. The bonds are convertible into 4,662,360 ordinary shares at EUR 58.40 per share at any time prior to maturity. At any time after April 9, 2001, the bonds are redeemable at the option of ASML, in whole or in part, at 100 percent of the principal amount, together with accrued interest. These bonds were issued in an offering not registered or required to be registered under the U.S. Securities Act of 1933, as amended, and therefore were offered only to 'qualified institutional buyers' and 'accredited investors' as defined by applicable Securities and Exchange Commission regulations. These bonds are traded in the Private Offerings, Resales and Trading through Automated Linkages ('PORTAL') Market. The bonds will mature on April 9, 2005, and be payable at a price of 100 percent of the principal amount thereof.

In November 1999, ASML completed an offering of USD 520 million (EUR 517 million) principal amount of its 4.25 percent Convertible Subordinated Notes due November 30, 2004 with interest payable semi-annually November 30 and May 30 of each year, commencing on May 30, 2000. The Notes are convertible into 4,653,220 ordinary shares at USD 111.75 (EUR 111.06) per share at any time prior to maturity. At any time on or after December 5, 2002 the notes are redeemable at the option of ASML, in whole or in part, at the prices specified below, together with accrued interest.

The redemption prices, expressed as a percentage of the outstanding principal amount of the Notes being redeemed are:

	Redemption Price
December 5, 2002 through December 4, 2003	101.70%
December 5, 2003 through November 29, 2004	100.85%
November 30, 2004 and thereafter	100.00%

These Notes were issued in an offering not registered or required to be registered under the U.S. Securities Act of 1933, as amended, and therefore were offered only to 'qualified institutional buyers', 'accredited investors' and 'non-U.S. persons acquiring in an offshore transaction' as defined by applicable Securities and Exchange Commission regulations. These Notes are traded on the Official Segment of the stock market of the Amsterdam Exchanges N.V.

Lines of credit

ASML has two lines of credit with two banks. Both lines of credit amounted to EUR 113.4 million (EUR 226.8 million total) at December 31, 1999. There were no outstanding borrowings on these facilities at December 31, 1998 or 1999. The average interest rate on the amounts available at December 31, 1999 was Euribor plus 40 basis points with an annual commitment fee of 0.2 percent on the unused portion. The lenders have certain contractual

rights to secure the facilities by taking a pledge of ASML's accounts receivable as well as certain restrictive covenants. As of December 31, 1999 ASML was in compliance with these covenants. ASML intends to expand its credit facilities.

8. EMPLOYEE BENEFITS

Pension plans

ASML contributes to a multi-employer defined contribution pension plan covering its hourly and salaried employees in The Netherlands and to a defined contribution plan for its U.S. employees. The basis for the contribution to the Dutch 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. ASML may make an additional contribution to the U.S. plan, in an amount determined at the sole discretion of ASML, if ASML meets certain financial performance criteria. No such contribution was made by ASML in 1997, 1998 and 1999. Pension costs for these plans were approximately, EUR 2,354, EUR 3,511 and EUR 5,091 during 1997, 1998 and 1999, respectively.

During 1996, ASML adopted a defined contribution plan for certain Dutch employees who earn salaries exceeding a defined base amount. ASML's contributions to the defined contribution plan for these employees are based on 11.4 percent of the compensation of the plan participants in the first half year, 13.3 percent in the second half year and were, EUR 270, EUR 396 and EUR 564 in 1997, 1998 and 1999, respectively.

Profit-sharing plan

During 1995, ASML established a profit-sharing plan (the 'Plan') covering all employees. Under the Plan, which was revised in 1999 and will be effective as of January 1999, employees who are eligible will receive an annual profit-sharing bonus, based on a percentage of net income to sales ranging from 0 to 20 percent of annual salary.

Share incentive scheme

Philips and the Company established an incentive scheme (the 'Scheme') pursuant to which members of the Company's management and senior staff were eligible to receive, at no cost to such employees, an aggregate amount of approximately 6,600,000 Ordinary Shares (the 'Scheme Shares'). The Scheme Shares were transferred by Philips at no cost to the Stichting Administratiekantoor Management Aandelen ASML Holding (the 'Scheme Foundation'), a Dutch foundation with a self-electing board consisting of members of the Company's Supervisory Board and Board of Management. The Scheme provided 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. Under this arrangement, ASML recorded in 1994 a EUR 13,613 increase in its share premium and corresponding deferred charge of EUR 10,210 to the deferred compensation account in Shareholders' equity and a non-cash, non-tax deductible charge of EUR 3,403 in respect of compensation expense allocated to

selling, general and administrative expenses. ASML also incurred in 1996 and 1997 a non-cash charge in respect of compensation expense equal to EUR 3,403 and a corresponding decrease in the deferred compensation account. These charges are allocated to selling, general and administrative expenses and are not tax deductible for Dutch corporate income tax purposes. ASML did not incur any further charges in connection with the Scheme since 1998.

Stock option plans

In 1997, the Company issued stock option plans, in which 863,574 stock options were authorized in each year to purchase Ordinary Shares. The stock option plans provide for the issuance of up to 712,574 options to purchase Ordinary Shares for eligible employees of ASML and up to 151,000 options to purchase Ordinary Shares for certain key personnel and management. In 1998, the company issued stock option plans, in which 1,116,192 options were authorized to purchase Ordinary Shares. The stock option plans provide for the issuance of up to 699,277 options to purchase Ordinary Shares for eligible employees of ASML and up to 416,915 options to purchase Ordinary Shares for key personnel and management. These plans include 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 these plans have fixed exercise prices equal to the closing price of the Company's Ordinary Shares on Amsterdam Exchanges on the applicable grant dates. Stock options granted to eligible employees vest over a period of two years and any unexercised options outstanding expire five years after the grant date. In 1998, the vesting period relating to employees was amended to reflect cumulative installments vesting over a three year period with any unexercised stock options expiring six years after the grant date. In 1998, the vesting period relating to key personnel was amended to reflect equal cumulative installments vesting over a three and four year period with any unexercised stock options expiring six years after the grant date.

In 1999, a new stock option plan has been issued, in which 1,500,000 stock options were authorized to purchase Ordinary Shares. The Board of Management has issued this plan, with the approval of the Supervisory Board and the holders of priority shares. The plan shall be effective as of the year 2000 and shall remain in place until revoked by the Board of Management. The Board of Management shall determine per category of ASML personnel the total available number of options which can be granted in a certain year on an annual basis. The determination is subject to approval from the Supervisory Board and the holders of priority shares of the Company.

The vesting and exercise period for this plan is similar to the plan of 1998.



Stock option transactions are summarized as follows:

	Number of shares	Weighted average exercise price per share (EUR)
Outstanding, December 31, 1997	1,449,692	13.24
Granted	863,574	31.24
Exercised	(216,914)	8.52
Outstanding, December 31, 1998	2,096,352	19.12
Granted	1,116,192	39.24
Exercised	(650,980)	10.62
Cancelled	(24,396)	10.38
Outstanding, December 31, 1999	2,537,168	31.81
Exercisable, December 31, 1999	405,402	10.94
Exercisable, December 31, 1998	457,266	7.99

Information with respect to stock options outstanding at December 31, 1999 is as follows:

Options outstanding <i>Range of exercise prices (EUR)</i>	Number outstanding at December 31, 1999	Weighted average remaining contractual life (years)	Weighted average exercise price (EUR)
7.08 – 26.95	486,402	2.16	12.57
28.43 – 36.44	1,610,416	3.56	33.95
38.62 – 95.25	440,350	3.81	45.24

Under the provisions of APB No. 25, no compensation expense was recorded for ASML's stock-based compensation plans. Had compensation cost been determined based upon the fair value at the grant date for awards under the plan consistent with the methodology prescribed under SFAS No. 123, ASML's net income and calculation for net income per ordinary share would have been as follows:

	1998	1999
NET INCOME:		
As reported	62,000	80,750
Pro forma	54,842	71,153
BASIC NET INCOME PER ORDINARY SHARE:		
As reported	0.45	0.58
Pro forma	0.39	0.51
DILUTED NET INCOME PER ORDINARY SHARE:		
As reported	0.45	0.58
Pro forma	0.39	0.51

The estimated weighted average fair value of options granted during 1998 and 1999 was EUR 13.90 and EUR 23.52 respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions in 1998 and 1999, respectively: no dividend yield, volatility of 40.0 and 50.0 percent, risk-free interest rate of 5.75 percent, no assumed forfeiture rate and an expected life of 1.5 years after the vesting period.

9. RELATED PARTIES (SEE ALSO NOTES 2, 8, AND 15)

Transactions between ASML and Philips are effected at market value prices.

ASML has several agreements with Philips that set forth the parties' respective responsibility for certain matters arising out of the historical operations of ASML and the formation of the Company as a holding company for ASML's operations; establish certain rights and obligations of the Company, Philips and their respective subsidiaries on a prospective basis; afford the Company continued access to Philips' research and development resources in return for fees; provide for the parties' respective rights to certain items of intellectual property.

In its ordinary course of business ASML engages in sales and purchase transactions with various companies within Philips. The following table summarizes transactions between ASML and Philips:

Year ended December 31	1997	1998	1999
ACTIVITIES:			
Purchases of goods and services	82,085	70,482	75,213
Research and development expenses	16,245	23,661	38,163
Total purchases from Philips	98,330	94,143	113,376
Sales to Philips	16,964	20,308	47,532
December 31		1998	1999
BALANCE SHEET ACCOUNTS:			
Accounts receivable		763	26,606
Accounts payable and accrued liabilities and other		4,999	16,440

10. FINANCIAL INSTRUMENTS

Financial instruments recorded on the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and convertible subordinated loans. The carrying amounts of all financial instruments approximate fair value due to the short-term nature of these instruments. The fair value of ASML's long-term debt, based on current rates for similar instruments with the same maturities, approximates the carrying amount.

ASML was not a party to any open forward contracts at December 31, 1998 and 1999.

11. COMMITMENTS AND CONTINGENCIES

ASML leases its facilities and certain equipment under operational leases. As of December 31, 1999, the minimum annual rental commitments are as follows:

2000	41,561
2001	30,727
2002	24,260
2003	21,636
2004	20,322
Thereafter	103,196
Total	241,702

Rental expense was EUR 14,709, EUR 34,445 and EUR 44,354 for the years ended December 31, 1997, 1998 and 1999, respectively.

ASML has entered into sale and leaseback transactions to lease systems manufactured by ASML, for testing and training purposes. The term of the operational lease contracts is 30 to 60 months, commencing October 1996. Rental expense for 1997, 1998 and 1999 was EUR 4,605, EUR 12,714 and EUR 18,480, respectively, for the operational lease contracts that are included in total rental expense above.

At December 31, 1999, as a part of the overall development plan, ASML has entered into agreements to expand its research and development, manufacturing and office facilities. The current and expected facility expansions will be partially financed through leasing arrangements with third parties. Minimum annual rental commitments relating to the new facilities are included in the schedule above.

Although there are no pending lawsuits against ASML regarding infringement claims with respect to any existing patents or any other intellectual property rights, from time to time certain of ASML'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. ASML has been advised that it could be obligated to pay damages to customers if use of ASML's systems by those customers were found to infringe any valid patents issued to third parties. If these claims were successful, ASML could be required to indemnify its customers for some or all of any losses incurred as a result of that infringement. In addition, Management is not aware of any other matters that could give rise to any material liability to ASML for patent infringement claims.

12. COST OF SALES

ASML has research and development agreements (TOKs) with the Government of The Netherlands, Ministry of Economic Affairs. From 1986 through 1993, credits were received to fund research and development projects for ASML's PAS 2500 or PAS 5500 wafer stepper. In 1997, 1998 and 1999 credits were received for research and development projects relating to a new generation of semiconductor lithography systems. Such agreements require that the majority of the amounts received are to be repaid, with interest, to the extent product sales occur which relate to the research. The amount of the repayment due is based on a percentage of the selling price of the product and is charged to cost of sales when such a sale is recorded. In 1997, 1998 and 1999 no repayment obligations were outstanding.

At December 31, 1998 and 1999, ASML has contingent obligations totaling EUR 12,996 and EUR 34,995 to repay TOK credits received in 1997, 1998 and 1999.

13. RESEARCH AND DEVELOPMENT CREDITS

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

Year ended December 31	1997	1998	1999
European Community/Dutch technology (JESSI / MEDEA) Subsidy	6,217	10,097	9,688
Netherlands Ministry of Economic Affairs (TOKs) credits*	4,828	9,529	17,073
Netherlands Ministry of Economic Affairs subsidy (WBSO / BTS / Stimulus)	788	6,915	5,066
European Community technology (ESPRIT-EUCLIDES / ELLIPSE) subsidy	1,780	3,424	4,301
Total subsidies and credits received	13,613	29,965	36,128

* See Note 12 of the Notes to the Financial Statements.

14. INCOME TAXES

The components of income before income taxes are as follows:

Year ended December 31	1997	1998	1999
Domestic	211,376	84,111	92,793
Foreign	10,027	5,819	25,486
Total	221,403	89,930	118,279

The Dutch domestic statutory tax rate is 35 percent. The reconciliation between the provision for income taxes shown in the consolidated statement of operations, based on the effective tax rate, and expense based on the domestic tax rate, is as follows:

Year ended December 31	1997	1998	1999
Income tax expense based on domestic rate	77,491	31,476	41,398
Non-deductible management stock compensation	1,191	0	0
Different foreign tax rates	602	413	(3,545)
Realized gain on sale of marketable securities	(4,845)	0	0
Other credits and non-taxable items	(2,330)	(3,959)	(324)
Provision for income taxes shown in the income statement	72,109	27,930	37,529

ASML's provision for income taxes consisted of the following:

Year ended December 31	1997	1998	1999
CURRENT:			
Domestic	63,235	20,988	41,207
Foreign	5,159	3,046	643
DEFERRED:			
Domestic	4,775	4,492	(9,052)
Foreign	(1,060)	(596)	4,731
Total	72,109	27,930	37,529

Deferred tax assets (liabilities) consist of the following:

December 31	1998	1999
Warranty	2,963	7,694
Accounts receivable	(4,926)	(12,557)
Inventories	(3,280)	(5,762)
Property, plant and equipment	(2,725)	(1,984)
Pensions	(377)	(96)
Other	(157)	(118)
Total	(8,502)	(12,823)

Deferred tax assets (liabilities) are classified in the consolidated financial statements as follows:

December 31	1998	1999
Deferred tax assets – current	2,963	7,694
Deferred tax liabilities – current	(8,363)	(18,437)
Deferred tax liabilities – non-current	(3,102)	(2,080)

15. MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION

ASML operates in one business segment, which is the design, production and marketing of lithographic systems for the semiconductor industry. The following table presents sales to specific customers for each of the years 1997, 1998 and 1999 that exceeded 10 percent of total net sales in such year:

Year ended December 31	1997	1998	1999
CUSTOMER:			
A	171,177	98,022	238,837
B	140,398	115,549	164,725
C	0	108,095	–

ASML markets and sells its products in the United States and Europe principally through its direct sales organization and in Asia by means of independent sales agents. ASML makes all its sales into the United States through its U.S. operation and as from January 1st, 1999 its sales into Asia through its Hong Kong operation. Intra-area sales are accounted for at prices that provide a profit and take into consideration the rules and regulations of the respective governing authorities.

The following table summarizes net sales, operating income and identifiable assets of ASML's operations in The Netherlands, The United States and Asia, the significant geographic areas in which ASML operates.

	Asia	Netherlands	United States	Eliminations	Consolidated
1997					
Net sales to unaffiliated customers	–	481,881	319,107	0	800,988
Net sales to Philips	–	15,323	1,641	0	16,964
Intra-area sales	–	306,086	0	(306,086)	0
Total net sales	–	803,290	320,748	(306,086)	817,952
Operating income	–	197,847	10,404	(1,693)	206,558
Identifiable assets	–	635,600	136,620	(108,247)	663,973
1998					
Net sales to unaffiliated customers	–	467,855	291,033	0	758,888
Net sales to Philips	–	19,165	1,143	0	20,308
Intra-area sales	–	241,659	0	(241,659)	0
Total net sales	–	728,679	292,176	(241,659)	779,196
Operating income	–	77,905	10,478	329	88,712
Identifiable assets	–	915,744	117,569	(101,570)	931,743
1999					
Net sales to unaffiliated customers	623,749	125,725	400,484	0	1,149,958
Net sales to Philips	0	35,688	11,844	0	47,532
Intra-area sales	0	899,097	0	(899,097)	0
Total net sales	623,749	1,060,510	412,328	(899,097)	1,197,490
Operating income	34,113	80,985	6,102	229	121,429
Identifiable assets	248,450	1,389,361	205,181	(177,359)	1,665,633

The following table represents export sales by ASML's Dutch operation. ASML's U.S. operation has no significant export sales.

	Europe	Asia	Total
1997			
Net export sales to unaffiliated customers	55,691	426,190	481,881
Net export sales to Philips	9,219	0	9,219
1998			
Net export sales to unaffiliated customers	54,436	413,419	467,855
Net export sales to Philips	4,609	0	4,609
1999			
Net export sales to unaffiliated customers	114,322	623,749	738,071
Net export sales to Philips	1,873	0	1,873

16. SELECTED OPERATING EXPENSES AND ADDITIONAL INFORMATION

Aggregate cash compensation paid or accrued by ASML for its management including members of the Board of Management of the Company was EUR 1,655 in 1997, EUR 2,023 in 1998 and EUR 2,224 in 1999. Amounts accrued to provide pension, retirement or similar benefits to these individuals, as a group, were EUR 185, EUR 162 and EUR 211 in 1997, 1998 and 1999, respectively. Aggregate compensation for the members of the Supervisory Board amounted to EUR 86 in 1997 and 1998 and EUR 95 in 1999. Personnel expenses for all employees were as follows:

Year ended December 31	1997	1998	1999
Wages and salaries	63,867	98,957	122,981
Social security expenses	4,822	8,482	10,743
Pension and retirement expenses	4,744	7,900	9,116
	73,433	115,339	142,840

The average number of employees during 1997, 1998 and 1999 were 1,691, 2,104 and 2,658 respectively.

The total number of personnel employed per sector were:

December 31	1997	1998	1999
Marketing & Technology	737	901	1,065
Goodsflow	503	553	674
Customer support	482	575	818
General	223	254	335
Sales	74	81	92
	2,019	2,364	2,984

In 1997, 1998 and 1999 a total of 1,641, 1,932 and 2,352 personnel were employed in The Netherlands, respectively.

17. VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

ASML relies on outside vendors to manufacture the components and subassemblies used in its systems, each of which is obtained from a sole supplier or a limited number of suppliers. ASML'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 systems ASML has been able to produce has from time to time been limited by the production capacity of Zeiss. Zeiss currently is ASML'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. In addition to Zeiss' position as ASML's sole supplier of lenses, the Excimer laser illumination systems for deep UV systems are available from a very limited number of suppliers. Additionally, certain raw materials and minerals necessary for the manufacture of certain components supplied by outside vendors may be limited from time to time. Any prolonged inability to obtain adequate deliveries from its suppliers or any other circumstance that would require ASML to seek alternative sources of supply, could adversely impact ASML's future operating results.

18. CAPITAL STOCK

Cumulative Preference Shares

In April 1998, the Company has granted to the preference share foundation Stichting Preferente Aandelen ASML ('the Foundation') an option to acquire Cumulative Preference Shares in the capital of ASML Holding N.V. ('the Company') (the 'Preference Share Option'). The object of the Foundation is to protect the interests of the Company and the enterprises maintained by it. The Cumulative Preference Shares have a higher liquidity preference and the same voting rights as Ordinary Shares. Additionally, Cumulative Preference Shares are entitled to dividends at a percentage based on the average contango rate ('prolongatie koers') determined by Euribor plus 2 percent. The Board of Directors of the Foundation is independent of ASML and is comprised of three voting members from the Dutch business and academic communities, and two non-voting members; the Chairman of the Company's Supervisory Board and the Chairman of the Company's Board of Management.

The Preference Share Option gives the Foundation the right to acquire a number of Cumulative Preference Shares equal to the number of Ordinary Shares outstanding at the time of exercise of the Cumulative Preference Share Option for a subscription price equal to their NLG 0.13 nominal value. Only one-fourth of this subscription price is payable at the time of initial issuance of the Cumulative Preference Shares. The Cumulative Preference Shares may be cancelled and repaid by the Company upon the authorization by the General Meeting of the Shareholders of a proposal to do so by the Board of Management that receives the prior approval of the Supervisory Board and of the Meeting of Priority Shareholders.

Exercise of the Preference Share Option would effectively dilute the voting power of the



Ordinary Shares then outstanding by one-half. The practical effect of any such exercise could be to prevent attempts by third parties to acquire control of the Company

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.

Per December 31, 1999, the board members were:

- Willem D. Maris
- Henk Bodt
- Arie Westerlaken
- Syb Bergsma
- Jan A. Dekker
- Peter T.F.M. Wennink

An overview of the other functions held by above persons, can be obtained at the Company's office.

Furthermore, the Company as well as the members of the board declare in accordance with Article 11 under C of the 'Bijlage X van het Fondsenreglement van AEX-Effectenbeurs' that in their opinion the composition of the board is conform Article 10 under C of the above mentioned 'Bijlage'.¹

With respect to the Priority Shares, they are not entitled to dividends but 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.

¹ Article 10 states that the issuing entity takes care that not more than half of the priority shares are being held by board members of the issuing entity or, in case the priority shares are being held by a legal entity, that not more than half of the amount of votes to be exercised in meetings of the foundation in which decisions are made about the exercise of the voting rights of the priority shares, can be exercised, directly or indirectly, by persons who are also board members of the issuing entity.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of ASM Lithography Holding N.V. and its subsidiaries (collectively, the 'Company') as of December 31, 1998 and 1999 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 1998 and 1999, and the results of its operations, comprehensive income and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of euro amounts into U.S. dollar amounts, and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 of the Notes to the Consolidated Financial Statements. Such U.S. dollar amounts are presented mainly for the convenience of readers outside the Economic and Monetary Union (EMU).

Deloitte & Touche
Accountants

Eindhoven, The Netherlands
January 19, 2000

Statutory Balance Sheets

As of December 31	1998	1999
<i>(Amounts in thousands, except share and per share data)</i>	EUR	EUR
ASSETS		
Cash and cash equivalents	39,826	472,252
Amounts due from subsidiaries	527,451	605,050
Other current assets	2,131	1,417
Total current assets	569,408	1,078,719
Investments in subsidiaries	76,449	168,961
Loans due from subsidiaries	143,989	151,930
Other assets	12,884	17,891
Total assets	802,730	1,417,501
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilities and other	5,072	7,073
Current tax liability	13,712	(10,374)
Deferred tax liability	8,363	18,437
Total current liabilities	27,147	15,136
Deferred tax liability	3,102	2,080
Convertible subordinated debt	272,268	789,033
Total liabilities	302,517	806,249
Cumulative Preference Shares, NLG 0.13 nominal value; 300,000,000 shares authorized; none outstanding at December 31, 1999	0	0
Priority Shares, NLG 0.13 nominal value; 7,700 shares authorized, issued and outstanding at December 31, 1998 and 1999	1	1
Ordinary Shares, NLG 0.13 nominal value; 300,000,000 shares authorized; 138,216,914 shares issued and outstanding at December 31, 1998 and 139,181,667 at December 31, 1999	8,154	8,211
Share premium	118,431	149,983
Accumulated earnings	372,771	453,521
Accumulated other comprehensive income	856	(464)
Total shareholders' equity	500,213	611,252
Total liabilities and shareholders' equity	802,730	1,417,501

See Notes to the Statutory Financial Statements.

Statutory Statements of Operations

For the year ended December 31 <i>(Amounts in thousands)</i>	1997 EUR	1998 EUR	1999 EUR
Net gain on sale of marketable securities	14,130	0	0
Management share compensation expense	(3,403)	0	0
General and administrative expenses	(592)	(716)	(3,231)
Net income from financing activities	18,369	6,998	9,979
Net income from holding Company activities	28,504	6,282	6,748
Net income of subsidiaries	120,790	55,718	74,002
Consolidated net income	149,294	62,000	80,750

See Notes to the Statutory Financial Statements.



Notes to the Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

The accounting policies used in the preparation of the statutory financial statements are the same as those used in the preparation of the consolidated financial statements. Please refer to the Notes to the Consolidated Financial Statements. In addition to those accounting policies, the following accounting policies for the statutory financial statements are described below.

Presentation of amounts

Amounts presented in the Statutory Statements of Operations are presented net of income taxes. The accompanying Financial Statements include the accounts of ASM Lithography Holding N.V. ASM Lithography Holding N.V. follows accounting principles that conform with those generally accepted in the United States of America.

Had ASM Lithography Holding N.V. prepared its Financial Statements following accounting principles generally accepted in The Netherlands, the Statements of Operations and the Balance Sheets would not have differed significantly from those presented herein.

Investments in subsidiaries

Investments in subsidiaries are valued using the equity method of accounting.

2. CHANGES IN NON-CURRENT ASSETS

Changes in non-current assets during 1999 were as follows:

	Investments in subsidiaries	Loans due from subsidiaries	Other assets
Balance, January 1, 1999	76,449	143,989	12,884
Additions	19,876	0	12,860
Net income of subsidiaries	74,002	0	0
Amortization	0	0	(1,203)
Repayments	0	0	(6,807)
Effect of exchange rates	(1,366)	7,941	157
Balance, December 31, 1999	168,961	151,930	17,891

3. LIST OF SUBSIDIARIES

Name	Location	% Ownership
ASM Lithography B.V.	Eindhoven, The Netherlands	100%
ASM Lithography, Inc.	Delaware, United States of America	100%
ASM Lithography SARL	Meylan, France	100%
ASM Lithography Participations B.V.	Eindhoven, The Netherlands	100%
ASML Masktools Netherlands B.V.	Eindhoven, The Netherlands	100%
ASML Korea Co., Ltd.	Pundang-Ku, Republic of Korea	100%
ASML (UK) Limited	Glasgow, United Kingdom	100%
ASM Lithography (Germany) GmbH	Dresden, Germany	100%
ASML Hong Kong, Limited.	Hong Kong, SAR	100%
ASML Italy S.r.l.	Milan, Italy	100%

Subsidiaries of ASM Lithography , Inc.:

ASML Masktools, Inc. (100%)

ASML Participations U.S., Inc (100%)

Furthermore ASML Participations U.S., Inc. has a 50% participation in e_Lith LLC.

4. ADDITIONAL INFORMATION

The additional information below includes a brief summary of the most significant provisions of the Articles of Association of ASM Lithography Holding N.V. (the 'Company').

Appropriation and determination of profits

Dividends may be payable out of annual profit shown in the financial statements of the Company as adopted by the Supervisory Board and approved by the General Meeting of Shareholders of the Company, after payment first of (accumulated) dividends on any outstanding Cumulative Preference Shares. At its discretion, however, subject to statutory provisions, the Board of Management may, with the prior approval of the Supervisory Board and the Meeting of Priority Shareholders, distribute one or more interim dividends on the Ordinary Shares before the financial statements for any financial year have been approved by the General Meeting of Shareholders. The Board of Management, with the approval of the Supervisory Board, may decide that all or part of the Company's profits should be retained and not be made available for distribution to shareholders, except for dividends on the Cumulative Preference Shares. Those profits that are not retained may be distributed to shareholders pursuant to a shareholders' resolution, provided that the distribution does not reduce shareholders' equity below the amount of reserves required by Dutch law. Existing reserves that are distributable in accordance with Dutch law may be made available to the General Meeting of Shareholders for distribution upon a proposal by the Board of Management, subject to prior approval by both the Supervisory Board and the Meeting of Priority Shareholders. As regards cash payments, the rights to dividends and distributions shall lapse

if such dividends or distributions are not claimed within five years following the day after the date on which they were made available.

The Board of Management with the approval of the Supervisory Board has decided that the Company's profits for 1999 will be retained by way of reserve and not be made available for distribution.

Voting rights

A number of special powers have been conferred to the Meeting of Priority Shareholders under the Articles of Association. Such special powers relate, amongst others, to changes to the issued capital, amendment of the Articles of Association and dissolution of the Company. All outstanding Priority Shares are held by Stichting Prioriteitsaandelen ASM Lithography Holding N.V., a Dutch foundation with a self-electing Board, consisting of members of the Board of Management and of the Supervisory Board of the Company.

The Company is subject to the relevant provisions of Dutch law applicable to large corporations ('Structuurregime'). These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of the Supervisory Board. The Supervisory Board is self-electing, however the General Meeting of Shareholders and the Works Council each have a right of recommendation and a right to object to a proposed appointment of a new member of the Supervisory Board.

Members of the Board of Management are appointed by the Supervisory Board. The Supervisory Board shall notify the General Meeting of Shareholders of intended appointments to the Board of Management.

General Meetings of Shareholders will be held at least once a year.

The Company does not solicit from or nominate proxies for its shareholders. However, shareholders and other persons entitled to attend General Meetings of Shareholders may be represented by proxies with written authority.

Extraordinary General Meetings of Shareholders may be held as often as deemed necessary by the Supervisory Board or Board of Management and must be held if the Meeting of Priority Shareholders or one or more Ordinary or Cumulative Preference Shareholders jointly representing at least 10 percent of the issued share capital make a written request to that effect to the Supervisory Board and the Board of Management specifying in detail the business to be dealt with.

Resolutions are adopted at General Meetings of Shareholders by a majority of the votes cast (except where a different proportion of votes is required by the Articles of Association or Dutch law) and there are generally no quorum requirements applicable to such meetings. Each Ordinary, Cumulative Preference and Priority Share confers the right to one vote.

Cumulative Preference Shares

See Note 18 to the Consolidated Financial Statements.

Issue of Shares

The Board of Management of the Company has the power to issue Ordinary Shares and

Cumulative Preference Shares if and insofar as the Board of Management has been designated by the General Meeting of Shareholders (whether by means of an authorizing resolution or by an amendment to the Company's Articles of Association) as the authorized body for this purpose. The Board of Management requires the approval, however, of the Supervisory Board and the Meeting of the Priority Shareholders for such an issue.

Shareholders have a pro rata pre-emptive right of subscription to any Ordinary Share issue for cash, which right may be limited or eliminated. Shareholders have no pro rata pre-emptive subscription right with respect to any Ordinary Shares issued for a contribution other than cash. If designated for this purpose by the General Meeting of Shareholders, the Board of Management has the power, on approval by the Supervisory Board and the Meeting of Priority Shareholders, to limit or eliminate such rights.

The Company may repurchase Ordinary Shares, subject to compliance with certain legal requirements. Any such purchases are subject to the approval of the Supervisory Board and the authorization of the General Meeting of Shareholders, which authorization may not be for more than 18 months.

Corporate Governance

The Company generally endorses the recommendations made in the report of the Netherlands Committee on Corporate Governance. As in the 1997 Annual Report, the Committee's recommendations are expressly taken into account at various points in this Annual Report. The Company will continue to closely monitor developments in the field of Corporate Governance in the Netherlands. A detailed overview of the Company's position on the 40 recommendations is available at the Company's offices.

In this context it should be noted that the Supervisory Board has adopted in its Rules of Procedure that it will resolve, in consultation with the Board of Management, to put on the agenda of the General Meeting of Shareholders any proposal from shareholders representing more than 1 percent of the Company's share capital, presented at least 60 days in advance of the General Meeting of Shareholders, unless substantive Company concerns prevail.

Also in this respect, in the coming General Meeting of Shareholders a proposal shall be submitted for adoption to amend the Articles of Association in order to disconnect the current link between the approval of the Company's financial statements from the discharge of the Board of Management and the Supervisory Board from liability for the performance of their duties for the past financial year.

Adoption of Financial Statements

The Board of Management will submit the Company's annual Dutch statutory accounts, together with a certificate of the auditor in respect thereof, to the Supervisory Board for adoption. Thereupon, these financial statements will be submitted to the General Meeting of Shareholders for approval.

Please refer to page 65 for the Independent Auditors' Report.

Signing of the Financial Statements

The members of the Supervisory Board and the Members of the Board of Management responsible for the signing of the financial statements are included at pages 9 and 2.

Veldhoven, The Netherlands

January 19, 2000

Independent Auditors' Report

Introduction

We have audited the 1999 financial statements of ASM Lithography Holding N.V., Eindhoven. 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 audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in 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 changes made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements of ASM Lithography Holding N.V. give a true and fair view of the financial position of the Company as of December 31, 1999 and of the net income for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code.

Deloitte & Touche
Accountants

Eindhoven, The Netherlands
January 19, 2000

Glossary of Terms

DEEP ULTRAVIOLET ('DUV') - Output of light from an excimer laser centered at 193 or 248 nanometers.

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

DRAM - Dynamic Random Access Memory, a type of IC.

ELLIPSE - Excimer Laser Lithography Processing for the Subquartermicron Era.

ESPRIT - European Strategic Programme for Research and development in Information Technologies.

EXCIMER LASER - Typical illumination source used in deep ultraviolet lithography systems.

GALLIUM ARSENIDE - A semi conducting material like silicon, used as a basis to create IC's for specific applications like high frequency or optical. Examples are IC's for communications or LED's.

i-LINE - Output of light energy from a mercury arc lamp centered at 365 nanometers.

IC - Integrated Circuit, semiconductor or chip.

JESSI - Joint European Submicron Silicon Initiative.

MEDEA - Micro Electronics Development for European Applications.

MERCURY ARC LAMP - Typical illumination source used in i-line lithography equipment.

MICRON (μM) - One millionth of a meter, or one thousandth of a millimeter.

NANOMETER (nm) - One billionth of a meter, or one thousandth of a micron.

OPC - Optical Proximity Correction, correcting the pattern on the mask in such a way that the imaging of structures with a very small resolution is improved.

PHASE SHIFT MASK - Mask that selectively shifts the phase of the light to enable the printing of smaller structures.

RESOLUTION - Refers to feature size, geometries or line widths being printed by the lithography system 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 lithography systems. Usually part of a reticle set, a serie of reticles each of which contains the pattern to be imaged for a particular level of a process.

THIN FILM HEAD - Magnetic heads for reading and writing amongst others harddiscs, also manufactured with lithographic processes.

THROUGHPUT - Number of wafers that can be processed by a wafer stepper or Step & Scan system 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. In the future also 12 inch-wafers will be used.

YIELD - The ratio of working dies on a wafer with respect to the total available dies per wafer.

Information and Investor Relations

FINANCIAL CALENDAR

March 23, 2000
General Meeting of Shareholders
at the Evoluon,
Noord Brabantlaan 1a in Eindhoven,
The Netherlands

July 19, 2000
Announcement of semi-annual results for 2000

January 18, 2001
Announcement of annual results for 2000

FISCAL YEAR

ASML's fiscal year ends at December 31.

LISTING

The Ordinary Shares of the Company are listed on the official market of the Amsterdam Exchanges (AEX) and the New York shares of the Company are listed on the Nasdaq Stock Market® (NASDAQ) in the United States, both under the symbol 'ASML'.

INVESTOR RELATIONS

ASML Investor Relations will supply information or further copies of the original English Annual Report as well as copies of the Dutch translation. In case of different interpretation between these versions, the English version prevails. Copies of other publications (i.e. Semi-Annual Reports or the Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and the Amsterdam Exchanges) can also be obtained free of charge at the offices of ASML. The English version of the Annual Report and the Semi-Annual report are also available on the ASML website (<http://www.asml.com>).

ASM Lithography Holding N.V.

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