

ASML

**ASML's
approach to tax
2021**



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Our approach to tax

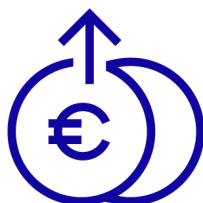


We consider the taxes that we pay a contribution to the communities in which we operate and an integral part of our responsibility for social value creation. Openness and transparency on how we operate and our approach to tax is important to us, which is supported by our sustainability strategy and our overall business strategy.



€1,235m

Income tax paid
 €818m Netherlands
 €215m US
 €93m Taiwan
 €41m South Korea
 €24m China
 €44m Rest of the world



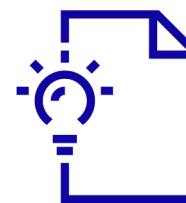
15.2%

Effective tax rate
 (13.7% in 2020)



11,831 FTE

R&D located in:
 72% Netherlands
 21% US
 3% Taiwan
 0% South Korea
 3% China
 1% Rest of the world



14,935

IP portfolio patents owned:
 95% Netherlands
 0% US
 5% Taiwan
 0% South Korea
 0% China
 0% Rest of the world

Our leading principle is that our tax position is a reflection of our business operations, being the sale of lithography systems and related products and services, supported by our manufacturing and R&D activities. Since the start of the company, ASML has a straightforward operating model, with our campus in Veldhoven, the Netherlands, at the heart of our global operations.

The operating model described below is critical in understanding ASML's tax position.

Of ASML's global work force, 55% is located in the Netherlands, 20% in the US region, 24% in Asia and 1% in EMEA (excl. the Netherlands). Of all senior management roles 70% is based in the Netherlands. This reflects the fact that ASML Netherlands is actively leading and controlling the group's activities, performance and risks.

With regard to R&D activities, 72% of our R&D employees are located in the Netherlands. The remaining part is mainly employed by our legal entities in the US and the rest is scattered over other locations. The costs of our US and other foreign R&D organizations are borne by ASML in the Netherlands, and 95% of our patents is owned by ASML Netherlands. During the 2000-2020 period, ASML Netherlands bore approximately €16.7bn of R&D costs, an average of more than 15% of our yearly revenue in that period.

All our lithography machines are assembled in Veldhoven, whereas a significant percentage of the parts are being supplied by our ecosystem of suppliers in the Netherlands, Europe and the US. Some modules and metrology systems are manufactured by our factories in the US and Taiwan. Generally our new lithography machines are shipped directly from the Netherlands to our customers once they are ready.

Currently, our customers are mainly based in four locations: Taiwan, South Korea, China and the US. Our operations in those countries contribute to our sales and customer service efforts. In general the leading roles for our sales and customer services activities are based in Veldhoven.

The compensation of the ASML activities in the countries where we are active is a fair reflection of the operating model in line with local laws and international standards. Where possible we have agreed (or are in the process of agreeing) the level of remuneration of our activities with local tax authorities. Furthermore we have processes and controls in place to monitor various taxes, such as customs, value-added tax (VAT), corporate income tax (CIT) and withholding tax (WHT). Our approach to tax is regularly discussed with senior management. Training is provided within ASML on a regular basis to emphasize the importance of compliance with laws and regulations.

Key data of five most significant country of operations

Country	FTE	% of total ASML employee population	% of ASML R&D employees	% of ASML Senior Staff located	% of ASML patents owned
Netherlands	16,858	55 %	72 %	70 %	95 %
United States	6,182	20 %	21 %	19 %	— %
Taiwan	3,672	12 %	3 %	4 %	5 %
South Korea	1,858	6 %	— %	3 %	— %
China	1,351	4 %	3 %	2 %	— %
Rest of the world	921	3 %	1 %	2 %	— %
Total	30,842	100 %	100 %	100 %	100 %

Our tax principles

The following principles guide us in how we report and pay tax in the countries we operate in:

1. We act in accordance with the letter and the spirit of tax laws and regulations.
2. We report taxable income in a jurisdiction commensurate with the added value of the business activities in that jurisdiction.
3. ASML's profit allocation methods are based on internationally accepted standards as published by the OECD, as well as relevant rules and regulations in the local jurisdictions we operate in.
4. We pursue an open and constructive dialogue with the tax authorities in the jurisdictions we operate in, based on mutual respect, transparency and trust, disclosing all relevant facts and circumstances. We do not use tax structures intended for tax avoidance, nor will we engage in the artificial transfer of profits to low tax jurisdictions.
5. We do not operate in tax havens (as defined by the European Commission's 'blacklist') other than for ASML business purposes.
6. We make tax disclosures in accordance with reporting requirements, US GAAP and IFRS.

Our tax strategy

ASML's tax strategy is based on our tax principles and is closely aligned to our business strategy and our sustainability goals. It is approved by the Board of Management and is aligned with our accountability for ASML's Tax & Customs affairs.

We focus on:

- Our role in managing all our stakeholders. From an external perspective with tax authorities and regulators, but also investor communication. Internally, in supporting our business in managing risks, being in control and at the same time remain efficient in its administrative procedures and way of working. We work in an integrated way with other experts within ASML.
- The future of taxation, which includes developments in ESG (including Tax Transparency) and Tax technology.
- Compliance & Control: This includes the development, implementation and monitoring of processes and controls for appropriate tax risk management and reporting purposes. Furthermore through the timely and accurate fulfillment of tax compliance obligations in line with applicable tax laws and regulations (incl. timely payment of taxes due).
- Projects: Every year our business changes and the regulatory environment in which we operate changes. We work on projects that deal with these changes to ensure the solutions implemented are compliant and efficient. Likewise we continuously strive for simplification and review existing business models for compliancy.
- The ASML Tax & Customs organization. In this fast changing world it is important to have a diverse team, which can handle change and are more than just good tax and customs experts. Communication, digital and project management skills are becoming increasingly important. We strive to work together and develop each other in line with the ASML values (Collaborate, Challenge and Care).

Tax transparency and stakeholder engagement

In addition to our compliance with disclosure and reporting requirements, such as the mandatory disclosure of country-by-country reporting to the Dutch tax authorities, we consider it our responsibility to be transparent about our fiscal footprint.

In this respect, ASML supports and participates in transparency initiatives such as the Dow Jones Sustainability Index (DJSI) and the Tax Transparency Benchmark of the Dutch Association of Investors for Sustainable Development (VBDO).

In recent years, a number of national and international regulations have led to significant enhancements in corporate tax transparency. In addition to country-by-country reporting, this includes the implementation of the European DAC 6 Directive.

We seek an open dialogue with our stakeholders, including relevant tax authorities, our shareholders, customers, business partners, employees, governments, regulators, non-governmental organizations and the communities in which we operate. This includes Business at OECD and VNO/NCW in the Netherlands. Furthermore, we have regular discussions with stakeholders on the topic of tax in relation to ASML's ESG framework.

Across all our activities, we derive significant insights from the diverse stakeholders we engage with, listen to and learn from. We are seeking to intensify our stakeholder dialogues in order to align our approach to tax with our stakeholders' expectations on a continuous basis.

Tax risk management and governance

Tax risk management

ASML's approach to tax risk management is consistent with and embedded in ASML's general approach to risk management. We actively and continuously identify, assess, monitor and manage tax risks to ensure that they remain in line with our business and strategic objectives, taking into account ASML's appetite towards tax risks.

We ensure effective tax risk management via the following means:

- a. All tax-related topics are handled by tax experts that are highly qualified, with an in-depth tax and business expertise
- b. ASML has implemented a governance framework that ensures appropriate processes and organizational structures to identify, assess, monitor and manage tax risks at different levels of the ASML organization
- c. ASML's uniform and well-established reporting processes ensure internal communication of any tax risks within different risk categories (strategic, financial, operational or reputational risk). Next to our quarterly SOX-compliant tax risk reporting procedures, we also have our quarterly Tax Risk Committee meeting to discuss new and existing risks.
- d. The efficiency of the tax risk management process is continuously monitored by ASML's Tax & Customs team via institutionalized oversight processes.

ASML's appetite for tax risks is low. We aim to be clear about all aspects of our tax position and to share these in a transparent manner, fostering a relationship of honesty, transparency and trust with the tax authorities. The latter is reflected in the number of bilateral advance pricing agreements (BAPA) we have with the tax authorities in our significant jurisdictions. Where necessary, we seek assistance and advice from external consultants.

Further enhancements in the tax risk management process and insurance of sufficient level of controls in daily tax operational processes is subject to continuous improvement and regular dialogue with ASML's Risk & Business Assurance department.

Tax governance

ASML's Board of Management is ultimately responsible for ASML's approach to tax. The tax function is embedded in the ASML finance organization and is therefore within the responsibility of the Chief Financial Officer of ASML. ASML's Head of Tax & Customs regularly informs the Board on key strategic tax topics, including updates on tax developments within or around the ASML organization and potential implications for ASML.

Regular updates on all material tax topics and their current and future impact on ASML's financials are provided by the ASML Tax & Customs organization to internal stakeholders via regular tax update meetings.

The Audit Committee of the Supervisory Board (SB) reviews our tax strategy and annually confers with our tax professionals to discuss tax policies and the impact of tax laws and regulations on ASML.

Tax functions

Within the ASML Group, the Tax & Customs department is responsible for tax consulting and tax risk mitigation processes following from ASML business developments, tax planning and analysis of e.g. changes in tax laws and regulations, as well as the (periodic) review of tax returns and tax and customs compliance related processes.

The ASML Tax Accounting & Tax Compliance team is responsible for determination of ASML's tax position under the various reporting standards which are applicable to the ASML Group (US GAAP, IFRS, Local GAAP), the preparation of tax returns of the ASML Group companies (such as VAT, CIT and WHT) as well as execution of other related compliance activities, such as country-by-country reporting, transfer price calculations, etc.

Tax & Customs has organized its teams in a matrix organization that ensures appropriate coverage of all the tax and customs affairs in the countries in which the ASML Group companies are located. Central teams are located in the Netherlands (responsible for the tax and customs affairs of the Dutch ASML Group companies as well as for the rest of Europe), Hong Kong (responsible for all group companies in the Asian region) and the US (responsible for the US). These central teams work closely together with expertise teams for VAT, Customs and transfer pricing, as well as with the Tax Accounting & Tax Compliance teams in the local countries.

Since we believe that tax should not be managed in isolation, the Tax & Customs function is part of the Expert Advisory organization, where Tax, Treasury, Accounting and Legal teams work closely with the business in an organized way.

Regular country-specific and international tax expert meetings facilitate the continuous interaction and coordination between our central and local tax functions. Together with standardized tax risk reporting procedures, this also ensures that local tax risks are assessed from a Group perspective and are appropriately reported to and overseen by the Tax & Customs function.

Tax automation

We aim to continuously improve our tax processes through simplification and automation. We already use software to support US sales and use tax obligations. In 2021, we successfully implemented tooling to validate global VAT implications from an accounts payable perspective with a clear roadmap for further enhancements. Additionally, further automation to support the group tax accounting processes is expected to go live in the first half of 2022. This also applies to automation capabilities to perform and monitor global

transfer pricing calculations. Furthermore, we have implemented robotics solutions for data gathering and processing purposes, dashboarding capabilities to facilitate tax risk management and monitor global tax compliance obligations, and tooling to manage DAC 6 reporting.

Stakeholder dialogue and advocacy

Tax compliance

As an international organization, ASML has operations all over the world. Paying taxes and compliance with the relevant laws and regulations in the jurisdictions that we operate in are part of our overall business principles and codes.

All key operating entities have a tax team of leading professionals with in-depth tax expertise who work closely together with local stakeholders both within as well as outside the ASML organization.

The complete, accurate and timely preparation and submission of all required tax returns is subject to clear internal rules and processes. This is equally true for the correct and timely payment of taxes.

We aim for certainty about our tax positions and seek internal or external advice to review and validate our positions where appropriate. In cases in which our assessment and that of the authorities do not match, we give early notice of possible divergent opinions in order to prevent misunderstandings.

If we seek decisions from tax authorities to confirm applicable tax treatment, we do so on the basis of full disclosure of all relevant facts and circumstances. ASML has committed itself to trustworthy and transparent communication with the tax administration. Possible violations of the ASML Code of Conduct as well as laws or regulations including tax laws can be reported anonymously (as part of the ASML whistleblower policy).

In 2021, we have been able to close off discussions with the Dutch tax authorities on the corporate income tax returns filed for the Dutch fiscal unity for the full years 2016 and 2017, and agreed on an approach for swift conclusion on the remaining open years.

Managing our tax position

Our tax activities are conducted with the clear understanding that all facts and circumstances have to be disclosed to the tax authorities.

We seek efficiency in tax matters, including the prevention of double-taxation, following reasonable interpretation and application of tax rules. We do not engage in aggressive tax planning or artificial structuring that lacks business purpose or economic substance.

We refrain from discretionary tax arrangements. If jurisdictions offer tax incentives that are publicly available and rule-based, for example to promote a country's economic development and our business activity is within their scope, they are carefully considered. Yet, it depends on the specific needs of our business operations and the overall fit with our investment or business strategy whether such tax incentives are eventually claimed.

No specific tax planning events have been initiated in 2021. Focus is on ensuring compliance and meeting our responsibilities as a responsible tax payer. From this perspective, we continuously monitor developments in tax legislation in the countries in which we operate as well as global developments from, amongst others, an OECD and sustainability perspective.

Transfer pricing

International activities and transactions with and between Group subsidiaries are disclosed to the relevant tax authorities as part of our tax returns or other filing requirements. For instance, in many countries, cross-border business relations with affiliated parties are subject to detailed documentation requirements, including their pricing and comparison basis known as master file, local file and country-by-country reporting. We ensure that the pricing for intra-group activities is consistent with the OECD arm's length principle as well as with local transfer pricing rules to pay adequate tax on profits where the value is created. We are committed to complying with the regulations of every tax jurisdiction in which we operate regarding the transfer pricing documentation and notification requirements.

Agreements with tax authorities in relation to transfer pricing are in place for several jurisdictions, amongst others the Netherlands, US, Taiwan and Japan which we are continuously monitoring and pro-actively drive for renewal/prolongation where necessary. Dialogues with the Chinese tax authorities to align on the remuneration for our sales entity in China have been initiated. We have the ambition to conclude an agreement in the course of 2022.

Additionally, we are pro-actively and continuously monitoring global developments in relation to Pillar 1 and Pillar 2 in order to assess potential implications for ASML and impact on consolidated ETR.

Activities in tax havens

As a general rule ASML does not have activities in tax haven jurisdictions. We consider the countries as published on the 'black list' and 'grey list' by the EU, as an indication for a tax haven. Contemplated acquisitions or investments in tax haven jurisdictions need preclearance from ASML Tax & Customs department in close consultation with ASML's Board of Management.

Tax regimes and incentives

To foster innovation, we make use of incentives that have been introduced in the countries in which we operate.

Many jurisdictions stimulate Research & Development (R&D) activity that yields technological innovation and its positive spin-off effects for the economy at large. This is, for instance, done by effectively lowering the tax on income arising from certain intellectual property.

Technology development is a key competitive success factor and growth driver for ASML. ASML performs R&D activities mostly in the Netherlands and the United States. If and to the extent that ASML's activities qualify for tax incentives in this domain, we make use of these incentives.

- **Innovation box regime in the Netherlands**

In the Netherlands, ASML applies certain wage tax and corporate income tax incentives. For corporate income tax, the so-called 'innovation box regime' that is available under Dutch tax law, which taxes the qualifying income associated with at 9% (instead of the general corporate income tax rate of 25%).

The application of the Dutch innovation box regime to the qualifying taxable profit has been agreed with the Dutch tax authorities. This provides certainty for both parties and reduces the risk of future disputes. This agreement applies through the year 2023 assuming that underlying facts and circumstances do not change.

As the innovation box is the main driver of the lower effective tax rate than the Dutch statutory rate, ASML is continuously monitoring developments in this regard and pro-actively involved in stakeholder dialogues. Discussions with the Dutch tax authorities for prolongation of the agreement will be initiated in 2022.

- **Export activities from the United States**

The US government aims to strengthen the economy by encouraging export trade while also discouraging businesses from moving activities and jobs outside of the US. In the spirit of increasing the competitiveness of US-based companies, the US tax code provides for certain deductions or lower tax rates when certain requirements are met. Introduced in 2017 and available in 2018, the Foreign Derived Intangible Income (FDII) deduction provides an incentive to US domestic corporations in the form of a lower tax rate on income derived from tangible and intangible products received in, and services benefiting foreign markets.

ASML has significant business activities in the US that export tangible property and provide services to foreign recipients, and accordingly generate income that qualifies for the FDII tax deduction.

For more information on the above items, we also refer to the financial details in the next section.

Financial information for FY 2021

Income taxes according to Group financials

In the below, we have included an overview of the revenues, Income before income taxes, income tax accrued (based on our US GAAP Group financials) as well as income taxes paid for our most significant jurisdictions.

Income tax profile per significant country

(€, in millions)	Netherlands	US	Taiwan	South -Korea	China
Total net external sales	69	1,635	7,355	6,256	2,673
Total net internal sales	19,388	2,213	1,651	571	266
Income before income taxes	5,983	297	56	183	39
Income tax expense (actual) ¹	894	(54)	17	60	14
Income tax paid ²	818	215	93	41	24

1. Income tax expense (actual) concerns the total current & deferred tax expense/benefit accrued

2. Income tax paid concerns the actual income tax paid in 2021

Significant deviations of the effective tax rate from the expected tax rate are especially due to the following reasons:

- The Netherlands: The lower effective tax rate of 14.9% compared to the Dutch statutory tax rate of 25.0% is mainly driven by application of the innovation box.
- USA: The low effective tax rate of 18.0% (negative) compared to the expected tax rate of 24.1% is to the main extent driven by tax benefits resulting from the Foreign Derived Intangible Income (FDII) deduction and R&D credits for research and development activities performed in the US.

For more background on the nature of these items we refer to the section Tax regime and incentives above.

The €1,235 million of income taxes paid in 2021 for the consolidated group are not equal to the total income tax expense of €1,021 million recorded in our 2021 Group financials. This is due to a number of reasons:

- a. The income tax expense is based upon the accrual accounting concept that allows for the allocation of a tax expense to the same period in which the underlying taxable item is realized. Contrary to that, income taxes paid during a financial year may include payments or refunds relating to prior financial years, and may exclude final payments or refunds that occur in the next financial year.
- b. The Income before income taxes in our financial statements may differ from the taxable income reported in tax returns. These differences result in deferred taxes in the financial statements to reflect any future taxable events (2021: deferred tax benefit €367 million).
- c. Certain income taxes have to be booked directly in equity in case the underlying results have been recognized in equity as well.

Total tax contribution

This section provides enhanced reporting information of taxes borne and collected by ASML. We are continuously improving our reporting processes in order to be able to increase our transparency with respect to taxes borne and taxes collected split by countries. Further enhancements are aimed to be put in place for reporting year 2022.

Taxation of business activities

Next to income taxes paid, we also contribute to society by means of other type of taxes which we are due as a tax payer or as an intermediate. In the below we have included information for our most significant countries about where, for what and to what amount we are taxed. Hereby our total tax contribution can be split into taxes borne (by ASML as a taxpayer) and taxes collected (by ASML as an intermediate) that we remit to tax authorities specifically for our employees or service providers.

Taxes borne by ASML

Taxes borne by ASML mainly relate to corporate income taxes that we pay on taxable profits generated from operational activities, being sales of lithography systems and related products and services. Such supported by our manufacturing and research & development activities. The profits derived by these operations from a value chain perspective are subject to tax at the income tax rates applicable in the country of operation.

Additionally, in several countries we pay withholding taxes upon distribution of dividend or payment of license and/or service fees to our centralized functions.

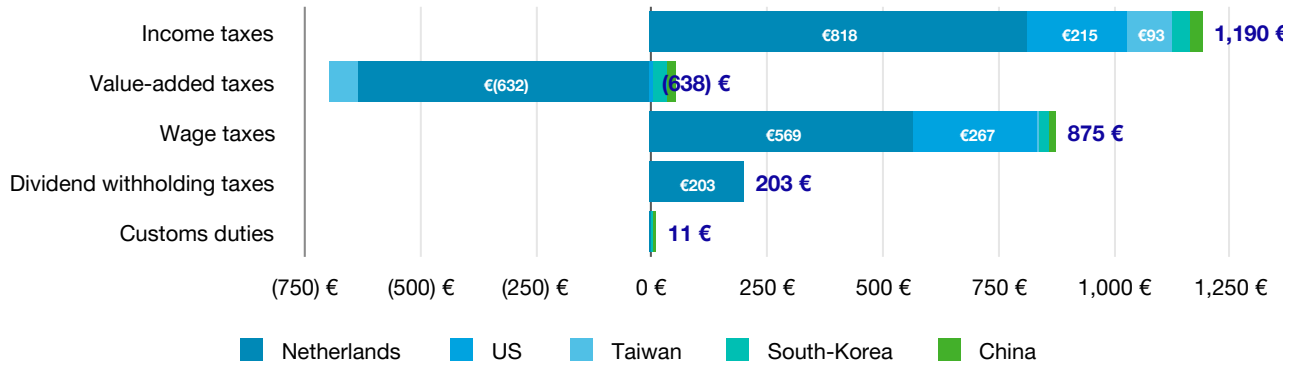
Furthermore we bear costs resulting from other tax types such as non-recoverable value added tax (VAT) on purchased services, customs duties, employer share in wage taxes, stamp duties and several smaller items.

Taxes collected and remitted by ASML

As a company we are obliged to collect and remit taxes for certain activities. The most relevant taxes collected and remitted relate to salaries paid to our employees (wage taxes), VAT and withholding tax upon distribution of dividend to our shareholders.

Taxes paid/collected for our top five countries are as follows:

Taxes paid / collected (€ in million)



As can be derived from the graph above, most significant amounts are paid/collected in the Netherlands, which is in line with the central/head office role of the Netherlands within our organization. Amounts paid/collected at local level are increasing, commensurate with the growth of our business activities in those local jurisdictions and are expected to increase further in view of anticipated further growth of the organization.