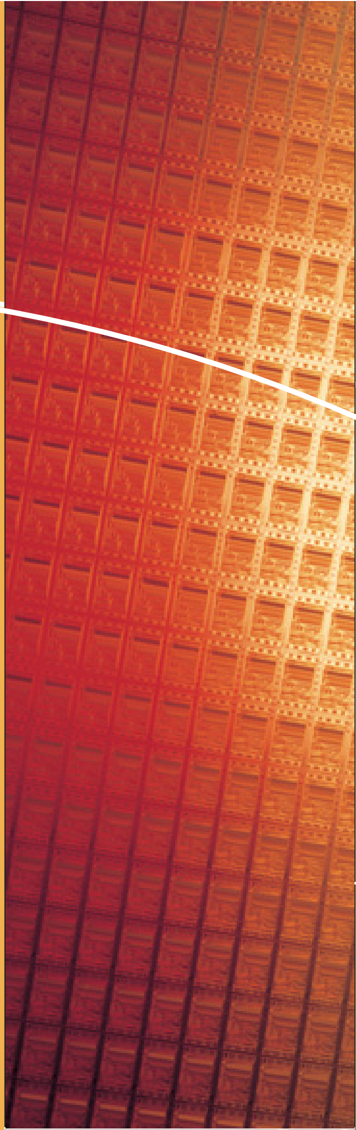

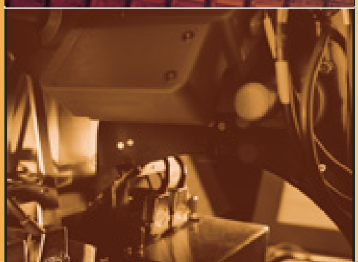

2006 Statutory Annual Report

The Process of Innovation℠

ASM International

2006 Statutory Annual Report

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ASM

In the more than 35-year history of our Company, ASM International N.V. has witnessed the evolution of the semiconductor equipment industry, from two inch wafers of the late 1960's, to the 300mm wafers of today. Symbolic of these products is the silicon crystal… the basis of the ASM International logo.

Trademarks

ASM, the ASM International logo, A600 UHV, Advance, Aurora, Carbonspeed, Coppermine, Dragon, Eagle, Epsilon, Levitor, Polygon, Pulsar, Rapidfire, and Silcore are our registered trademarks. A400, A412, A4ALD, ALCVD, Atomic Layer CVD, CarbonPLUS, Eagle TRIDENT, EmerALD, New Technology, PEALD, Pore Builder, SiGePLUS, SmartBatch, Stellar and Superfill CVD are our trademarks, and The Process of Innovation is our service mark.

AB500B, DRYLUB, EQUIPMANAGER, IDEALine, IDEALsystem, IDEALab, IDEALNet, PGS, SMARTWALK, and SOFTEC are registered trademarks of ASM Pacific Technology Ltd. Eagle60, Harrier, Hummingbird, IDEALmold, Osprey, and TwinEagle are trademarks of ASM Pacific Technology Ltd.

Safe Harbor Statement

In addition to historical information, this Annual Report contains statements relating to our future business and / or results, including, among others, statements regarding future expenditures, sufficiency of cash generated from operations, maintenance of majority interest in ASM Pacific Technology Ltd., business strategy, product development, product acceptance, market penetration, market demand, return on investment in new products, facility completion dates and product shipment dates, and any other non-historical information in this Annual Report. These statements include certain projections and business trends, which are “forward-looking” within the meaning of the United States Private Securities Litigation Reform Act of 1995. You can identify these statements by the use of words like “may”, “could”, “should”, “project”, “believe”, “anticipate”, “expect”, “plan”, “estimate”, “forecast”, “potential”, “intend”, “continue” and variations of these words or comparable words. Forward-looking statements do not guarantee future performance and involve risks and uncertainties. You should be aware that our actual results may differ materially from those contained in the forward-looking statements as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, economic conditions and trends in the semiconductor industry and the duration of industry downturns, currency fluctuations, the timing of significant orders, market acceptance of new products, competitive factors, litigation involving intellectual property, shareholder and other issues, commercial and economic disruption due to natural disasters, terrorist activity, armed conflict or political instability, epidemics and other risks indicated in our Annual Report on Form 20-F for the year ended December 31, 2006 and other filings from time to time with the SEC. We assume no obligation nor intend to update or revise any forward-looking statements to reflect future developments or circumstances.

US GAAP Annual Report

The Consolidated Financial Statements included in this Statutory Annual Report are prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union. These accounting principles are different from accounting principles generally accepted in the United States of America (“US GAAP”), which are the accounting principles followed by ASM International N.V. as a listed company on NASDAQ Global Select Market in the United States of America. The 2006 Annual Report, prepared in accordance with US GAAP, is available free of charge by writing to our corporate offices, e-mail to *investor.relations@asm.com* or through our website *www.asm.com*. An explanation and a reconciliation of the differences between US GAAP and IFRS is included in Note 27 to the Consolidated Financial Statements.

	Year ended December 31,	
(millions, except per share data and full-time equivalents)	2005	2006
	EUR	EUR
Operations:		
Net sales:	726.4	**876.0**
Front-end	359.6	**407.9**
Back-end	366.8	**468.1**
Earnings from operations	30.8	**122.5**
Net earnings (loss) allocated to shareholders of the parent	(36.6)	**36.0**
Balance sheet:		
Net working capital (1)	233.6	**226.0**
Total assets	813.2	**845.3**
Net debt (2)	84.2	**6.3**
Backlog:	221.9	**234.3**
Front-end	135.4	**155.5**
Back-end	86.5	**78.8**
Number of staff:		
Full-time equivalents:	9,451	**10,868**
Front-end	1,691	**1,860**
Back-end	7,760	**9,008**
Per share data:		
Net earnings (loss) allocated to shareholders of the parent per share:		
Basic	(0.69)	**0.67**
Diluted	(0.69)	**0.67**
Weighted average number of shares used in computing per share amounts (in thousands):		
Basic	52,638	**53,403**
Diluted	52,638	**53,575**

(1) Net working capital includes accounts receivable, inventories, other current assets, accounts payable, accrued expenses, advance payments from customers and deferred revenue.
(2) Net debt includes long-term debt, convertible subordinated debt and notes payable to banks, less cash and cash equivalents.

ASM International N.V. ("ASMI") is a leading supplier of semiconductor equipment, materials and process solutions addressing both the wafer processing and assembly and packaging markets. Our customers include all of the top semiconductor device manufacturers in the world.

Mission and Strategy

ASMI's mission is to provide our customers with the most advanced, cost-effective, and reliable products, service and global support network in the semiconductor industry and beyond. We advance the adoption of our new technology platforms by developing new materials and process applications that progressively align ASMI with our customers' long-term technology roadmaps.

Our strategic objective is to realize profitable, sustainable growth by capitalizing on our technological innovations, manufacturing infrastructure and sales and support offices close to our global customers. This includes:

- realizing profitable growth for our front-end segment and sustained solid profitability for our back-end segment;
- executing a vertically-integrated manufacturing model in front-end based on back-end's highly-successful blueprint;
- maintaining our global reach through operating, sales and service facilities in key parts of the world;
- leveraging our strong technology portfolio in both front-end and back-end for product and process advancements early in the lifecycles of significant new technologies and for the coming revolution to a heterogeneous integration environment; and,
- expanding the scope and depth of our research and development capabilities through strategic alliances with major organizations and companies in our industry and of our intellectual product portfolio through licensing programs.

Wafer Processing

ASMI participates in three distinct front-end manufacturing processes: wafer manufacturing, transistor formation, and interconnect. By building upon our core strengths in Vertical Furnaces, Epitaxy, and PECVD technologies, as well as our newer platforms in atomic layer deposition and RTP, today we address all of the critical areas driving the semiconductor industry roadmap: silicon-on-insulator (SOI) and strained silicon, high-k gate stacks, shallow junctions and silicides, low-k and interconnect, leading the industry transition to smaller line-widths and better transistors.

Assembly and Packaging

ASM Pacific Technology Ltd. ("ASMPT"), our 53-percent owned back-end subsidiary, is the world's largest assembly and packaging equipment supplier for the semiconductor industry and is a leading supplier of stamped and etched leadframes. With headquarters in Hong Kong, and operations in the People's Republic of China, Singapore and Malaysia, ASMPT offers the most comprehensive leading edge portfolio for all of the major process steps in back-end, from die attach through encapsulation. In addition to the semiconductor industry, ASMPT's geographic and technologically diversified customer base encompasses the photonic and optoelectronics industries.

Global Operations

With corporate headquarters in Bilthoven, the Netherlands, ASMI operates manufacturing facilities in the Netherlands, the United States, Japan, Hong Kong, the People's Republic of China, Singapore, Malaysia, with design, research and development centers in Europe, North America, and Asia, and our sales and service operations spanning 18 countries across the globe. Our workforce totals more than 10,000 worldwide. ASMI trades on the NASDAQ stock market under the symbol "ASMI", and on Euronext Amsterdam under the symbol "ASM". ASMPT trades on the Hong Kong Stock Exchanges under the code 0522.

ASMI Product Portfolio: The Process of Innovation

Wafer Processing

ASMI's comprehensive suite of tools and materials for processing of wafers containing nano-scale features offers our customers industry-leading performance, productivity, and reliability.

Advance 400 Series Vertical batch processing systems - Our batch processing product portfolio -- featuring the A412 for 300mm and the A400 for 200mm, Smart Batch for variable loads of 1 to 50 wafers, and the A4ALD for batch ALD applications for DRAM -- has made ASMI one of the leading suppliers of Vertical Furnaces to the industry.

Levitor RTP systems - A revolutionary Rapid Thermal Processing system using a floating wafer concept that provides uniform, emissivity independent heating for 200mm and 300mm wafers. The unparalleled temperature uniformity can improve the yield on sensitive, nano-scale devices.

Epsilon single wafer epitaxial systems - Our suite of Epsilon tools enables multiple applications of silicon and silicon alloys, and features the Epsilon 2000 and 3000 series for 200 and 300mm processing respectively. In 2006, we introduced our newest model, the dual chamber Epsilon 3220, enabling lower cost per wafer processing for strained silicon and other applications.

Eagle and Dragon PECVD systems - Our single wafer plasma deposition systems -- featuring our Eagle 10 for 200mm and Eagle 12 Rapidfire for 300mm wafer processing -- are used to deposit low-k and conventional dielectric films. The Dragon 2300 provides high wafer throughput in a small footprint, very efficient two chamber platform.

Polygon and Stellar single wafer ALCVD systems - ASMI's world leading single wafer Atomic Layer CVD product portfolio includes the Polygon for 200 and 300mm ALD for high-k gatestack and flash applications, and the Stellar, introduced in 2006, for 200 and 300mm Plasma Enhanced ALD capacitor applications in embedded DRAM and analog devices.

Assembly and Packaging

As the number one supplier, ASMI offers customers the broadest range of innovative assembly and packaging products and customer support -- the total packaging solution.

Leadframes - Our stamped and etched leadframes offer high-density capability, super fine pin count, and are customized to production needs. ASMI pioneered leadframes for QFN packaging used in mobile devices.

Wafer Bumper - Hummingbird, our innovative solution for wafer level stud bumping, with unique features for copper bumping.

Die Bonders - Our market-leading die bonders address both semiconductor and optoelectronic markets, for applications in 300mm, BGA, image sensor, and stacked die, and include our AD900 high-speed flip chip die bonder series for advanced IC applications.

Wire Bonders - ASMI's line of wire bonders features the award-winning Eagle family of high output gold wire bonders, and the ultrasonic wedge bonders for LED and COG applications. Our advanced platforms include the ultra fine pitch Eagle60AP for 30 micron pad pitch advanced packages; the ultra-high speed TwinEagle60 for 180-percent capacity; the Harrier, for mixed wire bonding, and the iHawk high performance bonder for discrete applications.

Molding Systems - Our molding platforms feature the Osprey, our award-winning ultra-high density molding system, offering high flexibility, low cost-of-ownership, and the smallest footprint in the industry, and IDEALmold, our standalone or in-line high volume encapsulation system.

High speed trim and form systems - ASMI's post-encapsulation systems are of various configurations and can handle various packages for processing QFN, Chip Array or CSPBGA packages.

Test Handlers - This line features carrier-based parallel testing for advanced applications such as BGA, QFN, and QFP.

The IDEALine - The industry's only in-line factory automation system combines all back-end processing steps, from die and wire bonding, to post mold curing. A flexible modular system, it offers significant cycle time reduction, and reliability improvement for test, assembly, and packaging.

2006 At A Glance

Our corporate performance in 2006 is built upon ASMI's strategic initiatives over the last 5 years that have expanded our markets and customer base, reduced our manufacturing costs, and sharpened our product's leading edges. Here are some headlines from 2006:

Corporate Performance

- Our front-end heads toward sustainable profitability with double-digit EBITDA, and gross margin improvement.
- We continue to build upon the operational success of FEMS, our front-end manufacturing facility in Singapore, established in 2004 with the support of back-end. Today, we produce a large number of generic Vertical Furnace and Epitaxy subsystems in Singapore, contributing to front-end gross margins.
- Our back-end reported the second-highest revenues in history as it celebrates 31 consecutive years of profitability, extending its lead as the world's best-performing packaging and assembly organization.
- We closed our NuTool subsidiary, selling substantially all its IP portfolio.
- We reinstituted the use of short-term credit lines in the normal course of front-end business by securing a 50 million, 4-year bank credit facility in Europe.

Product Highlights

In 2006, our established front-end products passed several important milestones, increasing their worldwide installed base, while our ALCVD products, ALD and PEALD, won strategic market acceptance to soon become our 4th core portfolio. In back-end, we expanded production facilities in Asia in response to growing demand for our innovative, high-performance tools and total solutions. At the same time, we advanced the development of next generation of tools.

- **Vertical Furnaces** - Our Vertical Furnaces win three new customers for high volume manufacturing, reaching a global installed base of over 1200, as we extend our A412 success, from 90 and 65 nm, to the 45 nm technology node at several leading semiconductor manufacturers worldwide.
- **PECVD** - Aurora low-k extends to the 45 nm device node following our successful integration at 90 and 65 nm, and the Dragon 2300 PECVD system wins multiple orders for flash memory applications.
- **Epitaxy** - Building upon our leadership in strained silicon, we expand our installed base of Epsilon tools for CMOS strain applications.
- **ALCVD** - We augment our pioneering ALD portfolio for high-k dielectric transistor applications, introducing the Stellar 3000, a multi-chamber, single-wafer PEALD tool for production of high-k dielectric films for capacitors.
- **Wire Bonders** - We launch our enhanced Twin Eagle dual-head gold wire bonder that improves output by 50-percent while maintaining the same footprint and manufacturing overhead, making major inroads in this market.
- **Flip-Chip Bonders** - We penetrate major device manufacturers with our innovative product line.
- **Die Bonders** - We expand our facilities in Shenzhen, and launch several new models that improve productivity by 30 percent, as we maintain our number one position in the segment.
- **Molding Systems** - Our award-winning Osprey flexible molding system, introduced in 2005, wins several new accounts.
- **Leadframes** - We achieve record leadframe billings for the second consecutive year, as we complete the restructuring of our Malaysian facilities.

Industry Recognition

In 2006, we again received honors from our customers and peers, extending our industry reputation for award-winning products and customer satisfaction to the IP arena.

- In its first study, IEEE Spectrum ranks ASMI among the top 10 global companies for the value of its IP portfolio, and its impact on the Company and its industry.
- Once again, ASMI ranks among VLSI's top ten large equipment manufacturers for customer satisfaction in both wafer processing and assembly.
- ASMI's Osprey molding system joins the list of back-end's award-winning products, capturing Semiconductor International Magazine Editors' Choice Best Product Award.

Throughout 2006, ASMI continued to execute its long-term corporate plan. We made consistent progress in bringing front-end operations to sustainable profitability, expanding the application of core wafer process technologies, and establishing a low-cost vertically integrated manufacturing base. Our back-end operation, 53-percent owned ASM Pacific Technology Ltd., again reported outstanding results, solidifying its position as the world's leading manufacturer of assembly and packaging equipment.

In both segments, we successfully implemented our strategy to penetrate new markets and enlarge our addressable markets with a broad range of enabling product offerings. While we list accomplishments for the past year, our real achievements are cumulative -- the products of diligent work year after year -- and continue to position ASMI ahead of technology and market transitions.

Over the past few years, ASMI has led the market in establishing strained silicon and low-k as production techniques. Today, ASMI remains in the forefront of bringing new materials and processes to our industry where demands for miniaturization, speed, and increased functionality in consumer products are guiding the industry to smaller line widths at 65, 45, and 32 nanometers, 4 to 8 gigabit memories, increased frequency, and limited power density.

As the only major semiconductor equipment manufacturer with both front-end and back-end competencies, ASMI holds a unique industry position that is an integral part of our growth strategy, and one which we believe gives us a true advantage going forward - particularly in the next major transition to 3-D technologies, where ASMI is already breaking ground.

2006 Operating Results

Both front-end and back-end segments delivered solid top-line growth in 2006. Front-end reached a record sales level of € 407.9 million while back-end reported its second best year in history, with sales of € 468.1 million, behind only the extraordinary performance of 2000. Sales were well balanced in the year between first and second half, affirming once again that the combined effect of ASMI's wafer processing and assembly and packaging operations can offset some industry cyclicality.

In front-end operations, our established product lines: Epitaxy, Vertical Furnaces, and Plasma-Enhanced CVD (PECVD), overall maintained their patterns of profitability. Significant in 2006 was our ability to reduce operating losses associated with products in development, at the same time keeping our commitment to delay the introduction of new product lines until all outstanding issues of our existing products in development are resolved. In particular, we closed our subsidiary ASM NuTool and sold its patent portfolio. As a result, the net loss from front-end operations was reduced substantially in 2006, from € 87.4 million in 2005, to € 27.4 million. Reflecting our back-end operation's solid profitability, ASMI reported net earnings of € 0.67 per share.

ASMI's Competitive Advantage

ASMI is uniquely positioned for future growth. Serving diversified market segments in front-end and back-end with the most innovative, reliable, and cost-efficient products reduces the effect of cyclical factors, and has enabled ASMI to gain strategic market share. In 2006, both our front-end and back-end segments demonstrated:

- *Compelling product portfolios*
- *Expanded addressable markets*
- *Growing critical mass in Asia*
- *Industry recognition*

Compelling Product Portfolios

ASMI's most compelling story is our outstanding product platforms in core deposition, assembly and packaging technologies that provide a strong foundation for our technology leadership.

In 2006, our profit-making wafer processing product lines: Epitaxy, Vertical Furnaces, and PECVD, scored several strategic wins in 200mm and 300mm. Atomic layer deposition, a key process in nanotechnology applications, is well on its way to becoming our fourth core product, supported by the introduction of our Stellar 3000, a multi-chamber single wafer PEALD tool that was shipped to strategic customers in the fourth quarter.

Back-end's suite of award winning assembly and packaging tools, from die and wire bonders, to molding and trim and form, continue to lead the market in performance and cost-of-ownership. Equipment revenues once again outperformed the industry, while the materials segment delivered record revenues, generating more than 20-percent of back-end sales for the year.

Expanded Addressable Markets

ASMI increased the size of our addressable markets in 2006 by broadening the applications of existing technologies and platforms, and expanding our installed base into new markets.

While the logic device segment has historically been the principal market for ASMI's front-end technologies, in 2006 we captured significant share in the memory market. Since entering Taiwan's foundry sector with our first large wins in 2005, we have added more major players to our customer base. In 2006, we also won business at Korean memory suppliers, particularly in the fast-growing DRAM and NAND flash segments, by offering new process capabilities on the same platforms used by logic manufacturers. Our wins in Korea augment our presence in Asia -- the fastest growing region for semiconductor and consumer end-use electronics production.

Alongside our geographic penetration in the semiconductor industry, ASMI is expanding its product range in related markets. In 2006, we gained strength in the magnetic head market, and are positioned to becoming a leading supplier of atomic layer deposition equipment in this substantial non-IC market.

With Asia representing over 90 percent of turnover in 2006, our back-end segment today addresses advanced technologies for the semiconductor and related markets in this growing region. That includes offerings for applications such as CMOS image sensors, power LED, SD memory cards, chip-on-glass (COG), and package-on-package (POP). That no one customer accounts for more than 10 percent of back-end revenues reflects the diversity of our customer base. Back-end's strategy for continued growth is to provide integrated packaging solutions, pursue product adjacency, and introduce more value-innovative products -- such as the image sensor assembly line -- that create uncontested new market space for its products.

Growing Critical Mass in Asia

Developing critical mass in Asia for front-end technologies is a major element in the Company's long-term model - and one that draws upon back-end's 30 years of experience and leadership in the region.

The success of ASMI operations in Asia is a result of our superior product designs' productivity and low cost-of-ownership. It also reflects back-end's support, based on three decades of experience in the region -- its know-how in accessing, understanding, and sharpening front-end's competitiveness in this major market. We believe that our combined operations in Asia make ASMI a formidable factor in the region today.

Our FEMS (Front-end Manufacturing Singapore) program is a crucial element in our long-term strategy for growth, profitability, and Company value. ASMI is one of the first non-Asian companies to locate a major wafer process equipment manufacturing facility in Asia. Here we are also capitalizing on the semiconductor industry trend to develop new wafer processing technologies, production tools, and manufacturing techniques in close collaboration with equipment suppliers.

Our back-end infrastructure -- over two million square feet of facilities in Hong Kong and Shenzhen, China, Singapore, and Malaysia -- supports manufacturing for our extensive equipment and leadframe product line. In 2006, the completed expansion of our leadframe production capacity in China and Malaysia has already yielded dividends. Additional benefits are also being realized from the Malaysian facility that will further improve cost-competitiveness, and expand the output of QFN etched frames. In order to meet market demand for molding systems and test handler products, our back-end operation leased additional space during the year, a 120,000 sq. ft. premises adjacent to the Fu Yong, Shenzhen, China factory, for parts fabrication and assembly. This frees up much-needed space in the Shaotaojiao, Shenzhen, China plant for additional capacity in bonder manufacturing supporting our growth in this segment.

Industry Recognition

Among the honors ASMI received in 2006 was recognition by IEEE Spectrum in their list of the world's top 10 patent portfolios. The study compared over 1,000 organizations based on the value of their patent portfolios, and their impact on the company and their respective industries. ASMI was the only European company and one of only two semiconductor equipment companies to rank in the global top 10.

Top 10 Patent Companies, 2005

Rank	Company / Country	Industry	US Patents
1	Micron Technology, Inc., United States	Semiconductor Manufacturing	1569
2	IBM Corp., United States	Computer Systems & Software	2972
3	Hewlett-Packard Co., United States	Computer Systems & Software	1810
4	Intel Corp., United States	Semiconductor Manufacturing	1553
5	Broadcom Corp., United States	Semiconductor Manufacturing	419
6	Applied Materials Inc., United States	Semiconductor Equipment Manufacturing	371
7	Microsoft Corp., United States	Computer Systems & Software	780
8	Delphi Technologies Inc., United States	Automotive and Parts	413
9	ASM International N.V., The Netherlands	Semiconductor Equipment Manufacturing	109
10	Hitachi Ltd., Japan	Electronics	1941

Published in IEEE Spectrum, Vol. 43, no. 11, International Edition, November 2006, pp.36-39.

Executing the Vertical Manufacturing Model

In the coming year, ASMI will undertake the next steps in implementing the vertically integrated model - the blueprint of back-end's outstanding success -- throughout our front-end manufacturing operations.

The success of the FEMS operation, launched in 2004 with the initial transfer of experienced back-end management and engineering staff, owes much to back-end's critical support -- from engineering to supply-chain development, and personnel recruitment. Going forward, the Company plans to utilize our combined front-end and back-end engineering teams to optimize low-cost, manufacturing techniques to create smarter engineering designs, and execute back-end's highly successful vertically-integrated business model in front-end. At the same time, front-end operations will continue to benefit from the lower cost structure in Southeast Asia -- a major factor in back-end's historic margin strength.

Heterogeneous Integration

Looking further ahead, we believe ASMI is in an ideal position to address the coming convergence of front-end and back-end process steps with the arrival of 3-D technologies.

In addition to current cost-driven synergies, ASMI believes the future of our industry will show significant product-driven synergies between front-end and back-end -- another competitive advantage for ASMI. With the increasing demand for denser connectivity in devices, the industry is trending toward 3D technology that will require a convergence of wafer processing and assembly and packaging processes. These combined capabilities will be necessary for both high-end integrated circuits, as well as image sensors, memories, automotive applications, and biosensors.

In the year, initiatives on convergence gained momentum with several industry announcements introducing new structures, such as tri-gates and Finfets, as well as formalized research programs that are addressing the integration of front-end and back-end technologies in new wafer package designs. ASMI is ideally situated to benefit from this industry progression.

ASMI's Value Proposition

ASMI's top priority is to execute long-term growth by maximizing profitability in front-end, and optimizing value from our current product portfolio and organization in both our front-end and back-end operations.

In 2006, we realized the positive results of concrete steps taken over the past years to improve front-end's operating performance and make it financially independent. We transferred select manufacturing functions to Singapore, reduced capital spending, tightened cost controls, and reduced working capital; we also reduced R&D expenditures as new products matured. In addition, we closed our loss-making NuTool copper metallization operation, selling the related IP while retaining a license to use the technology in the field of packaging technology.

Dividend Policy

We have not paid dividends in any prior year.

We believe that future dividends received from ASM Pacific Technology (“ASMPT”), our 53-percent owned subsidiary, are no longer required for investment in our front-end business. The front-end business is now considered financially independent based on the positive momentum in the front-end business and our confidence in its future performance.

In November 2006, we announced a flexible stance with respect to our utilization of dividends received from ASMPT. For dividends received in the years 2007 through at least 2009, we intend to use ASMPT dividends for one or more of the following:

- reduction in our outstanding convertible debt,
- repurchase of our shares,
- payment of cash dividends to our common shareholders,
- purchase of ASMPT shares to maintain our ownership at the November 2006 level.

In order to maximize shareholder value and strengthen our financial position, our Supervisory and Management Boards have a preference at this time to employ the ASMPT dividends to: (i) repurchase a portion of our outstanding convertible debt, (ii) buy back common shares, and/or (iii) purchase additional ASMPT shares. Therefore, the paying of cash dividends is less likely to take place in the immediate period ahead. We will determine the specific application of the ASMPT dividends as and when the dividends are received.

Exceptional Talent Base

ASMI's legacy of innovation depends upon our most valued resource: our more than 10,000 worldwide employees. We extend our gratitude to each one for their dedication, teamwork, and individual contributions throughout the year. We applaud their commitment to our customers and suppliers, and to maintaining strong values in a highly competitive environment.

Management Evolution

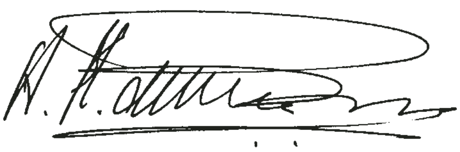
As of December 31, 2006, Patrick Lam retired from the Company, after 31 years at the helm of ASM Pacific Technology, as Managing Director and co-founder. Part of his extraordinary legacy was ensuring a smooth succession by putting in place a highly skilled management team, headed by W.K. Lee as Chief Executive Officer. The team is committed to stimulating company growth, and adjusting to new challenges while preserving core company values. We wish Patrick all the best in his retirement, and we look forward to working with W.K. Lee and his team.

Outlook

As we enter 2007, we remain confident of our corporate strategy. During the past year, we had the opportunity to reiterate that strategy for our investors, and are pleased that our 2006 results validate our commitment to restoring sustainable front-end profitability, and the unique growth proposition afforded by our business model.

As a global enterprise, ASMI is committed to all of our stakeholders: shareholders, employees, suppliers, customers, and the communities in which our operations are located. We are dedicated to providing the right enabling technologies to the fast changing semiconductor industry. And we are working on many fronts to deliver enhanced value to our shareholders.

We are targeting profitability in our front-end operations for 2007. That achievement, combined with our industry-leading back-end operations, positions ASMI for a dynamic future as the industry aligns for tremendous advances in the years ahead. We look forward to the challenges and opportunities, and we thank you for your ongoing interest and support.



Arthur H. del Prado
President and Chief Executive Officer

Bilthoven, the Netherlands
April 18, 2007

Financial Statements

We herewith present to you the 2006 Statutory Annual Report, including the Annual Accounts as prepared by the Management Board and reviewed by the Supervisory Board. Deloitte Accountants, our independent auditors, have audited these Annual Accounts and issued an unqualified opinion. Their report appears on page 92 of the 2006 Statutory Annual Report. We recommend that the General Meeting of Shareholders approves the Annual Accounts and discharges the members of the Management Board for their management as well as the members of the Supervisory Board for their supervision during the financial year 2006.

Supervision

Supervision of the Management Board, its policy decisions and actions is entrusted to the Supervisory Board. As prescribed by Dutch law, which requires that the Board of Directors have a two-tier structure, the Supervisory Board is a separate body, independent of the Management Board.

Meetings of the Supervisory Board

During 2006, the Supervisory Board met with the Management Board on ten occasions. The principal topic of discussion in these meetings was to restore profitability for front-end operations. Central to the ongoing review and discussion were several current programs, including: the transfer of selected manufacturing functions to the Company's facility in Singapore; a focus on tighter internal controls; and a reduction of R&D and capital spending. In the year, the Supervisory Board also helped to initiate programs to improve the results of product lines in development, which included the sale of ASM NuTool's patent portfolio. The resulting combined activities contributed to the improvement in front-end results for the year.

Also under review in 2006 was the Company's overall strategy, as the Supervisory Board examined ongoing operations, business risks, product and market developments, Company organization, management, and financial performance. Current developments within the Company were also considered in depth, including: present financial structure; developments in corporate governance and reporting requirements, particularly those required by section 404 of the Sarbanes-Oxley Act; the merits of the Company's business model and associated concerns raised by a number of shareholders; the composition of the Supervisory Board and the Management Board; and other strategic and operational issues.

The Supervisory Board once again acknowledged the record of strong financial results from the Company's back-end operations. Following the announcement that Mr. Patrick Lam See Pong, co-founder and CEO of ASM Pacific Technology Ltd., would retire, effective December 31, 2006, the Supervisory Board expressed its gratitude to Mr. Lam for his outstanding stewardship of ASM Pacific Technology during his three decades with the Company. Under his leadership, ASM Pacific Technology has grown from a zero base, to become the largest and most profitable semiconductor assembly and packaging equipment company in the industry.

On one occasion during the year, the Supervisory Board met without the Management Board present to discuss: the functioning of the Supervisory Board and its individual members; the relationship between the Supervisory and Management Boards; the composition of the Management Board, its performance, and the performance of its individual members.

Corporate Governance

Among the responsibilities of the Supervisory Board is to oversee the Company's compliance with corporate governance standards and best practices in the United States and the Netherlands. The Supervisory Board believes that the Company complies with the Sarbanes-Oxley Act and several corporate governance requirements and best practices set out by NASDAQ, the U.S. Securities and Exchange Commission (“SEC”), and the Dutch Corporate Governance Code, apart from those discussed in the Corporate Governance section which follows this report.

Supervisory Board Composition

At the Annual General Meeting on May 18, 2006, shareholders voted to reappoint Mr. E.A. van Amerongen to the Supervisory Board, and appoint Mr. B.C. Brix to the Supervisory Board. At the Extraordinary Meeting of Shareholders on

November 27, 2006, Mr. H.W. Kreutzer was appointed to the Supervisory Board, succeeding Mr. J. den Hoed, who resigned following medical advice.

The Board acknowledges that Mr. P. C. van den Hoek, as a partner of Stibbe, ASMI's external legal counsel in the Netherlands, is not considered to be independent, according to the Dutch Corporate Governance Code. Under NASDAQ regulations, however, he is considered independent. All other members of the Board are considered to be independent under both the Dutch Corporate Governance Code, and NASDAQ regulations.

Management Board Composition

At the Annual General Meeting on May 18, 2006, Messrs. C. (Chuck) D. del Prado, President and General Manager of ASM America, and J. (Han) F.M. Westendorp, Chief Operating Officer front-end operations, were appointed to the Management Board.

Mr. Lee Wai Kwong (W.K. Lee), who has succeeded Mr. Patrick Lam See Pong as Chief Executive Officer and Group Managing Director of ASM Pacific Technology, was appointed to the Management Board, effective January 1, 2007. Mr. Lee has served ASM Pacific Technology for over 25 years. Prior to his appointment, he was General Manager and Managing Director of ASM Pacific Technology's Southern Region for 16 years.

Supervisory Board Committees

Audit Committee

The role of the Audit Committee is described in its charter, which is available on the Company's website, www.asm.com. The Audit Committee currently consists of Mr. van den Boom (Chairman), Mr. Brix, and Mr. Kreutzer.

During the year, the Supervisory Board Audit Committee held six meetings with the Management Board and Deloitte Accountants, the Company's independent auditors. Audit Committee discussions included: the Company's internal risk management systems; progress in implementing the requirements by section 404 of the Sarbanes-Oxley Act; the Company's financing program; the application of accounting principles; the appointment of Deloitte Accountants; the audit performed, and its findings; the Annual Report and Annual Accounts; and the quarterly progress reports prepared by the Management Board. In addition, the Audit Committee participated in a training session on Sarbanes-Oxley section 404 requirements.

On one occasion, the Chairman of the Audit Committee met with Deloitte Accountants, without the members of the Management Board present, to discuss the audit scope and approach, the independence of Deloitte Accountants, and the auditors' performance. Furthermore, the entire Audit Committee met once with the Management Board without Deloitte Accountants to discuss the auditors' performance.

Nomination, Selection and Remuneration Committee

The role of the Nomination, Selection and Remuneration Committee is described in its charter, which is available on the Company's website. In general, the Committee advises the Supervisory Board on matters relating to the selection and nomination of new Management Board members, as well as the remuneration of the members of the Management Board. This Committee consists of Mr. van Amerongen (Chairman), Mr. Danneels, and Mr. van den Hoek.

In 2006, the Nomination, Selection and Remuneration Committee held two meetings. During these meetings, members of the Management Board were present, except on the occasion when their own remunerations were discussed.

The Nomination, Selection and Remuneration Committee also reports to the Supervisory Board on an annual basis regarding the application of the Remuneration Policy in the previous year, and the Remuneration Policy for upcoming years.

The remuneration of the members of the Management Board is disclosed in Note 25 “Board Remuneration” of the Statutory Annual Report 2006. The remuneration of the members of the Management Board during 2006 is not, at this time, fully in accordance with the Remuneration Policy. Deviations are mainly due to the fact that elements of remuneration were agreed upon with individual members of the Management Board prior to finalization and acceptance of the current Remuneration

Policy. The Company will attempt to achieve full compliance with the Remuneration Policy within a period of a year. The Remuneration Policy for the Management Board has been submitted to, and adopted by, the 2005 Annual General Meeting of Shareholders.

Word of Thanks

The foundation of our Company's strength - our growing leadership in the assembly and packaging segment, and the ongoing improvements in our wafer processing activities - is built upon the skill and resourcefulness of our dedicated staff. Our employees design and develop, produce and service equipment and process solutions for our distinguished global customer base. We extend our gratitude to all our employees worldwide for their service and contributions to the Company throughout 2006.

Supervisory Board

P.C. van den Hoek, Chairman
E.A. van Amerongen
L.P.E.M. van den Boom
B.C. Brix
J.M.R. Danneels
H.W. Kreutzer

Bilthoven, the Netherlands
April 18, 2007

General

As we are listed on the NASDAQ Global Select Market ("NASDAQ") as well as on Euronext Amsterdam, we are required to comply with the Sarbanes-Oxley Act and several corporate governance requirements and best practices set out by NASDAQ, the U.S. Securities and Exchange Commission ("SEC") and the Dutch Corporate Governance Code.

At ASMI, we are committed to upholding high standards in corporate governance and ethics practices. We believe our numerous internal policies and procedures provide structure for the operation of ASMI that is consistent with the best interests of our shareholders and customers as well as the requirements of the law. We endeavor to ensure that our policies and procedures comply with both U.S. and Dutch corporate governance requirements, to the extent possible and desirable. In this report, we discuss our corporate governance structure in accordance with the Dutch Corporate Governance Code.

We will discuss any material changes in our corporate governance structure in our Annual General Meeting of Shareholders. Corporate governance related documents are available on our website, including the Supervisory Board Profile, Supervisory Board Rules, Management Board Rules, the Audit Committee Charter, the Nomination, Selection and Remuneration Committee Charter, the Code of Ethics, the Whistleblower Policy, the Rules concerning Insider Trading and the Remuneration Policy.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code contains principles and best practices for Dutch companies with listed shares and requires companies to either comply with these best practice provisions or to explain why they deviate from it. Our corporate governance policies with respect to the implementation of the Code were discussed with our shareholders in our 2005 and 2006 Annual General Meetings of Shareholders, including those best practice provisions that we did not comply with. We currently comply with the principles and best practice provisions of the Dutch Corporate Governance Code, except for the following:

Rule II.1.1 - Management Board terms

The appointments to the Management Board of Mr. A.J.M. van der Ven in 2005 and Mr. C.D. del Prado and Mr. J.F.M. Westendorp in 2006 as well as the appointment of Mr. W.K. Lee in 2006 effective 1 January 2007, followed the 4 year term, as recommended by the Dutch Corporate Governance Code. The appointment of Mr. A.H. del Prado, which runs for an indefinite period of time and which already existed before 2005, will not be amended.

Rule II.2.6 - Reporting of trading in Dutch listed companies

The members of our Supervisory Board and Management Board are aware of the limitations under Dutch and U.S. law that apply to trading in listed securities when one is in the possession of material non-public information. We believe that additional quarterly internal reporting by these persons of all trading in securities of all Dutch listed companies would be a significant additional administrative burden without eliminating effectively the possibility of misuse. We have therefore made our Rules concerning Insider Trading as well as our Supervisory Board Rules and Management Board Rules even more explicit on this topic to reflect the spirit of this requirement, but we do not intend to start a formal additional quarterly reporting system.

Rule II.2.7 - Maximum severance for Management Board members

In general, we agree with the Dutch Corporate Governance Code that in most circumstances a maximum severance payment of one year for Management Board members is appropriate. However, we want to reserve the right to agree to different amounts in case we deem this to be required by the circumstances. Any deviations will be disclosed to the Annual General Meeting of Shareholders.

Rule II.2.8. - Loans and guarantees

ASMI's remuneration policy does not allow personal loans to members of the Management Board. Prior to adopting this policy, ASMI made a loan to its Chief Executive Officer in connection with the exercise of stock options. This loan is secured by shares received in the stock option exercise.

Rule III.3.4 - Limitation on Supervisory Board memberships

Mr. P.C. van den Hoek currently holds more supervisory board memberships than recommended by the Dutch Corporate

Governance Code. As the availability of a Supervisory Board member is not determined by the number of other memberships of boards and as the workload of board memberships in listed companies can vary greatly, we follow a different and more qualitative criterion for the limitation of supervisory board memberships. Instead of following the recommendation of the Dutch Corporate Governance Code of a limitation of five supervisory board memberships, we are of the opinion that Supervisory Board members should limit the number and nature of their positions so as to ensure due performance of their duties as a Supervisory Board member. None of the other members of the Supervisory Board holds more supervisory board memberships than recommended by the Dutch Corporate Governance Code.

Rule III.3.5 - Supervisory Board terms

As ASMI wanted to continue to benefit from the valuable expertise and experience of Mr. P.C. van den Hoek and provide continuity within the Supervisory Board, it was proposed in 2005 to reappoint Mr. P.C. van den Hoek to the Supervisory Board for another 4 year term, despite the fact that he has been member of the Supervisory Board since 1981. Our current Articles of Association, as approved by our shareholders at the extraordinary meeting of shareholders of November 27, 2006, now prescribe a maximum term of 12 years in accordance with the Dutch Corporate Governance Code.

Rule IV.1 - Dismissal of Management Board and Supervisory Board members

Dismissal of a Member of the Management Board or the Supervisory Board, other than in accordance with a proposal of the Supervisory Board, shall require the affirmative vote of a majority of the votes cast at a General Meeting of Shareholders, which affirmative votes represent more than half our issued capital. By following this procedure, we wish to maintain the same procedure for dismissal as for appointment. Furthermore we think that at least 50 % of the issued capital plus one vote should decide on dismissal of a member of the Management Board or the Supervisory Board at a relatively modest sized company as ASMI. Following the approval of our shareholders in November 2006, we have amended our Articles of Association to reflect this procedure.

Management Board

Responsibilities

In addition to the duties of the Management Board stipulated by law and our Articles of Association, the Management Board has the following responsibilities:
- achieving the aims, strategy and policy and results of the Company in consultation with the Supervisory Board;
- managing the risks associated with the activities of the Company;
- ensuring proper financing of the Company; and
- establishing and maintaining disclosure controls and procedures which ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and accuracy of the external financial reporting are achieved.

The Management Board shall be guided by the interests of the Company, taking into consideration the interests of all stakeholders.

The members of the Management Board are collectively responsible for managing the Company. They are collectively and individually accountable to the Supervisory Board and the General Meeting of Shareholders for the execution of the Management Board's responsibilities. The Management Board has the general authority to enter into binding agreements with third parties.

The Management Board shall ensure that the Company has an adequate functioning Internal Risk Management and Control Framework. The Management Board shall periodically discuss with the Supervisory Board and the Audit Committee the internal risk management and control systems, including any significant changes that have been made and any major improvements that are planned.

The Management Board shall timely provide to the Supervisory Board all information that they reasonably require for the fulfilment of their obligations and the exercise of their powers.

The Management Board shall timely provide to the General Meeting of Shareholders all information that they reasonably require for the fulfilment of their obligations and the exercise of their powers, unless this would be contrary to an overriding interest of the Company. If the Management Board invokes an overriding interest, it must give reasons.

The Management Board is responsible for the quality and completeness of financial and other reports, which are publicly disclosed by or on behalf of the Company, including all reports and documents the Company is required to file with regulatory agencies.

Conflicts of interest

Each Management Board member shall immediately report any potential conflict of interest to the Chairman of the Supervisory Board and to the other Management Board members. A Management Board member shall in such case provide the Chairman of the Supervisory Board and the other Management Board members with all information relevant to the conflict and the procedures as set out in the Management Board Rules will be followed.

Appointment, suspension and dismissal

The Supervisory Board nominates candidates for each vacant seat on the Management Board and new members are appointed by the General Meeting of Shareholders. Persons nominated by the Supervisory Board to be appointed by the shareholders to the Management Board are elected if they receive a majority of the votes cast at a meeting of shareholders. Nominees to the Management Board who are not proposed by the Supervisory Board are appointed if they receive the affirmative vote of a majority of the votes cast at a meeting, which affirmative votes represent more than half our issued capital.

A Management Board member may at any time be suspended by the Supervisory Board. A Management Board member may, in accordance with a proposal of the Supervisory Board, be dismissed by the General Meeting of Shareholders with a majority of the votes cast. A resolution to suspend or to dismiss a member of the Management Board, other than in accordance with a proposal of the Supervisory Board, shall require the affirmative vote of a majority of the votes cast at a meeting, which affirmative votes represent more than half our issued capital.

Remuneration

The remuneration of individual members of the Management Board is decided upon by the Supervisory Board on the recommendations by the Nomination, Selection and Remuneration Committee of the Supervisory Board and is based on the Company's Remuneration Policy. Our Remuneration Policy was last adopted by the General Meeting of Shareholders in 2005. The remuneration structure includes five elements: base salary, annual incentive (bonus), long term incentive (stock options), pension and other arrangements. The remuneration structure mirrors short-term and long-term elements of the responsibilities of members of the Management Board.

ASMI has adopted a stock option plan, which has been submitted to and adopted by the General Meeting of Shareholders at the 2001 Annual General Meeting of Shareholders. This plan has been extended for a five years period ending 2011, at the 2006 Annual General Meeting of Shareholders.

For further information regarding the remuneration of the Management Board, reference is made to the Remuneration Policy, the Remuneration Report 2006, the Report of the Supervisory Board 2006, which is included in our Statutory Annual Report 2006, and to Note 25 “Board Remuneration” of the Statutory Annual Report 2006.

Internal Risk Management and Control Framework

The Management Board is responsible for designing, implementing and operating an adequate functioning Internal Risk Management and Control Framework in the Company. The objective of this Framework is to identify and manage the strategic, operational, financial, financial reporting, and compliance risks to which the Company is exposed, to promote effectiveness and efficiency of the Company's operations, to promote reliable financial reporting and to promote compliance with laws and regulations. The Management Board is aware that such Framework can neither provide absolute assurance that its objectives will be achieved, nor can it entirely prevent material errors, losses, fraud and the violation of laws and regulations. For an overview of our risk factors, see the Management Report in our Statutory Annual Report 2006.

Our Internal Risk Management and Control Framework is based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The COSO framework aims to provide reasonable assurance regarding effectiveness and efficiency of an entity's operations, reliability of financial reporting, prevention of fraud and compliance with laws and regulations.

Our Internal Risk Management and Control Framework has the following key components:

Responsibilities

The Management Board is responsible for designing, implementing and operating an adequate functioning Internal Risk Management and Control Framework in the Company. Management of our subsidiaries is responsible for managing performance, risks and effectiveness of its operations, within guidelines from the Management Board, and supported and supervised by ASMI Holding departments.

Authorization matrix

Management of risks is supported by a matrix of authorization limits for management of our subsidiaries with respect to expenditures and commitments.

Planning and control cycle

The planning and control cycle starts with an annual business plan and budget approved by the Management Board and the Supervisory Board. Business plan and budget include clear objectives, performance indicators and target setting, which provide the basis for monitoring performance compared to business plan and budget. Business plan and budget are followed up by quarterly forecasts. The Management Board monitors performance, both operational and financial, on a monthly basis, which includes discussion with management of the operating units. In addition, performance and action plans are discussed in quarterly operational reviews at the operating units.

Each quarter the actual performance of our operating units compared to budgets and long term strategic plans are discussed with the Audit Committee and the Supervisory Board. In these meetings progress on specific programs as cost reduction and working capital management are also discussed.

Code of Ethics, Whistleblower Policy, Anti Fraud Code

Our Code of Ethics is applicable to all of our employees, including our Chief Executive Officer, Chief Financial Officer and controllers. It is designed to promote honest and ethical conduct and timely and accurate disclosure in our periodic financial reports.

Our Whistleblower Policy provides for the reporting of alleged violations of the Code of Ethics and alleged irregularities of a financial nature by Company employees or other stakeholders to the Management Board and/or the Supervisory Board without any fear of reprisal against the individual that reports the violation or irregularity.

We are in the process of implementing an Anti Fraud Code.

Environment, Health and Safety Procedures

We have embedded various procedures concerning environment, health and safety in most of our operations. With respect to safety procedures, material safety incidents are monitored and reported to the Management Board.

Disclosure Controls and Procedures

We have extensive guidelines for the lay-out and the content of our annual reports. These guidelines are primarily based on applicable laws. We apply the requirements of the U.S. Securities and Exchange Act 1934 in preparing our Annual Report on Form 20-F, and prepare the financial statements included therein in accordance with US GAAP. We follow the requirements of Dutch laws and regulations in preparing our Statutory Annual Report, and prepare the financial statements included therein in accordance with IFRS. With respect to the preparation process of these and other financial reports, we apply internal procedures to safeguard completeness and correctness of such information as part of our disclosure controls and procedures. The Disclosure Committee, consisting of senior managers from various functional areas within the Company, assists the Management Board in overseeing the Company's disclosure activities and to ensure compliance with applicable disclosure requirements arising under U.S. and Netherlands law and regulatory requirements. The Disclosure Committee obtains information for its recommendations from the operational and financial reviews, letters of representation which include a risk and internal control self assessment, input from the documentation and assessment of our internal controls over financial reporting and input from risk management activities during the year.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures and recommendation by the Disclosure Committee, concluded that as of December 31, 2006 our disclosure controls and procedures were effective.

Policies and procedures

We have implemented financial policies and procedures, including accounting policies and a standard chart of accounts, information technology policies and procedures and non-financial policies and procedures to ensure control by the Management Board over the Company's operations. Managing directors and finance directors of our main subsidiaries annually sign a detailed letter of representation to confirm compliance with financial reporting, internal controls and ethical principles.

Risk Management and Internal Controls

To embed the Internal Risk Management and Control Framework in the Company in order to comply with section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"), we further enhanced in 2006 our identification and assessment of our strategic, operational, financial, financial reporting, and compliance risks. We further expanded our risk management policies, documented our internal controls both on the transaction level and the entity level and assessed such internal controls. We identified key controls over financial reporting and embedded these in common business and financial reporting processes to provide further assurance regarding the reliability of our financial reporting.

The progress of the implementation of this Framework, including the evaluation of the effectiveness of our internal controls and areas for improvement, are regularly discussed with the Audit Committee and Deloitte Accountants, our external auditor. The Audit Committee reported on these matters to the Supervisory Board.

The Management Board conducted an evaluation of the effectiveness of our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation of the effectiveness of the Company's internal control over financial reporting in accordance with the requirements of SOX 404, we concluded that as of December 31, 2006, the Company's internal control over financial reporting was effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes to the Company's internal control over financial reporting that occurred during 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

All internal control systems no matter how well designed and implemented have inherent limitations. Even systems determined to be effective may not prevent or detect misstatements or fraud and can only provide reasonable assurance with respect to disclosure and financial statement presentation and reporting. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changed conditions and the degree of compliance with the policies or procedures may deteriorate.

In view of all of the above, the Management Board believes that it is in compliance with the requirements of rule II.1.4 of the Dutch Corporate Governance Code, taking into account the recommendations of the Corporate Governance Code Monitoring Committee in its 2005 and 2006 reports on the application thereof. With respect to financial reporting, the Corporate Governance Code Monitoring Committee has stated that it considers application in full of SOX 404 to meet the Dutch requirements in respect of the internal control objective and financial reporting.

Supervisory Board

Responsibilities

The supervision over the policies of our Management Board and the general course of our business and the management actions related thereto is entrusted to the Supervisory Board. In our two tier structure under applicable Dutch law, the Supervisory Board is a separate body and completely independent from the Management Board.

The Supervisory Board supervises and advises the Management Board in executing its responsibilities, particularly regarding:
- the achievement of the Company objectives;
- corporate strategy and the risks inherent in the business activities;

- the structure and operation of the internal risk management and control systems;
- the financial reporting process;
- compliance with legislation and regulations; and
- disclosure controls and procedures for external reporting.

Conflicts of interest

A Supervisory Board member facing a conflict of interest shall, in accordance with Article 13 of our Supervisory Board Rules, inform the Chairman of the Supervisory Board immediately. The Chairman shall, if possible in consultation with the other members of the Supervisory Board, determine the course of action to be taken.

Appointment

In accordance with Dutch law and the Dutch Corporate Governance Code, the Supervisory Board has drawn up a profile for its own composition. This Supervisory Board Profile is available on our website. The Supervisory Board shall consist of at least two members. The members should operate independently of and critically with regard to each other within a good relationship of mutual trust. They should be experienced in the management of an international, publicly listed company and have sufficient time available to fulfil the function of a Supervisory Board member. The Supervisory Board members appoint a chairman from amongst their midst.

The Supervisory Board is currently composed of six members who are appointed in the same way as the members of the Management Board. Supervisory Board members serve a four-year term and may be re-elected twice.

Any (re)appointment to the Supervisory Board shall be based on consistency with the Supervisory Board Profile. On reappointment, account shall be taken of the candidate's performance in the past period. A Supervisory Board member who is available for reappointment must be interviewed by the chairman of the Supervisory Board Nomination, Selection and Remuneration Committee. The chairman of the Nomination, Selection and Remuneration Committee must be interviewed by the chairman of the Supervisory Board. All members of the Supervisory Board follow an introduction programme after their first appointment, in which financial and legal aspects as well as financial reporting and specific features of ASMI are discussed.

Remuneration

The remuneration of the Supervisory Board was last approved by the shareholders in the 2006 Annual General Meeting of Shareholders.

Independence

Mr. P.C. van den Hoek as partner of Stibbe, our Dutch outside legal counsel, is not considered to be independent under the Dutch Corporate Governance Code, however, he is considered to be independent under the NASDAQ regulations. All other members are considered to be independent under the NASDAQ regulations and the Dutch Corporate Governance Code.

Composition and role of key committees of the Supervisory Board

In order to more efficiently fulfil its role and in compliance with the Dutch Corporate Governance Code, the Supervisory Board has created the following committees:

Audit Committee

This committee has a supervisory task with regard to monitoring the integrity of our financial reports and risk management.
The Audit Committee currently consists of Mr. van den Boom (Chairman), Mr. Brix and Mr. Kreutzer.
The Audit Committee supervises the activities of the Management Board with respect to:

- the operation of the internal risk management and control systems, including supervision of the enforcement of the relevant legislation and regulations;
- our release of financial information;
- compliance with recommendations and observations of external auditors;
- our policy on tax planning;

- relations with the external auditor, including, in particular, its independence,
- remuneration and any non-audit services performed for us;
- our financing; and
- the applications of information and communication technology.

The Audit Committee meets periodically to nominate a firm to be appointed as independent auditors to audit the financial statements and to perform services related to the audit, review the scope and results of the audit with the independent auditors, review with management and the independent auditors our annual operating results and consider the adequacy of the internal accounting procedures and the effect of the procedures relating to the auditor's independence.

As recommended by the Sarbanes-Oxley Act and the Dutch Corporate Governance Code, we intend for the Audit Committee to include at least one Financial Expert, who must have in-depth experience and knowledge of financial statements, international accounting principles and internal controls and procedures for financial reporting. The Supervisory Board has concluded that Mr. van den Boom meets these requirements.

Nomination, Selection and Remuneration Committee

This committee advises the Supervisory Board on matters relating to the selection and nomination of the members of the Management Board and Supervisory Board. The committee further monitors and evaluates the remuneration policy for the Management Board and certain other senior executives. This committee consists of Mr. van Amerongen (Chairman), Mr. Danneels and Mr. van den Hoek.

The objective of the remuneration policy is twofold:
- to create a remuneration structure that will allow ASMI to attract, reward and retain qualified executives who will lead ASMI in achieving its strategic objectives; and
- to provide and motivate these executives with a balanced and competitive remuneration.

The remuneration structure includes five elements: base salary, annual incentive (bonus), long term incentive (stock options), pension and other arrangements. The remuneration structure mirrors short-term and long-term elements of the responsibilities of members of the Management Board.

The Nomination, Selection and Remuneration Committee ensures that a competitive remuneration structure is provided by benchmarking with other multinational companies of comparable size and complexity operating in comparable geographical and industrial markets. Benchmark research is carried out on an annual basis. The Nomination, Selection and Remuneration Committee evaluates the achievement of performance criteria specified per Management Board member and recommends to the Supervisory Board with respect to the level of remuneration resulting from this evaluation.

On an annual basis, the Nomination, Selection and Remuneration Committee reports to the Supervisory Board on the application of the Remuneration Policy in the past year and the Remuneration Policy for the following years.

The Shareholders and General Meeting of Shareholders

Powers

A General Meeting of Shareholders is held each year to discuss the Annual Report of the Management Board about the affairs of the Company and to adopt the Annual Accounts. Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems desirable.

In the General Meeting of Shareholders, each ordinary share with a nominal value of € 0.04 entitles the holder to cast one vote, each financing preferred share with a nominal value of € 40.00 entitles the holder to cast one thousand votes and each preferred share with a nominal value of € 40.00 entitles the holder to cast one thousand votes. Presently there are no financing preferred shares or preferred shares outstanding.

The powers of the General Meeting of Shareholders are defined in our Articles of Association. The main powers of the shareholders are to appoint, suspend and dismiss members of the Management Board and Supervisory Board, to adopt the financial statements, to declare dividends, to discharge the Management Board and Supervisory Board from responsibility for the performance of their respective duties for the previous financial year, to appoint the external auditors, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorize the Management Board to issue shares and grant subscriptions for shares, to withdraw pre-emptive rights of shareholders upon issuance of shares, to authorize the Management Board to withdraw pre-emptive rights of shareholders upon issuance of shares, and to authorize the Management Board to repurchase or cancel outstanding shares.

Record date

Our Articles of Association provide that the Management Board can determine a record date for the exercise of voting rights by shareholders at a general meeting, which may by applicable Dutch law not be set earlier than thirty days prior to the meeting. For our 2007 Annual General Meeting of Shareholders we will establish a record date which is seven days prior to the meeting. Only shareholders of record at that date will be entitled to attend and vote at the meeting.

The audit of the financial reporting and the position of the internal auditor function and of the external auditor

Role, appointment, remuneration and assessment of the functioning of the external auditor

Our external auditor is appointed by the General Meeting of Shareholders and is nominated for appointment by the Audit Committee. Our current external auditor, Deloitte Accountants ("Deloitte"), was reappointed in the 2006 General Meeting of Shareholders. The Audit Committee has determined that the provision of services by Deloitte, its affiliates, and its member firms is compatible with maintaining Deloitte's independence. All audit and permitted non-audit services provided by Deloitte, its affiliates, and its member firms during 2006 were pre-approved by the Audit Committee.

The Audit Committee has adopted the following policies and procedures for pre-approval of all audit and permitted non-audit services provided by our independent registered public accounting firm:

Audit Services. Management submits to the Audit Committee for pre-approval the scope and estimated fees for specific services directly related to performing the independent audit of our consolidated financial statements for the current year.

Audit-Related Services. The Audit Committee may pre-approve expenditures up to a specified amount for services included in identified service categories that are related extensions of audit services and are logically performed by the auditors. Additional services exceeding the specified pre-approved limits require specific Audit Committee approval.

Tax Services. The Audit Committee may pre-approve expenditures up to a specified amount per engagement and in total for identified services related to tax matters. Additional services exceeding the specified pre-approved limits, or involving service types not included in the pre-approved list, require specific Audit Committee approval.

Other Services. In the case of specified services for which utilizing our independent registered public accounting firm creates efficiencies, minimizes disruption, or preserves confidentiality, or for which management has determined that our independent registered public accounting firm possesses unique or superior qualifications to provide such services, the Audit Committee may pre-approve expenditures up to a specified amount per engagement and in total. Additional services exceeding the specified pre-approved limits, or involving service types not included in the pre-approved list, require specific Audit Committee approval.

Internal auditor function

We currently do not have an internal auditor function and are in the process of establishing such a function.

Overview

We design, manufacture and sell equipment and systems used to produce semiconductor devices, or integrated circuits. Our production equipment and systems are used by both the front-end and back-end segments of the semiconductor market. Front-end equipment performs various fabrication processes in which multiple thin films of electrically insulating or conductive material are grown or deposited onto a round slice of silicon, called a wafer. Back-end equipment separates these processed wafers into numerous individual dies, each containing the circuitry of a single semiconductor device, and assembles packages and tests the dies in order to create semiconductor devices. We conduct our front-end business, which accounted for 46.6% of our net sales in 2006, through our principal facilities in the Netherlands, the United States, Japan and Singapore. We conduct our back-end business, which accounted for 53.4% of our net sales in 2006, through our principal facilities in Hong Kong, the People's Republic of China, Singapore and Malaysia. Our back-end operations are conducted through our 53.35% majority-owned subsidiary, ASM Pacific Technology ("ASMPT").

We sell our products worldwide to the semiconductor industry, which is subject to sudden and extreme cyclical variations in product supply and demand. In the period 2001 - 2003, the semiconductor industry experienced a severe cyclical downturn characterized by overcapacity and reduced demand for products, lower average selling prices across certain product lines, reduced investments in semiconductor capital equipment and other factors, all of which led to lower sales and earnings for our business, in particular for capacity-driven purchases.

To improve our margins in our front-end segment, we established a manufacturing facility in Singapore to manufacture certain generic subsystems and subassemblies for our Vertical Furnaces that we previously outsourced. This facility was launched in the third quarter of 2004 and is expected to further improve cost-effectiveness, strengthen our gross profit margin and mitigate the impact of foreign currency transaction results. At the end of 2006, most generic subassemblies for 300mm Vertical Furnaces and 200mm Epitaxy systems were manufactured in this facility, as well as a number of generic subassemblies for the 200mm Vertical Furnaces. We intend eventually to manufacture generic systems and parts for all of our front-end products in our manufacturing base in Singapore.

In our back-end segment we continued to benefit from our cost advantage due to the location of our manufacturing facilities and our high vertical integration allowing us to adjust labor costs quickly in volatile market conditions.

The transitions in the industry to new processes and materials requires equipment providers to develop sometimes entirely new sets of tools and processes and continue to present us with an opportunity to displace existing suppliers to major semiconductor manufacturers. We believe that we are well positioned and that our firm commitment to research and development, our readiness in new technologies and design-in wins at top-tier customers provide us with a broad basis for substantial long-term market share gains. We have participated fully in the transition to 300mm wafers, as evidenced by the large portion of sales volume of 300mm products.

Sales

Our front-end sales are concentrated in the United States, Europe, Japan and Southeast Asia and our back-end sales are concentrated in Southeast Asia. The following table shows the geographic distribution of our front-end and back-end sales for the years 2005 and 2006:

	Year ended December 31,			
(euro millions)	2005		2006	
	€	%	€	%
Front-end:				
United States	133.1	37.0	139.7	34.2
Europe	98.4	27.4	88.5	21.7
Taiwan	58.7	16.3	84.7	20.8
Japan	50.2	14.0	58.0	14.2
Other	19.2	5.3	37.0	9.1
	359.6	100.0	407.9	100.0
Back-end:				
People's Republic of China	80.4	21.9	116.9	25.0
Taiwan	77.0	21.0	96.2	20.6
Malaysia	46.2	12.6	72.0	15.4
Hong Kong	26.6	7.3	39.7	8.5
Thailand	25.6	7.0	31.4	6.7
Philippines	26.5	7.2	25.6	5.5
South Korea	33.5	9.1	24.0	5.1
United States	15.0	4.1	20.0	4.3
Singapore	15.6	4.2	13.1	2.8
Other	20.4	5.6	29.2	6.1
	366.8	100.0	468.1	100.0

The sales cycle from quotation to shipment for our front-end equipment generally takes several months, depending on capacity utilization and the urgency of the order. The acceptance period after installation may be as short as four to five weeks. However, if customers are unfamiliar with our equipment or are receiving new product models, the acceptance period may take as long as several months. The sales cycle is longer for equipment which is installed at the customer's site for evaluation prior to sale. The typical trial period ranges from six months to one year after installation.

The sales cycle for back-end products is typically shorter than for front-end products. Generally, the majority of our back-end equipment is built in standard configurations. We build back-end products that are approximately 85% complete in anticipation of customer orders. Upon receipt of a customer's order and specifications, the remaining 15% of the manufacturing is completed. This allows us to complete the assembly of our equipment in a short period of time. We therefore require between two to six weeks for final manufacturing, testing, crating, and shipment of our back-end equipment. Our back-end customers' acceptance periods generally are shorter than those for front-end equipment. We provide installation, training and technical support to our customers with local staff in all of our major markets.

A substantial portion of our front-end sales is for equipping new or upgraded fabrication plants where device manufacturers are installing complete fabrication equipment. As a result our front-end sales tend to be uneven across customers and financial periods. Sales to our ten largest front-end customers accounted for 67.6% and 60.7% of front-end net sales in 2005 and 2006, respectively. The composition of our ten largest front-end customers changes from year to year. The largest front-end customer accounted for 32.9% and 22.7% of front-end net sales in 2005 and 2006, respectively.

Back-end sales per customer tend to be more level over time than front-end sales, because back-end operations can be scaled up in smaller increments at existing facilities. Sales to our ten largest back-end customers accounted for 40.0% and 28.2% of back-end net sales in 2005 and 2006, respectively. Because our back-end customers' needs are more level over time, the composition of our ten largest customers is more stable from year to year than in the front-end. Our largest back-end customer accounted for 7.9% and 4.4% of back-end net sales in 2005 and 2006, respectively.

Research and Development

We continue to invest in research and development at a high level. As part of our research and development activities, we are engaged in various development programs with customers and research institutes that allow us to develop products that meet customer requirements and to obtain access to new technology and expertise. Research and development costs, excluding capitalized development expenses, are expensed as incurred. We charge to cost of sales the costs relating to prototype and experimental models, which we may subsequently sell to customers.

Our research and development operations in the Netherlands, Germany and the United States receive research and development grants and credits from various sources. The research and development grant received from governmental sources in the Netherlands is contingently repayable to the extent we recognize sales of products to which the credit is related within an agreed upon time period. We do not recognize a liability on our Consolidated Balance Sheet in respect of this credit until we recognize sales of products to which the credit is related, within the agreed upon time period and is then charged to cost of sales when such sales are recorded. The repayment amounts to 4.0% of the realized sales of these products. Interest on the contingent repayments is accrued at an interest rate of 6.05% per annum. The contingent repayment, including accrued interest, was € 3.2 million at December 31, 2005 and € 3.1 million at December 31, 2006. This amount has not been recognized as a liability in the Consolidated Balance Sheet since we have not recognized sales of products to which the credit is related. In 2005 and 2006 we accounted for repayments with respect to these credits of € 0.2 million and € 0.2 million respectively.

Impairment and Restructuring

Due to continued negative cash flows and the expected future returns on the invested capital employed, we decided in 2005 to reduce our 100% subsidiary ASM NuTool to a small operation, focusing on process and intellectual property development with the intention of licensing these technologies in the future. In December 2006, we sold substantially all of the ASM NuTool patent portfolio to a third party. See Note 2 to our Consolidated Financial Statements.

Risk Factors

In conducting our business, we face a number of risks that each could materially affect our business, revenues, income, assets and liquidity and capital resources. The risks described below are not the only ones facing ASMI. Some risks are not yet known and some that we do not currently believe to be material could later become material. See our 2006 Annual Report on Form 20-F for a detailed description of the following risk factors:

Risk factors related to our industry:

- Our business could be adversely affected by the cyclical nature of the semiconductor industry.
- Our industry is subject to rapid technological change and we may not be able to forecast or respond to commercial and technological trends in time to avoid competitive harm.
- If we fail to adequately invest in research and development, we may be unable to compete effectively.
- We face intense competition from companies which have greater resources than we do, and potential competition from new companies entering the market in which we compete. If we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.

Risks related to our business:

- Our quarterly revenues and operating results fluctuate due to a variety of factors, which may result in volatility or a decrease in the price of our common shares.
- Our products generally have long sales cycles and implementation periods, which increase our costs in obtaining orders and reduce the predictability of our earnings.
- Any acquisitions or investments we may make in the future could disrupt our business and harm our financial condition.
- Substantially all of our equipment orders are subject to operating, performance, safety, economic specifications and other contractual obligations. We occasionally experience unforeseen difficulties in compliance with these criteria, which can result in increased design, installation and other costs and expenses.
- We derive a significant percentage of our revenue from sales to a small number of large customers, and if we are not able to retain these customers, or they reschedule, reduce or cancel orders, our revenues would be reduced and our financial results would suffer.

- We may need additional funds to finance our future growth and ongoing research and development activities. If we are unable to obtain such funds, we may not be able to expand our business as planned.
- We could be harmed by the loss of key management.
- We may not be able to recruit or retain qualified personnel or integrate qualified personnel into our organization. Consequently, we could experience reduced sales, delayed product development and diversion of management resources.
- Although we currently are a majority shareholder of ASM Pacific Technology, we may not be able to maintain our majority interest, which, if other circumstances are such that we do not control ASM Pacific Technology, would prevent us from consolidating its results of operations with ours. This event would have a significant negative effect on our consolidated net earnings from operations.
- Although we are a majority shareholder, ASM Pacific Technology is not obligated to pay dividends to us and may take actions or enter into transactions that are detrimental to us.
- Our reliance on a limited number of suppliers could result in disruption of our operations.
- Because the costs to semiconductor manufacturers of switching from one semiconductor equipment supplier to another can be high, it may be more difficult to sell our products to customers having a competing installed base, which could limit our growth in sales and market share.
- Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights from challenges by third parties; claims or litigation regarding intellectual property rights could require us to incur significant costs.
- We license the use of some patents from a competitor pursuant to a settlement agreement; if the agreement is terminated, our business could be adversely affected.
- We must offer a possible change of control transaction to Applied Materials first.
- We operate worldwide; economic, political, military or other events in a country where we make significant sales or have significant operations could interfere with our success or operations there and harm our business.
- Our operational results could be negatively impacted by currency fluctuations.
- If our products are found to be defective, we may be required to recall and/or replace them, which could be costly and result in a material adverse effect on our business, financial condition and results of operations.
- Environmental laws and regulations may expose us to liability and increase our costs.
- Members of our Supervisory Board and Management Board control approximately 22.1% of our voting power which gives them significant influence over matters voted on by our shareholders, including the election of members of our Supervisory Board and Management Board and makes it substantially more difficult for a shareholder group to remove or elect such members without the support of management.
- Our anti-takeover provisions may prevent a beneficial change of control.
- Our stock price has fluctuated and may continue to fluctuate widely.
- Compliance with Internal Controls Evaluations and Attestation Requirements. If we fail to maintain effective internal controls over financial reporting, if we do not timely evaluate the effectiveness of internal controls over financial reporting, or if our independent auditor could not timely attest to our evaluation, we could be subject to regulatory scrutiny and decreased public confidence in our internal controls, which may adversely affect the market price of our common shares.

Critical Accounting Policies

Since the initial listing of ASMI on NASDAQ Global Select Market in the United States of America, ASMI has followed accounting principles generally accepted in the United States of America (“US GAAP”), both for internal as well as external purposes. We are required by European Regulations to also publish Consolidated Financial Statements in accordance with International Financial Reporting Standards (“IFRS”) from 2005 onwards. The accompanying Consolidated Financial Statements, prepared for statutory purposes, have been prepared in accordance with IFRS as endorsed by the European Union.

The principal differences between US GAAP and IFRS relate to accounting for goodwill, accounting for minority interest, accounting for convertible subordinated notes, accounting for development expenses, accounting for option plans and accounting for pension plans. See Note 27 to our Consolidated Financial Statements.

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements prepared in accordance with IFRS. The preparation of these Consolidated Financial Statements requires us to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the periods presented. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition. We recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectibility is reasonably assured. Our revenue includes revenue from contractual arrangements consisting of multiple deliverables, such as equipment and installation. The revenue from the undelivered element of the arrangement is deferred at fair value until delivery of the element.

In general, we recognize revenue from sales of equipment upon shipment of equipment, only if testing at the factory has proven that the equipment has met substantially all of the customer's criteria and specifications. The outcome of the test is signed-off by the customer (“factory acceptance”). Instead of signing-off, the customer may choose to provide a waiver, e.g. with respect to repeat orders.

We recognize revenue from installation of equipment upon completion of installation at the customer's site. At the time of shipment, we defer that portion of the sales price related to the fair value of installation. The fair value of the installation process is measured based upon the per-hour amounts charged by third parties for similar installation services. Installation is completed when testing at the customer's site has proven that the equipment has met all of the customer's criteria and specifications. The completion of installation is signed-off by the customer (“final acceptance”). At December 31, 2005 and December 31, 2006 we have deferred revenues from fair value of installations in the amount of € 9.9 million and € 13.7 million respectively.

Our sales frequently involve complex equipment, which may include customer-specific criteria, sales to new customers or equipment with new technology. For each sale, the decision whether to recognize revenue is, in addition to shipment and factory acceptance, based on the contractual agreement with a customer, the experience with a particular customer, the technology and the number of similarly configured equipment previously delivered. Instead of recognizing revenue, we could decide to defer revenue recognition until completion of installation at the customer's site and obtaining final acceptance from the customer. At December 31, 2005 we had no deferred revenue from sales of equipment. At December 31, 2006 we have deferred revenues from sales of equipment in the amount € 1.5 million.

Revenue related to training and technical support service is recognized when the service is rendered. Revenue from the sale of spare parts and materials is recognized when the goods are shipped.

Valuation of Goodwill. We perform an annual impairment test at December 31 of each year or if events or changes in circumstances indicate that the carrying amount of goodwill exceeds its fair value. Our impairment test and the determination of the fair value is based on a discounted future cash flow approach that uses our estimates of future revenues, driven by assumed market growth and estimated costs as well as appropriate discount rates. These estimates are consistent with the plans and estimated costs we use to manage the underlying business. For the years ended December 31, 2005 and December 31, 2006, we recorded impairment charges of € 28.6 million and € 11.4 million with respect to goodwill resulting from the acquisition of ASM NuTool. The calculation of the fair value involves certain management judgments and was based on our best estimates and projections at the time of our review, and the value may be different if other assumptions are used. In future periods we may be required to record an impairment loss based on the impairment test performed, which may significantly affect our result of operations at that time.

Valuation of Long-Lived Assets. Long-lived assets and certain recognized intangible assets (except those not being amortized) are reviewed by us for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, we estimate the future discounted cash flows expected to result from the use of the asset and its eventual disposition. In 2005 we recorded an impairment charge of € 5.4 million related to the reduction of ASM NuTool and the consolidation of platforms used in our Capacitor Product group. In 2006 we recorded an impairment charge of € 0.3 million related to the discontinuation of ASM NuTool. Our cash flow estimates used include certain management judgments and were based on our best estimates and projections at the time of our review, and may be different if other assumptions are used. In future periods, however, we may be required to record impairment losses, which may significantly affect our results of operations at that time.

Valuation of Inventory. Inventories are valued at the lower of cost or market value. We regularly evaluate the value of our inventory of components and raw materials, work in progress and finished goods, based on a combination of factors including the following: forecasted sales, historical usage, product end of life cycle, estimated current and future market values, service inventory requirements and new product introductions, as well as other factors. Purchasing requirements and alternative uses for the inventory are explored within these processes to mitigate inventory exposure. We record write downs for inventory based on the above factors and take into account worldwide quantities and demand into our analysis. In the year ended December 31, 2006 we have charged € 7.7 million to cost of sales as a result of our analysis of the value of inventory. At December 31, 2006 our valuation allowance for inventory obsolescence and lower market value amounted to € 28.1 million, which is 12.5% of our total inventory. If circumstances related to our inventories change, our estimate of the values of inventories could materially change. At December 31, 2006, an increase of our overall estimate for obsolescence and lower market value by 10% of our total inventory balance would result in an additional charge to cost of sales of € 22.5 million.

Warranty. We provide maintenance on our systems during the warranty period, usually one to two years. The estimated costs of warranty include the cost of labor, material and related overhead necessary to repair a system during the warranty period. The estimated costs are accrued for in a provision for warranty upon recognition of the system sale and are estimated based on historical warranty costs incurred and estimated future warranty costs related to current sales. We update these estimated warranty costs periodically. Actual warranty costs are charged against the warranty provision. The actual warranty costs may differ from estimated warranty costs, as a result of which we adjust our provision for warranty accordingly. Future warranty costs may exceed our estimates, which could result in an increase of our cost of sales.

Income Taxes. We currently have significant deferred tax assets, which resulted primarily from operating losses incurred in prior years as well as other temporary differences. We have established a valuation allowance to reflect the likelihood of the realization of deferred tax assets. Based on available evidence, we regularly evaluate whether it is more likely than not that the deferred tax assets will not be realized. This evaluation includes our judgment on the future profitability and our ability to generate taxable income, changes in market conditions and other factors. At December 31, 2006, we believe that there is insufficient evidence to substantiate recognition of substantially all net deferred tax assets with respect to net operating loss carry forwards, and we have established a valuation allowance in the amount of € 96.9 million. Future changes in facts and circumstances, if any, may result in a change of the valuation allowance to these deferred tax asset balances which may significantly influence our results of operations at that time. If our evaluation of the realization of deferred tax assets would indicate that an additional 10% of the net deferred tax assets as of December 31, 2006 is not realizable, this would result in an additional valuation allowance and an income tax expense of € 1.2 million.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. Tax contingencies mainly relate to transfer pricing positions, operational activities in countries where we are not tax registered, tax deductible costs and personnel related taxes. In December 2006, the Hong Kong Inland Revenue Department has issued an enquiry letter to our subsidiary ASMPT with an attempt to investigate the ASMPT Group's tax affairs and other details. Settlement of tax uncertainties in a manner inconsistent with our expectations could have a material impact on our earnings, financial position and cash flows.

Results of Operations

The following table shows certain consolidated statement of income data as a percentage of net sales for our front-end and back-end segments for the years 2005 and 2006:

	Front-end		Back-end		Total	
	Year ended December 31,					
	2005	2006	2005	2006	2005	2006
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(75.7)	(68.7)	(54.8)	(54.9)	(65.2)	(61.3)
Gross profit	24.3	31.3	45.2	45.1	34.8	38.7
Selling and administrative expenses	(17.2)	(16.9)	(11.3)	(11.4)	(14.1)	(14.0)
Research and development expenses	(17.7)	(11.7)	(7.0)	(6.3)	(12.3)	(8.8)
Amortization of other intangible assets	(0.5)	(0.4)	-	-	(0.2)	(0.2)
Impairment of goodwill and disposal of assets	(7.8)	(3.7)	-	-	(4.0)	(1.7)
Earnings (loss) from operations	(18.9)	(1.4)	26.9	27.4	4.2	14.0
Net interest expense	(6.8)	(3.7)	0.4	0.7	(3.2)	(1.4)
Foreign currency transaction gains (losses)	1.7	(1.2)	(0.1)	-	0.8	(0.5)
Income tax benefit (expense)	(1.1)	(0.7)	(1.6)	(2.8)	(1.2)	(1.8)
Gain on dilution of investment in subsidiary	0.8	0.3	-	-	0.4	0.1
Net earnings (loss)	(24.3)%	(6.7)%	25.6 %	25.3 %	1.0 %	10.4 %
Allocation of net earnings (loss)						
Shareholders of the parent	(24.3)%	(6.7)%	13.8 %	13.6 %	(5.0)%	4.1 %
Minority interest	-	-	11.8 %	11.7 %	6.0 %	6.3 %

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Sales. The following table shows our net sales for our front-end and back-end segments and the percentage change between the years 2005 and 2006:

(euro millions)	Year ended December 31,		
	2005	2006	% Change
Front-end	359.6	407.9	13 %
Back-end	366.8	468.1	28 %
Total net sales	726.4	876.0	21 %

In 2006, net sales of wafer processing equipment (front-end segment) represented 46.6% of total net sales. Net sales of assembly and packaging equipment and materials (back-end segment) represented 53.4% of total net sales in 2006.

In the second half of 2006, net sales in the front-end segment increased by 3% compared to the first half of 2006, while net sales in the back-end segment for the second half of 2006 decreased 4% compared to the first half of 2006. In total, net sales decreased by 1% compared to the first half of 2006.

The weakening of the US dollar and US dollar related currencies against the euro in 2006 as compared to 2005 impacted sales negatively by 0.4%.

Gross Profit Margin. The following table shows our gross profit and gross profit margin for front-end and back-end segments and the percentage point increase or decrease in gross profit as a percentage of net sales between the years 2005 and 2006:

	Year ended December 31,				
	€ 2005	€ 2006	% 2005	% 2006	Percentage point change
Front-end	87.4	127.6	24.3%	31.3%	7.0
Back-end	165.6	211.0	45.2%	45.1%	(0.1)
Total gross profit	253.0	338.6	34.8%	38.7%	3.9

The gross profit margin of our front-end segment increased steadily in 2006. Increased manufacturing of generic subassemblies and components by ASM Front-End Manufacturing Singapore (“FEMS”) contributed to this development. At the end of 2006, most generic subassemblies for 300mm Vertical Furnaces and 200mm Epitaxy systems were manufactured in this facility, as well as a number of generic subassemblies for the 200mm Vertical Furnaces. FEMS is expected to further lower our manufacturing costs and mitigate the impact of foreign currency transaction results on our margins. Focus on other cost reduction programs as well as the growing maturity and sales volume of our Vertical Furnace product group contributed positively to the increased gross profit margin in our front-end segment. The gross profit margin of our front-end segment in 2005 included impairment and restructuring charges of € 4.5 million related to ASM NuTool and the consolidation of platforms used in our Capacitor Product group, which impacted the gross profit margin by 1.3 percentage points.

Although the gross profit margin of our back-end segment decreased 2.6% in the second half of 2006 as compared to the first half of 2006 due in part to higher copper prices, the gross profit margin in 2006 remained at a level similar to 2005.

Selling, General and Administrative Expenses. The following table shows our selling, general and administrative expenses for our front-end and back-end segments and the percentage change between the years 2005 to 2006:

(euro millions)	Year ended December 31,		
	2005	2006	% Change
Front-end	61.6	68.9	12 %
Back-end	41.0	53.4	30 %
Total selling, general and administrative expenses	102.6	122.3	19 %

The increase from 2005 is, besides general price increases, due to increased sales and marketing activity, demo activity, increased expenditures in preparing to meet the requirements under section 404 of the Sarbanes-Oxley Act, and corporate expenses related to discussions with shareholders.

As a percentage of net sales, selling, general and administrative expenses were 14%, both in 2006 and 2005.

Research and Development Expenses. The following table shows our research and development expenses for our front-end and back-end segments and the percentage change between the years 2005 to 2006:

(euro millions)	Year ended December 31,		
	2005	2006	% Change
Front-end	63.5	47.8	(25)%
Back-end	25.9	29.5	14 %
Total research and development expenses	89.4	77.3	(14)%

The decrease in the front-end segment was the result of increased focus in the research and development project portfolio. The year 2005 included impairment and restructuring charges of € 7.6 million related to ASM NuTool and the consolidation of platforms used in our Capacitor Product group.

The increase in the back-end segment was the result of increased research and development activities supporting more value-innovative products.

As a percentage of net sales, research and development expenses decreased from 12% for the year 2005 to 9% in 2006.

Impairment of goodwill and disposal of assets results from the disposal of ASM NuTool. See Note 2 to our Consolidated Financial Statements.

Earnings from Operations amounted to earnings of € 122.5 million in 2006 compared to earnings of € 30.8 million in 2005. The increase is mainly caused by higher sales levels and gross profit margin, only partially offset by increased operating expenses. Earnings from operations in 2006 included charges for impairment of goodwill and disposal of assets of € 14.9 million related to ASM NuTool. The year 2005 included impairment and restructuring charges of € 34.4 million related to ASM NuTool and € 7.0 million related to the consolidation of platforms used in our Capacitor Product group.

Net Interest Expense amounted to € 12.1 million in 2006 compared to € 23.0 million in 2005. Net interest expenses decreased due to less debt, the repayment of US$ 94.3 million in convertible subordinated notes in November 2005 and more favorable interest income resulting from increased interest rates.

Our convertible subordinated notes include a component that creates a financial liability to us and a component that grants an option to the holder of the convertible subordinated notes to convert it into common shares of ASMI. IAS 32 "Financial Instruments: Disclosure and Presentation," requires separate recognition of these components. The liability is initially measured at fair value and subsequently measured at amortized cost. Subsequent to the initial separation, the liability component accrues over time to its nominal value, resulting in additional interest expenses. In 2005 and 2006 we accounted for such interest expense of € 12.6 million and € 6.3 million respectively.

Income Tax Expense amounted to € 15.9 million in 2006 compared to € 9.5 million in 2005. The increase is mainly caused by increased earnings from operations.

Backlog

Our backlog consists of purchase orders or letters of intent for future periods, typically for up to one year. In some markets, such as Japan, it is common practice for letters of intent to be used instead of firm purchase orders. Under specific circumstances, customers can cancel or reschedule deliveries. In addition, purchase orders are subject to price negotiations and changes in quantities of products ordered as a result of changes in customers' requirements. Depending on the complexity of an order, we generally ship our products within one to six months after receipt of an order. We include in the backlog only orders for which a delivery schedule has been specified and to which the customer has assigned an order number. Rescheduled deliveries are included in backlog if they have a firm delivery date.

The following table shows our level of new orders during the year and our backlog at the end of the year for our front-end and back-end segments and the percentage change for the year 2005 to 2006:

(euro millions)	2005	2006	% Change
Front-end:			
New orders for the year	354.1	428.0	21 %
Backlog at the end of the year	135.4	155.5	15 %
Back-end:			
New orders for the year	407.4	460.4	13 %
Backlog at the end of the year	86.5	78.8	(9)%
Total			
New orders for the year	761.5	888.4	17 %
Backlog at the end of the year	221.9	234.3	6 %

For the full year 2006, the ratio of new orders divided by net sales (book-to-bill ratio) was 1.01, compared to 1.05 for the full year 2005.

The backlog of € 234.3 million as of December 31, 2006 is 5.6% higher than the backlog of € 221.9 million as of December 31, 2005.

Liquidity and Capital Resources

Our liquidity is affected by many factors, some of which are related to our ongoing operations and others of which are related to the semiconductor and semiconductor equipment industries and to the economies of the countries in which we operate. Although our cash requirements fluctuate based on the timing and extent of these factors, we believe that cash generated by operations, together with the liquidity provided by our existing cash resources and our financing arrangements, will be sufficient to fund working capital, capital expenditures and other ongoing business requirements for at least the next twelve months. The cyclicality of the industry could result in lower customer demand and continued fixed costs and as a result, cash generated by operations may be lower than forecasted. In such a situation we might need to further utilize our short-term credit facilities or investigate additional financing.

At December 31, 2006, our principal sources of liquidity consisted of € 193.9 million in cash and cash equivalents and € 104.5 million in undrawn bank lines. Approximately € 89.3 million of the cash and cash equivalents and € 28.3 million of the undrawn bank lines are restricted to use in the back-end operations and € 25.9 million in undrawn bank lines are restricted to use in the front-end operations in Japan. We believe that our cash on hand of € 193.9 million at the end of 2006 is adequate to fund our operations, our investments in capital expenditures and to fulfill our existing contractual obligations for the next 12 months.

For the year 2006, net cash provided by operations was € 153.4 million as compared to € 68.1 million for 2005. These developments resulted from improved net earnings and decreased working capital.

Net working capital, consisting of accounts receivable, inventories, other current assets, accounts payable, accrued expenses, advance payments from customers and deferred revenue, decreased from € 233.6 million at December 31, 2005 to € 226.0 million at December 31, 2006. The decrease is primarily the result of increased focus on working capital management, and partially offset by increased sales and manufacturing levels. The number of outstanding days of working capital, measured based on annual sales, decreased from 117 days at December 31, 2005 to 94 days at December 31, 2006.

As of December 31, 2006 we have entered into purchase commitments with suppliers for delivery in 2007 in the amount of € 96.0 million and for delivery in 2008 in the amount of € 1.2 million.

Our capital expenditures decreased from € 44.6 million in 2005 to € 39.4 million in 2006. We expect capital expenditures to be between € 30 million and € 40 million in 2007. Our capital expenditure commitments at December 31, 2006 were € 8.9 million.

Net cash used in financing activities for 2006 was € 41.8 million. During that period, we received € 1.1 million in additional short term bank facilities, repaid € 6.3 million of long-term debt, received € 2.7 million in new long-term debt and received € 11.8 million from the issuance of common shares. In 2006, ASM Pacific Technology paid € 51.1 million in dividends to its minority shareholders. In 2005 net cash used in financing activities was € 122.8 million. During that period, we repaid the remaining balance of US$ 94.3 million of our 5% convertible subordinated notes due on November 15, 2005, repaid € 15.5 million in short term bank facilities, repaid € 7.8 million of long-term debt, received proceeds of € 13.3 million in new long-term debt and received € 0.7 million from the issuance of common shares. In 2005, ASM Pacific Technology paid € 31.7 million in dividends to its minority shareholders.

We financed the operations of our front-end segment from operating cash flows, from dividends received from ASM Pacific Technology, and from borrowings. We support borrowings of our front-end subsidiaries with guarantees. Net cash provided by front-end operating activities was € 4.5 million in 2006.

We historically relied on dividends from ASMPT for a portion of our cash flow for use in our front-end operations. Cash dividends received from ASMPT during 2005 and 2006 were € 37.0 million and € 59.0 million, respectively. In November 2006, we announced our commitment that for at least the next three years we would not use these cash dividends to support our front-end business, but instead would use such dividends to retire outstanding convertible debt, purchase our common shares, pay cash dividends on our common shares or, in the event of dilution resulting from the exercise of employee stock options in ASM Pacific Technology, purchase shares of ASM Pacific Technology to maintain our percentage ownership at its current level. We will determine at the relevant time which combination of uses of the ASM Pacific Technology dividends is the most appropriate for us and our shareholders.

Our back-end segment, which is conducted through ASM Pacific Technology, our 53.35%-owned subsidiary, is entirely self-financed by ASM Pacific Technology. However, the cash resources and borrowing capacity of ASM Pacific Technology are not available to our front-end segment due to restrictions imposed by the Hong Kong Stock Exchange, on which the ASM Pacific Technology common shares are listed.

Although three of the ten directors of ASM Pacific Technology are affiliates of ASM International, ASM Pacific Technology is under no obligation to declare dividends to shareholders or enter into transactions that are beneficial to us. As a majority shareholder, we can approve the payment of dividends, but cannot compel their payment or size.

The market value of our investment in ASM Pacific Technology at the end of 2006 was approximately € 876.8 million, which is lower than the market value at the end of 2005, which was approximately € 991.9 million.

Contractual Obligations, Contingent Liabilities and Commitments

The following table summarizes our contractual obligations as at December 31, 2006 aggregated by type of contractual obligation:

Contractual obligations (in millions of euro)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable to banks (1)	20.1	20.1	-	-	-
Long-term debt (1) (2)	27.8	7.9	16.2	3.7	-
Convertible subordinated debt (1)	218.6	8.4	16.8	193.4	-
Operating leases	28.4	7.9	11.6	4.6	4.3
Purchase obligations:					
Purchase commitments to suppliers	97.2	96.0	1.2	-	-
Capital expenditure commitments	8.9	8.9	-	-	-
Total contractual obligations	401.0	149.2	45.8	201.7	4.3

(1) Including interest expense.
(2) Capital lease obligations of € 1.5 million are included in long-term debt.

For a further discussion of our contractual obligations for notes payable to banks, long-term debt, convertible subordinated debt and commitments and contingencies see Notes 10, 13, 14, and 17 to our Consolidated Financial Statements.

We outsource a substantial portion of the manufacturing of our front-end operations to certain suppliers. As our products are technologically complex, the leadtimes for purchases from our suppliers can vary and can be as long as nine months. Generally contractual commitments are made for multiple modules or systems in order to reduce our purchase prices per module or system. For the majority of our purchase commitments, we have flexible delivery schedules depending on the market conditions, which allow us, to a certain extent, to delay delivery beyond originally planned delivery schedules.

At December 31, 2006 we had contingent payables of € 3.1 million, including accrued interest, related to research and development grants received. The grants received are repayable only to the extent we recognize sales of products to which the grants related within an agreed upon time period.

Market Risk Disclosure

We are exposed to market risk from changes in interest rates and foreign currency exchange rates, most notably fluctuations of the U.S. dollar, the Hong Kong dollar, the Chinese yuan, and the Japanese yen against the euro. We report our operating results and financial position in euros, while foreign affiliates report their operating results and financial position in their respective functional currencies. To the extent that foreign currency fluctuations affect the value of our investments in our foreign affiliates, they are not hedged. The cumulative effect of these fluctuations is separately reported in Consolidated Shareholders' Equity. For the year ended December 31, 2005, we recorded a favorable movement of € 35.5 million. For the year ended December 31, 2006, we recorded an unfavorable movement of € 30.0 million.

Foreign exchange risk management

Our operations are exposed to foreign exchange risk arising from cash flows and financial instruments that are denominated in currencies other than the functional currency of ASM International or the respective subsidiary conducting the business. The purpose of our foreign currency management is to manage the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows and on foreign currency denominated assets and liabilities.

The terms of currency instruments used for hedging purposes are consistent with the timing of the transactions being hedged. We do not use derivative financial instruments for trading or speculative purposes. We use derivative financial instruments, such as forward exchange contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur within the next 12 months. As a policy we only hedge anticipated foreign currency sales and purchase transactions for which we have a firm commitment to a customer or supplier. All hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges, and are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of other comprehensive income in Shareholders' Equity, and is reclassified into earnings when the hedged transaction affects earnings. An amount of approximately € 0.1 million included in other comprehensive income at December 31, 2006 will be reclassified to earnings within 12 months upon completion of the underlying transaction. If the underlying transaction being hedged fails to occur, or if a portion of any derivative is ineffective, the gain or loss is immediately recognized in earnings under foreign currency transaction gains (losses) on the Statement of Operations.

Furthermore, we continue to manage the currency exposure of certain receivables and payables using derivative instruments, such as forward exchange contracts and currency swaps, and non-derivative instruments, such as debt borrowings in foreign currencies. The gains or losses on these instruments provide an offset to the gains or losses recorded on the foreign currency receivables and payables. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under net interest and other financial income (expenses) on the Statement of Operations. Foreign currency receivables and payables are recorded at the exchange rate on the balance sheet date and gains and losses as a result of changes in foreign currency exchange rates are recorded in earnings under net interest and other financial income (expenses) on the Statement of Operations. The operations of our subsidiaries are generally financed with debt issued in the currency of the country in which each subsidiary is located in an effort to limit our foreign currency exposure.

The following table summarizes our financial instruments as of December 31, 2006 and analyzes the sensitivity of the fair value of our financial instruments to an immediate change in foreign currency rates. Fair values represent the present value of forecasted future cash flows at market foreign currency exchange rates. The sensitivity analysis assumes an immediate 10% favorable or unfavorable change in all foreign currency exchange rates against the euro from their levels as of December 31 with all other variables kept constant. A favorable 10% change indicates a strengthening of the currency in which our financial instruments are denominated, primarily the U.S. dollar, against the euro and an unfavorable change indicates a weakening of the currency in which our financial instruments are denominated, primarily the U.S. dollar, against the euro. The selection of 10% favorable or unfavorable change in foreign currency exchange rates should not be construed as a prediction by us of future market events, but rather, to illustrate the potential impact of such an event. The modeling technique used to calculate the exposure does not take into account correlation among foreign currency exchange rates, or correlation among various markets (i.e., the foreign exchange, equity and fixed-income markets). Even though we believe it to be possible that all of the foreign currency exchange rates to which we are exposed would simultaneously change by more than 10%, we find it meaningful to “stress test” our exposure under this 10% fluctuation scenario and other hypothetical adverse market scenarios. Our actual experience may differ from the results in the table below due to the correlation assumptions utilized, or if events occur that were not included in the methodology, such as significant liquidity or market events.

	Currency and notional amount		Carrying amount	Fair value	Sensitivity analysis: Favorable change of 10%	Sensitivity analysis: Unfavorable change of 10%
	(in millions)		(in millions of euro)			
As of December 31, 2006:						
Notes payable to banks, due within twelve months	yen	2,810.0	18.0	18.0	16.2	19.8
	SG$	2.0	1.0	1.0	0.9	1.1
	HK$	7.2	0.7	0.7	0.6	0.8
Long-term debt with maturities						
due from 2007 - 2011	yen	2,980.0	19.1	19.1	17.2	21.0
due from 2007 - 2010	euro	2.9	2.9	2.9	2.9	2.9
due from 2008 - 2011	SG$	7.5	3.7	3.7	3.3	4.1
due from 2007 - 2008	KRW	950.0	0.8	0.8	0.7	0.9
due from 2007	US$	0.2	0.2	0.2	0.2	0.2
Convertible subordinated debt:						
due May 15, 2010	US$	90.0	59.5	82.8	53.4	65.5
due December 6, 2011	US$	150.0	94.4	132.2	85.0	103.8
Foreign exchange contracts:						
purchase of currency contracts to be settled within twelve months:	US$	7.5	5.7	5.7	5.1	6.3
sale of currency contracts to be settled within twelve month:	US$	43.1	32.2	32.3	29.0	35.5

For long-term debt, the estimated fair values of our long-term debt are based on current interest rates available to us for debt instruments with similar terms and remaining maturities. The fair values of our convertible subordinated debt borrowings are based on our estimates. For forward exchange contracts market values based on external quotes from banks have been used to determine the fair value.

As our borrowings are primarily in currencies other than the euro, a change in foreign currency exchange rates will have an impact on our net earnings. A hypothetical increase or decrease of 10% in foreign currencies against the euro would result in a € 1.1 million increase or decrease respectively in interest expenses at December 31, 2005 borrowing levels and a € 1.0 million increase or decrease respectively in interest expenses at December 31, 2006 borrowing levels.

Interest risk

Our long-term and convertible subordinated debt borrowings outstanding have fixed interest rates. At December 31, 2005 and 2006 we had € 21.1 million and € 19.7 million, respectively, in other borrowings with variable short-term interest rates outstanding. We are exposed to interest rate risk primarily through our borrowing activities. We do not enter into financial instrument transactions for trading or speculative purposes or to manage interest rate exposure. A hypothetical change in the average interest rate by 10% on the portion of our debt bearing interest at variable rates would not result in a material change in interest expense at December 31, 2005 and December 31, 2006 borrowing levels.

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and from movements in interest rates and foreign currency exchange rates. We do not anticipate nonperformance by counterparties. We generally do not require collateral or other security to support financial instruments with credit risk. Concentrations of credit risk (whether on or off-balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Financial instruments on the balance sheet that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We maintain a policy providing for the diversification of cash and cash equivalent investments and placement of investments in high quality financial institutions to limit the amount of credit risk exposure. A significant percentage of our revenue is derived from a limited number of large customers. Our largest customer accounted for approximately 11.4% of our net sales in 2006 (2005: 17.2%) and our ten largest customers accounted for approximately 34.0% of our net sales in 2006 (2005: 43.7%). Sales to these large customers also may fluctuate significantly from time to time depending on the timing and level of purchases from us. Significant orders from such customers may expose us to a concentration of credit risk and difficulties in collecting amounts due, which might harm our financial results and financial condition. At December 31, 2006, one customer accounted for 8.8% of the outstanding balance in accounts receivable (2005: 12.4%).

Supervisory Board

Paul C. van den Hoek # (1939)
Chairman
Nationality: Dutch
Current term expires: 2009
Partner in the law firm of Stibbe
Chairman of the Supervisory Boards of AON Groep Nederland B.V., Buhrmann N.V., Het Financieele Dagblad B.V., Robeco Groep N.V. and related companies, and Wavin N.V.

Eric A. van Amerongen # (1953)
Vice-Chairman
Nationality: Dutch
Current term expires: 2010
Chairman of the Supervisory Boards of Centraal Bureau Rijvaardigheid, Lucent Technologies Nederland B.V. and Universiteit Twente
Vice-Chairman of the Supervisory Board of HITT N.V.
Member of the Supervisory Boards of ANWB and Imtech N.V.
Non-executive director of Corus Group Plc.

Leon P.E.M. van den Boom * (1952)
Nationality: Dutch
Current term expires: 2009
Chairman of the Supervisory Boards of Broekhuis Training Groep B.V. and IE Holding B.V.
Member of the Supervisory Boards of Blue Fox Enterprises N.V., Nyloplast N.V. and RFS Holding (Wehkamp) B.V.

Berend C. Brix * (1949)
Nationality: Dutch
Current term expires: 2010
Partner in Lesuut Finance B.V.
Vice-Chairman of the Supervisory Board of Getronics N.V.
Member of the Supervisory Boards of ANP Holding B.V. and Koninklijke Swets & Zeitlinger Holding N.V.
Non-executive director of Computer Patent Annuities Holdings Limited

Johan M.R. Danneels # (1949)
Nationality: Belgian
Current term expires: 2008
Chief Executive Officer of Essensium N.V.

Heinrich W. Kreutzer * (1949)
Nationality: German
Current term expires: 2010
Chairman of the Supervisory Board of Micronas Semiconductor GmbH, Germany
Member of the Board of Directors of Micronas Semiconductor AG, Switzerland

* *Member Audit Committee*

Member Nomination, Selection and Remuneration Committee

Management Board

Arthur H. del Prado
Chairman of the Management Board, President and Chief Executive Officer

Lee Wai Kwong
Member of the Management Board, Chief Executive Officer of ASM Pacific Technology Ltd.

Charles D. (Chuck) del Prado
Member of the Management Board, Regional Manager front-end operations U.S.A. and President and General Manager of ASM America, Inc.

A. (Naud) J.M. van der Ven
Member of the Management Board and Chief Financial Officer

J. (Han) F.M. Westendorp
Member of the Management Board and Chief Operating Officer front-end operations

Senior Management

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Regional Manager front-end operations Europe and General Manager of ASM Europe B.V.

Fukumi Tomino
Regional Manager front-end operations Asia and Managing Director of ASM Japan K.K.

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Chief Technology Officer front-end operations and Director of Research and Development

Hans van Selm
Group Controller and Finance Director front-end operations

Richard W. Bowers
Chief Legal Officer front-end operations

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Member of the Board of Directors and Vice Chairman of ASM Pacific Technology Ltd.

Chow Chuen, James
Member of the Board of Directors and Chief Operating Officer of ASM Pacific Technology Ltd.

Fung Shu Kan, Alan
Member of the Board of Directors and Chief Financial Officer of ASM Pacific Technology Ltd.
(till April 16, 2007)

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Annual Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on Tuesday, May 22, 2007

Financial Calendar for 2007

May 2, 2007
Announcement of first quarter results 2007

July 30, 2007
Announcement of second quarter results 2007

October 29, 2007
Announcement of third quarter results 2007

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(After proposed appropriation of net earnings for the year)

(thousands except share data)			EUR
			December 31,
Assets	**Note**	2005	**2006**
Cash and cash equivalents	**4**	135,000	**193,872**
Accounts receivable (less allowance for doubtful accounts of € 6,693 and € 5,926)	**5**	209,314	**198,359**
Inventories, net	**6**	189,404	**197,089**
Income taxes receivable		22	**49**
Other current assets		24,232	**24,009**
Total current assets		557,972	**613,378**
Debt issuance costs	**14**	5,430	**3,938**
Deferred tax assets	**21**	3,377	**3,594**
Other intangible assets, net	**7**	20,718	**28,025**
Goodwill, net	**8**	62,353	**45,126**
Property, plant and equipment, net	**9**	163,343	**151,265**
Total assets		813,193	**845,326**
Liabilities and Shareholders' Equity			
Notes payable to banks	**10**	21,061	**19,657**
Accounts payable		93,669	**99,841**
Provision for warranty	**11**	19,389	**16,299**
Accrued expenses and other	**12**	74,883	**77,346**
Income taxes payable		7,965	**15,952**
Current portion of long-term debt	**13**	7,150	**7,344**
Total current liabilities		224,117	**236,439**
Pension liabilities	**16**	1,462	**2,032**
Deferred tax liabilities	**21**	2,486	**4,632**
Long-term debt	**13**	25,741	**19,267**
Convertible subordinated debt	**14**	165,219	**153,902**
Total liabilities		419,025	**416,272**
Commitments and contingencies	**17, 18**		
Common shares			
Authorized 110,000,000 shares, par value € 0.04, issued and outstanding 52,678,952 and 53,828,745 shares		2,107	**2,153**
Financing preferred shares			
Authorized 8,000 shares, par value € 40, none issued		-	**-**
Preferred shares			
Authorized 118,000 shares, par value € 40, none issued		-	**-**
Capital in excess of par value		303,325	**319,506**
Retained earnings (accumulated deficit)		(16,761)	**19,204**
Accumulated other comprehensive loss		(14,168)	**(26,725)**
Total shareholders' equity	**15**	274,503	**314,138**
Minority interest		119,665	**114,916**
Total equity		394,168	**429,054**
Total liabilities and shareholders' equity		813,193	**845,326**

See Notes to Consolidated Financial Statements.

(thousands, except per share data)			EUR
		Year ended December 31,	
	Note	2005	**2006**
Net sales	**22**	726,418	**876,013**
Cost of sales		(473,411)	**(537,388)**
Gross profit	**22**	253,007	**338,625**
Operating expenses:			
Selling, general and administrative		(102,571)	**(122,293)**
Research and development, net	**20**	(89,350)	**(77,325)**
Amortization of other intangible assets	**7**	(1,748)	**(1,584)**
Impairment of goodwill and disposal of assets	**2**	(28,582)	**(14,926)**
Total operating expenses		(222,251)	**(216,128)**
Earnings from operations	**22**	30,756	**122,497**
Interest income		5,926	**5,903**
Interest expense		(28,938)	**(17,993)**
Foreign currency transaction gains (losses), net		5,963	**(4,883)**
Earnings before income taxes		13,707	**105,524**
Income tax expense	**21**	(9,482)	**(15,932)**
Earnings		4,225	**89,592**
Gain on dilution of investment in subsidiary	**16**	2,781	**1,255**
Net earnings		7,006	**90,847**
Allocation of net earnings (loss):			
Shareholders of the parent		(36,552)	**35,965**
Minority interest		43,558	**54,882**
Net earnings (loss) per share, allocated to shareholders of the parent:	**24**		
Basic		(0.69)	**0.67**
Diluted		(0.69)	**0.67**
Weighted average number of shares used in computing per share amounts (in thousands):			
Basic		52,638	**53,403**
Diluted		52,638	**53,575**

See Notes to Consolidated Financial Statements.

(thousands)			EUR
		Year ended December 31,	
	Note	2005	**2006**
Net earnings		7,006	**90,847**
Derecognition of equity component convertible subordinated notes, net	**15**	(24,352)	**-**
Other comprehensive income (loss):			
Foreign currency translation effect		35,518	**(30,032)**
Reclassification to Consolidated Statement of Operations of cumulative translation adjustment ASM NuTool	**2**	-	**4,832**
Unrealized gains (losses) on derivative instruments, net of tax	**15**	(2,263)	**244**
Total other comprehensive income (loss)		33,255	**(24,956)**
Comprehensive income		15,909	**65,891**
Allocation of comprehensive income:			
Shareholders of the parent		(41,061)	**23,408**
Minority interest		56,970	**42,483**

See Notes to Consolidated Financial Statements.

(thousands)							EUR
	Attributable to shareholders of the parent					Minority interest	Total equity
	Common shares	Capital in excess of par value	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity		
Balance January 1, 2005	2,105	301,221	(4,561)	(9,659)	289,106	90,947	380,053
Issuance of common shares:							
For stock options	2	652	-	-	654	-	654
Compensation expense stock options	-	1,452	-	-	1,452	-	1,452
Derecognition of equity component convertible subordinated notes, net	-	-	24,352	(24,352)	-	-	-
Net earnings	-	-	(36,552)	-	(36,552)	43,558	7,006
Other comprehensive income	-	-	-	19,843	19,843	13,412	33,255
Other movements in minority interest:							
Dividend paid	-	-	-	-	-	(31,713)	(31,713)
Gain on dilution	-	-	-	-	-	3,461	3,461
Balance December 31, 2005	**2,107**	**303,325**	**(16,761)**	**(14,168)**	**274,503**	**119,665**	**394,168**
Issuance of common shares:							
For stock options	**36**	**10,931**	**-**	**-**	**10,967**	**-**	**10,967**
Settlement agreement with former shareholders NuTool	**10**	**3,914**	**-**	**-**	**3,924**	**-**	**3,924**
Compensation expense stock options	**-**	**1,336**	**-**	**-**	**1,336**	**-**	**1,336**
Net earnings	**-**	**-**	**35,965**	**-**	**35,965**	**54,882**	**90,847**
Other comprehensive income	**-**	**-**	**-**	**(12,557)**	**(12,557)**	**(12,399)**	**(24,956)**
Other movements in minority interest:							
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(51,125)**	**(51,125)**
Gain on dilution	**-**	**-**	**-**	**-**	**-**	**3,893**	**3,893**
Balance December 31, 2006	**2,153**	**319,506**	**19,204**	**(26,725)**	**314,138**	**114,916**	**429,054**

See Notes to Consolidated Financial Statements.

(thousands)			EUR
		Year ended December 31,	
	Note	2005	**2006**
Cash flows from operating activities:			
Net earnings		7,006	**90,847**
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation	**9**	36,006	**35,067**
Amortization of other intangible assets	**7**	1,748	**2,439**
Impairment of property, plant and equipment		3,308	**-**
Impairment of goodwill and disposal of assets	**2**	30,716	**12,841**
Amortization of debt issuance costs	**14**	1,781	**976**
Compensation expense employee share incentive scheme	**16**	6,242	**7,290**
Compensation expense employee stock option plan	**16**	1,452	**1,336**
Deferred income taxes		550	**(151)**
Gain on dilution of investment in subsidiary	**16**	(2,781)	**(1,255)**
Increase in allowance for doubtful receivables	**5**	345	**(169)**
Accrual of interest convertible subordinated notes	**14**	12,592	**6,266**
Changes in other assets and liabilities:			
Accounts receivable		(22,611)	**(6,974)**
Inventories		(14,537)	**(26,095)**
Other current assets		1,918	**(1,632)**
Accounts payable and accrued expenses		14,657	**15,585**
Advance payments from customers		(497)	**1,403**
Deferred revenue		(4,328)	**4,241**
Pension liabilities		(284)	**629**
Income taxes		(5,160)	**10,797**
Net cash provided by operating activities		68,123	**153,441**
Cash flows from investing activities:			
Capital expenditures	**9**	(44,637)	**(39,374)**
Purchase of intangible assets	**7**	(12,050)	**(16,580)**
Acquisition of business, net of common shares issued and cash acquired	**8**	(1,101)	**(1,162)**
Proceeds from sale of other intangible assets	**2**	-	**11,032**
Proceeds from sale of property, plant and equipment		913	**2,750**
Net cash used in investing activities		(56,875)	**(43,334)**
Cash flows from financing activities:			
Notes payable to banks, net		(15,478)	**1,052**
Proceeds from long-term debt and subordinated debt		13,347	**2,694**
Repayments of long-term debt and subordinated debt		(89,620)	**(6,282)**
Proceeds from issuance of common shares		654	**11,843**
Dividends to minority shareholders		(31,713)	**(51,125)**
Net cash used in financing activities		(122,810)	**(41,818)**
Foreign currency translation effect		14,844	**(9,417)**
Net increase (decrease) in cash and cash equivalents		(96,718)	**58,872**
Cash and cash equivalents at beginning of year	**4**	231,718	**135,000**
Cash and cash equivalents at end of year	**4**	135,000	**193,872**
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest		10,295	**6,000**
Income taxes		14,093	**5,893**
Non cash investing and financing activities:			
Capital lease expenditures		1,414	**-**

See Notes to Consolidated Financial Statements.

Amounts in euro thousands, except per share data and unless otherwise stated

NOTE 1 *Summary of Significant Accounting Policies*

Basis of presentation – ASM International N.V. ('ASMI' or 'the Company') is a Netherlands public liability company domiciled in the Netherlands with its principal operations in Europe, the United States, Southeast Asia and Japan. The Company dedicates its resources to the research, development, manufacturing, marketing and servicing of equipment and materials used to produce semiconductor devices. The Company provides production solutions for the main areas of semiconductor production: wafer processing (front-end), assembly and packaging (back-end). Since the listing of ASMI on NASDAQ in the United States of America in 1981, the Company has followed accounting principles generally accepted in the United States of America ("US GAAP"), both for internal as well as external purposes. The Company applies the going concern basis in preparing its Consolidated Financial Statements. Historical cost is used as the measurement basis unless otherwise indicated.

The accompanying financial statements, prepared for statutory purposes, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

Principles of Consolidation – The Consolidated Financial Statements include the accounts of ASMI and its subsidiaries ('the Company'), where ASMI holds a controlling interest. The minority interest of third parties is disclosed separately in the Consolidated Financial Statements. All intercompany profits, transactions and balances have been eliminated in consolidation.

Foreign Currency Translation – The functional and reporting currency of ASMI is the euro ("EUR"). The financial information for subsidiaries outside the Netherlands is measured using local currencies as the functional currency of that subsidiary. Assets and liabilities of foreign subsidiaries, of which the functional currency is not the euro, are translated into euros at foreign currency exchange rates prevailing at the end of the year. Revenues and costs relating to the operation of such subsidiaries are translated at weighted average foreign currency exchange rates during the year. Resulting translation adjustments are directly recorded in Shareholders' Equity. Exchange rate differences on translations of other transactions in foreign currencies are reflected in the Consolidated Statement of Operations.

Reclassifications – Certain reclassifications have been made to the prior year Consolidated Financial Statements to conform to the current year presentation.

Financial Instruments – Financial assets and financial liabilities are recognized on the Company's Consolidated Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, and short-term deposits with a maturity of three months or less at the date of purchase.

Accounts receivable

Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Allowances for doubtful accounts are recognized when the asset is impaired. The allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate at initial recognition.

Accounts payable

Accounts payable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Bank debt

Notes payable to bank and long-term debt are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds and the settlement or redemption of borrowings is recognized over the term of the debt.

Convertible subordinated debt
Convertible subordinated notes are regarded as compound instruments, consisting of a liability instrument and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible subordinated notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the notes into equity of the Company, is included in equity (accumulated other comprehensive loss).

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible subordinated notes.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs.

Derivative Financial Instruments
The Company uses derivative instruments to manage certain exposures to foreign currency risks. The Company's objectives for holding derivatives are to minimize these risks using the most effective methods to eliminate or reduce the impact of such exposure.

The Company recognizes all derivatives, including foreign currency exchange contracts, on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are recognized in earnings. All of the Company's derivative financial instruments are recorded at their fair value in other current assets or accrued expenses.

ASMI and its subsidiaries conduct business in a number of foreign countries, with certain transactions denominated in currencies other than the functional currency of the Company or one of its subsidiaries conducting the business. The purpose of the Company's foreign currency management is to manage the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. The Company does not use derivative financial instruments for trading or speculative purposes. The Company uses derivative financial instruments, such as forward exchange contracts, to hedge foreign currency denominated sales and purchase transactions. As a policy the Company only hedges forecasted foreign currency transactions for which the Company has a firm commitment from a customer or to a supplier. The hedges related to forecasted transactions are designated and documented at the inception of the hedge as cash flow hedges, and are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of other comprehensive income in Shareholders' Equity, and is reclassified into earnings when the hedged transaction affects earnings. Substantially all amounts included in other comprehensive income at December 31, 2006 will be reclassified to earnings within twelve months upon completion of the underlying transaction. If the underlying transaction being hedged fails to occur, or if a portion of any derivative is ineffective, the gain or loss is immediately recognized in earnings under foreign currency transaction gains (losses) in the Consolidated Statement of Operations.

Furthermore, the Company continues to manage the currency exposure of cash and cash equivalents, certain receivables and payables using derivative instruments, such as forward exchange contracts and currency swaps, and non-derivative instruments, such as debt borrowings in foreign currencies. The gains or losses on these instruments provide an offset to the gains or losses recorded on the foreign currency receivables and payables. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under foreign currency transaction gains (losses) in the Consolidated Statement of Operations. Foreign currency receivables and payables are recorded at the exchange rate at the balance sheet date and gains and losses as a result of changes in exchange rates are recorded in earnings under foreign currency transaction gains (losses) in the Consolidated Statement of Operations.

Gains or losses recognized resulting from the ineffectiveness of cash flow and fair value hedges were not material for the years ended December 31, 2005 and 2006.

Inventories – Inventories are stated at the lower of cost (first-in, first-out method) or market value. Costs include net prices paid for materials purchased, charges for freight and custom duties, direct wages of employees and charges for material handling.

Other Intangible Assets – IAS 38 "Intangible Assets" requires capitalization of development expenses if, and only if, an entity can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. its intention to complete the intangible asset and use or sell it;
3. its ability to use or sell the intangible asset;
4. how the intangible asset will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Prior to December 31, 2004 ASMI's administrative systems did not distinguish between research expenses and development expenses and as a result, the Company could not demonstrate its ability to measure the expenses attributable to the intangible asset during its development reliably. At January 1, 2005, the Company implemented a change to its administrative systems. As a result, from 2005 onwards the Company capitalizes development expenses that meet the above-mentioned criteria in its Consolidated Financial Statements. Amortization of capitalized development expenses is calculated using the straight-line method over the estimated useful lives of the developed product. Amortization starts when the developed product is transferred to high volume manufacturing.

Other intangible assets also include purchased technology from third parties and software developed or purchased for internal use, which have finite lives and are amortized over the estimated useful lives using the straight-line method.

Goodwill – Business combinations are accounted for under the purchase method. As from January 1, 2004, goodwill and other intangibles assets with indefinite lives are no longer amortized. Instead, the Company tests its recorded goodwill and other intangible assets with indefinite lives for impairment each year on December 31 or if events or changes in circumstances indicate that the carrying amount exceeds the fair value of the goodwill and other intangible assets with indefinite lives. Reference is made to Note 2.

Property, Plant and Equipment – Property, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses. Capital leased assets are recorded at the present value of future lease obligations. Depreciation is calculated using the straight-line method over the estimated useful lives. Leasehold improvements are depreciated over the lesser of the estimated useful life of the leasehold improvement or the term of the underlying lease.

Recoverability of Long-Lived Assets – Long-lived assets and other intangible assets (except those not being amortized) to be held and used by the Company are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future discounted cash flows expected to result from the use of the asset. If the discounted future cash flow is less than the carrying amount of the asset, the asset is deemed impaired. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset. Long-lived assets and other intangibles (except those not being amortized) to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Revenue Recognition – The Company recognizes revenue when relevant revenue recognition criteria have been met, including persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectibility is reasonably assured. The Company's revenue includes revenue from contractual arrangements consisting of multiple deliverables, such as equipment and installation. The revenue from the undelivered element of the arrangement is deferred at fair value until delivery of the element.

In general, the Company recognizes revenue from sales of equipment upon shipment of equipment, only if testing at the factory has proven that the equipment has met substantially all of the customer's criteria and specifications. The outcome of the test is signed-off by the customer ("factory acceptance"). Instead of signing-off, the customer may choose to provide a waiver, e.g. with respect to repeat orders.

The Company recognizes revenue from installation of equipment upon completion of installation at the customer's site. At the time of shipment, the Company defers that portion of the sales price related to the fair value of installation. The fair value of the installation process is measured based upon the per-hour amounts charged by third parties for similar installation services. Installation is completed when testing at the customer's site has proven that the equipment has met all of the customer's criteria and specifications. The completion of installation is signed-off by the customer ("final acceptance").

The Company’s sales frequently involve complex equipment, which may include customer-specific criteria, sales to new customers or equipment with new technology. For each sale, the decision whether to recognize revenue is, in addition to shipment and factory acceptance, based on the contractual agreement with a customer, the experience with a particular customer, the technology and the number of similarly configured equipment previously delivered. Instead of recognizing revenue, the Company could decide to defer revenue recognition until completion of installation at the customer’s site and obtaining final acceptance from the customer.

Revenue related to training and technical support service is recognized when the service is rendered. Revenue from the sale of spare parts and materials is recognized when the goods are shipped.

Cost of Sales – Cost of sales includes direct costs such as materials, labor and related overhead. Cost of sales also includes cost of warranty, third party commission and royalty payments and costs relating to prototype and experimental products, which the Company may subsequently sell to customers. The estimated costs of warranty on product shipments include the cost of labor, material and related overhead necessary to repair a product under the warranty period. The estimated costs are accrued for in a provision for warranty and are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales. Actual warranty costs are charged against the provision for warranty.

Restructuring – A restructuring provision is recognized for exit or disposal activities when the conditions of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” have been met.

Research and Development Expenses, net – Research expenses are expensed as incurred. Costs, which relate to prototype and experimental models that are sold to customers, are charged to cost of sales. Subsidies and other governmental credits to cover research and development costs relating to approved projects are recorded as research and development credits in the period when such project costs occur. The research and development expenses are presented net of the development credits. Technical development credits received from the government of the Netherlands, to offset the costs of certain research and development projects, are contingently repayable to the extent sales of products developed in such projects occur within the agreed upon period. Such repayments are calculated as a percentage of sales and are charged to cost of sales. No such repayments are required if such sales do not occur within the agreed upon period. Reference is made to Note 20.

Income Taxes – The Company recognizes deferred tax assets and liabilities for the estimated future tax consequences of events attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the Consolidated Statement of Operations in the period in which the enacted rate changes. Deferred tax assets are reduced through a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized.

Pensions – The Company has retirement plans covering substantially all employees. The principal plans are defined contribution plans, except for the plans of the Company’s operations in the Netherlands and Japan. The Company’s employees in the Netherlands participate in a multi-employer defined benefit plan. Payments to defined contribution plans and the multi-employer plan are recognized as an expense in the Consolidated Statement of Operations as they fall due. The Company accounts for the multi-employer plan as if it were a defined contribution plan as the manager of the plan is not able to provide the Company with the required Company-specific information to enable the Company to account for the plan as a defined benefit plan.

The Company’s employees in Japan participate in a defined benefit plan. Pension costs in respect of this defined benefit plan are determined using the projected unit credit method. These costs primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets. Actuarial gains and losses are recognized in income, spread over the average remaining service lives of employees, using the corridor approach. Reference is made to Note 16.

Share-Based Payments – IFRS 2 “Share-based Payment” requires expensing the fair value of options granted to employees. The Company applies IFRS 2 with respect to options granted after November 7, 2002 and not yet vested at January 1, 2005. The total estimated share-based compensation expense, determined under the fair value based method, net of related tax effect, is amortized ratably over the option vesting periods. Reference is made to Note 16.

Issuance of Shares by a Subsidiary – As further described in the Notes to Consolidated Financial Statements herein, from time to time, the consolidated subsidiary ASM Pacific Technology Ltd. ("ASMPT") will issue common shares pursuant to their Employee Share Incentive Scheme. The effect of these issuances is a dilution of the ownership in ASMPT. The Company recognizes the impact of these issuances in the Consolidated Statement of Operations as a gain on dilution of investment in subsidiary.

Net Earnings (Loss) per Share – Basic earnings (loss) per share, allocated to shareholders of the parent, is computed by dividing net earnings (loss), allocated to shareholders of the parent, by the weighted average common shares outstanding for the year. Diluted earnings (loss) per share reflects the potential dilution that could occur if options issued under the Company's stock option plan were exercised and if the Company's convertible subordinated debt borrowings were converted, unless the conversion would have an anti-dilutive effect.

Comprehensive Income (Loss) – Comprehensive income (loss) consists of net earnings (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes gains and losses that are not included in net earnings (loss), but are recorded directly in Shareholders' Equity. For the years 2005 and 2006 other comprehensive income (loss) included foreign currency translation effects and unrealized gains and losses on derivative financial instruments.

Use of Estimates – The preparation of the Company's Consolidated Financial Statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reported periods. Actual results could differ from those estimates.

New Accounting Pronouncements

At the date of authorisation of these financial statements, the IASB and its interpretation committee IFRIC have issued the following Standards and Interpretations, which are not effective yet:

- IFRS 7, "Financial Instruments: Disclosures" (effective for annual periods beginning on or after January 1, 2007), which introduces new disclosures related to financial instruments;
- IFRS 8, "Operating Segments" (effective for annual periods beginning on or after January 1, 2009). IFRS 8 includes requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers;
- IAS 1, "Presentation of Financial Statements - Capital Disclosures" (effective for annual periods beginning on or after January 1, 2007). IAS 1 requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital;
- IFRIC 8, "Scope of IFRS 2" (effective for annual periods beginning on or after May 1, 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of IFRS 2;
- IFRIC 9, "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after June 1, 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract;
- IFRIC 10, "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after November 1, 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date; and
- IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions" (effective for annual periods beginning on or after March 1. 2007). This interpretation addresses the issue whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2. IFRIC 11 also addresses share-based payment arrangements that involve two or more entities within the same group.

The Company anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on its Consolidated Financial Statements.

NOTE 2 *Impairment and Disposal of ASM NuTool*

Due to continued negative cash flows and the expected future returns on the invested capital employed, the Company decided in 2005 to reduce its 100% subsidiary ASM NuTool to a small operation, focusing on process and intellectual property development with the intention of licensing these technologies in the future. In December 2006, the Company sold substantially all of the ASM NuTool patent portfolio to a third party.

In 2005, the Company recorded impairment charges for goodwill and property, plant and equipment, the write-down of inventories and other current assets and the recognition of contractual purchase commitments in the amount of € 34,422, net of taxes. Of these charges € 606 was accrued for as of December 31, 2005 and paid in cash in 2006.

In 2006, the Company recorded impairment charges for goodwill and disposal of assets in the amount of € 14,926. Of these charges € 1,532 was accrued for as of December 31, 2006 and is expected to be paid in cash through 2009. The sale of IP resulted in a gain in the amount of € 6,689.

The details of the charges for the year ended December 31, 2005 are as follows:

	Cost of sales	Selling, general and administrative expenses	Research and development expenses	Impairment of goodwill	Income taxes	Total charges
Impairment of goodwill	-	-	-	28,582	-	28,582
Impairment of property, plant and equipment	-	-	2,134	-	-	2,134
Write-down of inventories and other current assets	1,326	127	1,006	-	641	3,100
Recognition of contractual purchase commitments	606	-	-	-	-	606
	1,932	127	3,140	28,582	641	34,422

The details of the charges for impairment of goodwill and disposal of assets, as included in the Consolidated Statement of Operations for the year ended December 31, 2006, are as follows:

Gain from the sale of patent portfolio	6,689
Impairment of goodwill	(11,364)
Settlement agreement with former shareholders NuTool	(3,048)
Reclassification to Consolidated Statement of Operations of cumulative translation adjustment ASM NuTool	(4,832)
Other restructuring charges	(2,371)
	(14,926)

The gain from the sale of patent portfolio is specified as follows:

Net cash proceeds	11,908
Settlement charges former shareholders NuTool	(876)
	11,032
Carrying value of patent portfolio	(4,343)
Gain from the sale of patent portfolio	6,689

In January 2006, the Company reached a settlement agreement in the dispute with former NuTool shareholders regarding the number of additional common shares of the Company to be issued in connection with the potential satisfaction of financial performance targets following the 2004 acquisition of NuTool. The Company issued 193,883 common shares of the Company with a fair value of € 3,048 in March 2006 and 56,258 common shares of the Company with a fair value of € 876 in December 2006 related to the sale of the patent portfolio of ASM NuTool.

The impairment charges recorded in 2005 and 2006 for goodwill are the result of a comparison between the fair value of the goodwill with respect to ASM NuTool and the carrying amount of the goodwill. The fair value is estimated by management using a discounted cash flow technique of expected future returns.

The Company reclassified the cumulative translation adjustment of ASM NuTool's operations in the amount of € 4,832, included in Shareholders' Equity, as a loss to the Consolidated Statement of Operations, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates."

Other restructuring charges recorded by the Company in 2006 include the write-down of other current assets and the recognition of contractual lease obligations.

A breakdown of adjustments to reconcile impairment of goodwill and disposal of assets to net cash from operating activities, as reported in the Consolidated Statements of Cash Flows, is as follows:

	Year ended December 31,	
	2005	**2006**
Gain from the sale of patent portfolio	-	**(6,689)**
Impairment of property, plant and equipment	2,134	**286**
Impairment of goodwill	28,582	**11,364**
Settlement agreement with former shareholders NuTool	-	**3,048**
Reclassification of cumulative translation adjustment	-	**4,832**
	30,716	**12,841**

Reference is made to Note 8 and Note 9.

NOTE 3 *List of Significant Subsidiaries*

Name	Location	% Ownership December 31, 2005	2006
ASM Europe B.V. [1]	Almere, the Netherlands	100.00%	100.00%
ASM United Kingdom Sales B.V. [1]	Almere, the Netherlands	100.00%	100.00%
ASM Germany Sales B.V. [1]	Almere, the Netherlands	100.00%	100.00%
Advanced Semiconductor Materials (Netherlands Antilles) N.V.	Willemstad, Curacao, Netherlands Antilles	100.00%	100.00%
ASM France S.A.R.L.	Montpellier, France	100.00%	100.00%
ASM Belgium N.V.	Leuven, Belgium	100.00%	100.00%
ASM Italia S.r.l.	Agrate, Italy	100.00%	100.00%
ASM Microchemistry Oy	Helsinki, Finland	100.00%	100.00%
ASM Services and Support Ireland Ltd.	Dublin, Ireland	100.00%	100.00%
ASM Services and Support Israel Ltd.	Tel Aviv, Israel	-	100.00%
ASM America, Inc.	Phoenix, Arizona, United States	100.00%	100.00%
ASM Japan K.K.	Tokyo, Japan	100.00%	100.00%
ASM Wafer Process Equipment Ltd.	Quarry Bay, Hong Kong, People's Republic of China	100.00%	100.00%
ASM China Ltd.	Shanghai, People's Republic of China	100.00%	100.00%
ASM Wafer Process Equipment Singapore Pte Ltd.	Singapore	100.00%	100.00%
ASM Far East Marketing Ltd.	Hsin-Chu, Taiwan	100.00%	100.00%
ASM Front-End Sales & Services Taiwan Co., Ltd.	Hsin-Chu, Taiwan	100.00%	100.00%
ASM Front-End Manufacturing Singapore Pte Ltd.	Singapore	100.00%	100.00%
ASM NuTool, Inc.	Phoenix, Arizona, United States	100.00%	100.00%
ASM Genitech Korea Ltd.	Daedeoggu Daejon, South Korea	100.00%	100.00%
NanoPhotonics AG	Mainz, Germany	69.10%	71.10%
ASM Pacific Technology Ltd.	Kwai Chung, Hong Kong, People's Republic of China	53.59%	53.35%
ASM Assembly Automation Ltd. [2]	Kwai Chung, Hong Kong, People's Republic of China	53.59%	53.35%
ASM Assembly Materials Ltd. [2]	Kwai Chung, Hong Kong, People's Republic of China	53.59%	53.35%
ASM Technology Singapore Pte Ltd. [2]	Singapore	53.59%	53.35%
ASM Technology (M) Sdn. Bhd. [2]	Johor Bahru, Malaysia	53.59%	53.35%
ASM Semiconductor Materials (Shenzhen) Co. Ltd. [2]	Shenzhen, People's Republic of China	53.59%	53.35%
ASM Pacific Investments Ltd. [2]	Kwai Chung, Hong Kong, People's Republic of China	53.59%	53.35%
Edgeward Development Ltd. [2]	Guernsey, Channel Islands	53.59%	53.35%
Edgeward USA L.L.C. [2]	Wilmington, Delaware, United States	53.59%	53.35%
Shenzhen ASM Micro Electronic Technology Co. Ltd. [2]	Shenzhen, People's Republic of China	53.59%	53.35%

(1) For these subsidiaries ASM International N.V. has filed statements at the Dutch Chamber of Commerce assuming joint and several liability in accordance with Article 403 of Book 2, Part 9 of the Netherlands Civil Code.

(2) 100% subsidiaries of ASM Pacific Technology Ltd.

The accounts of the above mentioned entities and of certain insignificant subsidiaries not mentioned above have been consolidated in the Consolidated Financial Statements.

NOTE 4 *Cash and Cash Equivalents*

At December 31, 2006, cash and cash equivalents of the Company's subsidiary ASMPT amounted to € 89,273 and are restricted to be used only in the operations of ASMPT.

NOTE 5 *Accounts receivable*

The changes in the allowance for doubtful accounts receivable are as follows:

Balance January 1, 2005	(5,709)
Charged to selling, general and administrative expenses	(999)
Deductions	654
Foreign currency translation effect	(639)
Balance December 31, 2005	**(6,693)**
Charged to selling, general and administrative expenses	**(1,176)**
Deductions	**1,345**
Foreign currency translation effect	**598**
Balance December 31, 2006	**(5,926)**

NOTE 6 *Inventories*

Inventories consist of the following:

	December 31,	
	2005	**2006**
Components and raw materials	93,611	**100,462**
Work in process	94,137	**93,205**
Finished goods	29,578	**31,484**
Total inventories, gross	217,326	**225,151**
Allowance for obsolescence	(27,922)	**(28,062)**
Total inventories, net	189,404	**197,089**

The changes in the allowance for obsolescence are as follows:

Balance January 1, 2005	(24,588)
Charged to cost of sales	(2,914)
Deductions	2,060
Foreign currency translation effect	(2,480)
Balance December 31, 2005	**(27,922)**
Charged to cost of sales	**(7,747)**
Deductions	**5,136**
Foreign currency translation effect	**2,471**
Balance December 31, 2006	**(28,062)**

NOTE 7 *Other Intangible Assets*

	Capitalized development expenses	Software	Purchased technology and other intangible assets	Total
At cost:				
Balance January 1, 2005	-	-	10,115	10,115
Capitalization of development expenses	11,318	-	-	11,318
Additions	-	732	-	732
Foreign currency translation effect	223	14	1,662	1,899
Balance December 31, 2005	**11,541**	**746**	**11,777**	**24,064**
Capitalization of development expenses	**13,282**	**-**	**-**	**13,282**
Additions	**-**	**2,922**	**376**	**3,298**
Sale of patent portfolio ASM NuTool, Inc.	**-**	**-**	**(7,446)**	**(7,446)**
Foreign currency translation effect	**(1,746)**	**(63)**	**(1,032)**	**(2,841)**
Balance December 31, 2006	**23,077**	**3,605**	**3,675**	**30,357**

	Capitalized development expenses	Software	Purchased technology and other intangible assets	Total
Accumulated amortization:				
Balance January 1, 2005	-	-	1,282	1,282
Amortization for the year	-	115	1,633	1,748
Foreign currency translation effect	-	-	316	316
Balance December 31, 2005		**115**	**3,231**	**3,346**
Amortization for the year	**-**	**855**	**1,584**	**2,439**
Sale of patent portfolio ASM NuTool, Inc.	**-**	**-**	**(3,103)**	**(3,103)**
Foreign currency translation effect	**-**	**(15)**	**(335)**	**(350)**
Balance December 31, 2006	**-**	**955**	**1,377**	**2,332**

Other intangible assets, net:				
December 31, 2005	11,541	631	8,546	20,718
December 31, 2006	**23,077**	**2,650**	**2,298**	**28,025**

Other intangible assets are amortized over useful lives of 3 to 7 years. Estimated amortization expenses relating to other intangible assets are as follows:

2007	2,446
2008	4,724
2009	5,159
2010	4,867
2011	4,684
Years thereafter	6,145
	28,025

NOTE 8 *Goodwill*

The changes in the carrying amount of goodwill are as follows:

Balance January 1, 2005	78,828
Additions:	
NanoPhotonics AG	1,101
Impairment:	
ASM NuTool, Inc.	(29,552)
Foreign currency translation effect	11,976
Balance December 31, 2005	**62,353**
Addition:	
NanoPhotonics AG	**300**
ASM Genitech Korea Ltd.	**957**
Impairment:	
ASM NuTool, Inc.	**(11,364)**
Other charges:	
ASM Pacific Technology Ltd.	**(1,776)**
Foreign currency translation effect	**(5,344)**
Balance December 31, 2006	**45,126**

The allocation of the carrying amount of goodwill is as follows:

	December 31,	
	2005	**2006**
Front-end segment:		
ASM Microchemistry Oy	2,612	**2,612**
NanoPhotonics AG	1,348	**1,648**
ASM NuTool, Inc.	12,715	**-**
ASM Genitech Korea Ltd.	9,330	**10,089**
Back-end segment:		
ASM Pacific Technology Ltd.	36,348	**30,777**
Total	62,353	**45,126**

NanoPhotonics AG – In 1999, the Company acquired a 24.0% interest in NanoPhotonics, a German supplier of precision thin film metrology equipment, for € 407. In 1999, the Company's Chief Executive Officer also purchased a 44.5% interest in NanoPhotonics. Due to the issuance of new shares by NanoPhotonics to third parties in 2003, the Company's interest diluted to 23.61% and the Chief Executive Officer's interest diluted to 43.77%. In 2004 the Chief Executive Officer purchased an additional 1.72% interest in NanoPhotonics from another shareholder. For all the shares purchased by the Chief Executive Officer, the Company and the Chief Executive Officer agreed that the Company could purchase such shares at the same price the officer paid to acquire the shares. The Company exercised this option in December 2005 for a total consideration of € 1,101. In 2006, the Company acquired an additional 2.0% interest in NanoPhotonics for a consideration of € 300. The acquisitions were accounted for using the purchase accounting method. The Company estimated that no amounts could be allocated to identifiable net assets and the entire consideration has been recorded as goodwill. At December 31, 2006 the Company holds a 71.1 % interest in NanoPhotonics.

ASM NuTool, Inc. – In December 2001 and April 2003, the Company acquired a 15.7% interest in NuTool for a total consideration of € 21,507 at the time of the purchase. On June 2, 2004 the Company acquired the remaining 84.3% interest in NuTool and as from June 2, 2004 the Company owned 100% of the outstanding capital stock of NuTool. The Company purchased the 84.3% interest in exchange for 1,962,282 common shares of the Company, replacement employee stock options to acquire 57,720 common shares of the Company and the possible future issuance of additional common shares if certain financial performance targets were satisfied at various times during the period ending December 31, 2006. The total consideration for the 84.3% interest, including expenses, amounted to € 36,142. The excess of the purchase price of the 84.3% interest in NuTool and the carrying value of the 15.7% interest in NuTool on June 2, 2004 over the fair value of the identifiable net assets has been recorded as goodwill in the amount of € 44,437. In 2005 and 2006 the Company recorded impairment charges for goodwill with respect to ASM NuTool of € 28,582 and € 11,364 respectively. Reference is made to Note 2.

ASM Genitech Korea Ltd. – On August 5, 2004, the Company acquired 100% of the common shares in Genitech in exchange for 247,638 common shares of the Company, € 4,640 in cash and the possible future variable cash payments of up to US$ 9,200 if certain financial performance targets are satisfied at various times during the period ending December 31, 2008. The total consideration at the date of the acquisition in 2004, including expenses, amounted to € 8,948, including variable cash payments that may be payable in the future based on certain financial performance targets.

As of August 5, 2004, the assets and liabilities of Genitech have been consolidated in the Consolidated Financial Statements of the Company using the purchase accounting method. The excess of the purchase price over the fair value of the identifiable net assets has been recorded as goodwill in the amount of € 7,926. In 2006 the Company revised its assessment of future variable cash payments related to financial performance targets and recorded an additional purchase consideration of € 957.

ASM Pacific Technology Ltd. – In 2006, the Company recorded against goodwill a charge of € 1,776 to the Consolidated Statement of Operations. Reference is made to Note 16.

NOTE 9 *Property, Plant and Equipment*

The changes in the amount of property, plant and equipment are as follows:

	Land, buildings and leasehold improvements	Machinery, equipment, furniture and fixtures	Total
At cost:			
Balance January 1, 2005	91,641	248,235	339,876
Capital expenditures	6,495	39,556	46,051
Impairment charges	(117)	(5,325)	(5,442)
Retirements and sales	(228)	(9,301)	(9,529)
Foreign currency translation effect	9,435	29,875	39,310
Balance December 31, 2005	**107,226**	**303,040**	**410,266**
Capital expenditures	**4,549**	**34,825**	**39,374**
Impairment charges	**-**	**(286)**	**(286)**
Retirements and sales	**(5,655)**	**(24,191)**	**(29,846)**
Foreign currency translation effect	**(7,900)**	**(29,617)**	**(37,517)**
Balance December 31, 2006	**98,220**	**283,771**	**381,991**
Accumulated depreciation:			
Balance January 1, 2005	43,561	153,619	197,180
Depreciation for the year	6,096	29,910	36,006
Retirements and sales	(221)	(8,395)	(8,616)
Foreign currency translation effect	4,167	18,186	22,353
Balance December 31, 2005	**53,603**	**193,320**	**246,923**
Depreciation for the year	**6,289**	**28,778**	**35,067**
Retirements and sales	**(5,441)**	**(21,655)**	**(27,096)**
Foreign currency translation effect	**(4,685)**	**(19,483)**	**(24,168)**
Balance December 31, 2006	**49,766**	**180,960**	**230,726**
Property, plant and equipment, net:			
December 31, 2005	53,623	109,720	163,343
December 31, 2006	**48,454**	**102,811**	**151,265**

Useful lives in years:	- Buildings and leasehold improvements	10-25
	- Machinery, equipment, furniture and fixtures	2-10

Property, plant and equipment include real estate held for sale with a carrying value of € 1,757.

With respect to impairment charges, reference is made to Note 2.

ASM Japan and ASM Front-End Manufacturing Singapore have pledged real estate and other assets with a carrying value of € 33,996 to secure loan facilities outstanding in Japan and Singapore.

NOTE 10 *Notes Payable to Banks*

Information on notes payable to banks is as follows:

Short-term debt outstanding in:	December 31,	
	2005	**2006**
Japan	20,016	**17,984**
Singapore	995	**966**
Hong Kong	50	**707**
	21,061	**19,657**

Short-term debt outstanding in local currencies is as follows (in thousands):

	December 31,	
	2005	**2006**
Japanese yen	2,780,000	**2,810,000**
Singapore dollar	1,950	**1,950**
Hong Kong dollar	462	**7,244**

Short-term debt outstanding in Japan in the amount of € 1,280 is collateralized by real estate of ASM Japan.

ASMI and its individual subsidiaries borrow under separate short-term lines of credit with banks in the countries where they are located. The lines contain general provisions concerning renewal and continuance at the option of the banks. The weighted average interest rate of the outstanding notes payable was 1.99% at December 31, 2006.

Total short-term lines of credit amounted to € 124,180 at December 31, 2006. The amount outstanding at December 31, 2006 was € 19,657 and the undrawn portion totaled € 104,523. The undrawn portion includes the Company's bank credit facility of € 50,000 with Rabobank. The facility, available through February 28, 2010, is secured by a portion of the Company's shareholding in ASMPT. The undrawn portion also includes € 28,313 for ASMPT, which amount is restricted to be used only in the operations of ASMPT. The undrawn portion for ASM Japan amounts to € 25,920, which is restricted to be used only in the operations of ASM Japan.

ASMI is guarantor with respect to all short-term debt outstanding in Japan and Singapore. ASMI does not provide guarantees for borrowings of ASMPT and there are no guarantees from ASMPT to secure indebtedness of ASMI. Under the rules of the Stock Exchange of Hong Kong, ASMPT is precluded from providing loans and advances other than trade receivables in the normal course of business, to ASMI or its non ASMPT subsidiaries.

NOTE 11 *Provision for Warranty*

The changes in the amount of provision for warranty are as follows:

Balance January 1, 2005	17,139
Additions	8,289
Deductions	(6,926)
Foreign currency translation effect	887
Balance December 31, 2005	**19,389**
Additions	**10,474**
Deductions	**(12,678)**
Foreign currency translation effect	**(886)**
Balance December 31, 2006	**16,299**

NOTE 12 *Accrued Expenses and Other*

Accrued expenses and other consist of the following:

	December 31,	
	2005	**2006**
Advance payments from customers	7,943	**8,095**
Deferred revenue	9,862	**13,652**
Personnel related items	25,859	**24,686**
Other	31,219	**30,913**
	74,883	**77,346**

NOTE 13 *Long-term Debt*

Long-term debt consists of the following:

	December 31,	
	2005	**2006**
Term loans:		
Japan, 0.5-3.2%, due 2008 – 2011	20,952	**17,722**
Finland, 1.0%, due 2007 – 2010	1,964	**1,134**
Singapore, 4.7-5.2%, due 2008 – 2011	5,085	**3,693**
South Korea, 3.0-9.0%, due 2007 – 2008	1,067	**779**
Germany, 5.0-7.5%, due 2007 – 2010	1,748	**1,748**
Mortgage loans:		
Japan, 2.6%, due 2006	112	**-**
Capital lease commitments:		
United States, 7.9%, due 2007	621	**182**
Japan, 1.8%, due 2007 – 2010	1,342	**1,353**
	32,891	**26,611**
Current portion	(7,150)	**(7,344)**
	25,741	**19,267**

Long-term debt, including current portion, in local currencies is as follows (in thousands):

	December 31,	
	2005	**2006**
Euro	3,712	**2,882**
United States dollars	734	**240**
Japanese yen	3,111,911	**2,980,400**
Singapore dollars	9,970	**7,455**
Korean won	1,270,000	**950,000**

Aggregate annual principal repayments for years subsequent to December 31, 2006 are:

2007	7,344
2008	13,356
2009	2,364
2010	2,972
2011	575
	26,611

Long-term debt outstanding in Singapore in the amount of € 3,693 is collateralized by real estate and other assets of ASM Front-End Manufacturing Singapore. ASMI is guarantor with respect to all long-term debt outstanding in Singapore.

Capital lease commitments relate to commitments for equipment and machinery.

NOTE 14 *Convertible Subordinated Debt*

In May 2003, ASMI issued US$ 90.0 million in principal amount of 5.25% convertible subordinated notes due in May 2010 in a private offering. Interest on the notes is payable on May 15 and November 15 of each year. The notes are subordinated in right of payment to all of the Company's existing and future senior indebtedness. The notes are convertible, at the option of the holder, into shares of the Company's common stock initially at a conversion rate of 52.0237 shares of common stock for each US$ 1,000 principal amount of notes, subject to adjustment in certain circumstances. This is equivalent to an initial conversion price of US$ 19.22 per share. On or after May 20, 2006, the Company may redeem any of the notes at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, if the closing price of the Company's common shares has exceeded 150% of the conversion price for at least 20 trading days in any period of 30 consecutive trading days and if certain other conditions are satisfied. In the event of a change in control, the

Company may be required to repurchase the notes. At December 31, 2006, none of the US$ 90.0 million convertible subordinated notes have been converted or repurchased.

In December 2004, ASMI issued US$ 150.0 million in principal amount of 4.25% convertible subordinated notes due in December 2011 in a private offering. Interest on the notes is payable on June 6 and December 6 of each year. The notes are subordinated in right of payment to all of the Company's existing and future senior indebtedness. The notes are convertible, at the option of the holder, into shares of the Company's common stock initially at a conversion rate of 48.0307 shares of common stock for each US$ 1,000 principal amount of notes, subject to adjustment in certain circumstances. This is equivalent to an initial conversion price of US$ 20.82 per share. On or after December 6, 2007, the Company may redeem any of the notes at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, if the closing price of the Company's common shares has exceeded 130% of the conversion price for at least 20 trading days in any period of 30 consecutive trading days. In the event of a change in control, the Company may be required to repurchase the notes. At December 31, 2006, none of the US$ 150.0 million convertible subordinated notes have been converted or repurchased.

The US$ 150.0 million convertible subordinated notes rank pari passu with the US$ 90.0 million convertible subordinated notes.

The Company's convertible subordinated notes include a component that creates a financial liability to the Company and a component that grants an option to the holder of the convertible note to convert it into common shares of the Company. IAS 32 "Financial Instruments: Disclosure and Presentation," requires separate recognition of these components.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. Subsequently, the liability is measured at amortized cost. The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible subordinated notes.

The difference between the proceeds of issue of the convertible subordinated notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the notes into equity of the Company, is included in equity (accumulated other comprehensive loss).

The net proceeds of the issuance of the Company's convertible subordinated notes have been recognized separately as follows:

	5.25% convertible subordinated notes, due 2010	4.25% convertible subordinated notes, due 2011
Nominal value at date of issuance	79,267	111,682
Equity component (net of deferred tax) at date of issuance	13,653	18,329
Deferred tax liability at date of issuance	6,136	7,799
Liability component at date of issuance	59,478	85,554
Liability component at January 1, 2005	53,007	84,586
Accrual of interest	2,420	3,576
Foreign currency translation effect	8,335	13,295
Liability component at December 31, 2005	**63,762**	**101,457**
Accrual of interest	**2,533**	**3,733**
Foreign currency translation effect	**(6,789)**	**(10,794)**
Liability component at December 31, 2006	**59,506**	**94,396**

	5.25% convertible subordinated notes, due 2010	4.25% convertible subordinated notes, due 2011
Nominal value in US$:		
December 31, 2005	90,000	150,000
December 31, 2006	**90,000**	**150,000**
Nominal value in €:		
December 31, 2005	76,293	127,155
December 31, 2006	**68,337**	**113,895**

The fees incurred for the issuance of the convertible subordinated notes are included as debt issuance costs in the Consolidated Balance Sheet and amortized by the interest method as interest cost during the life of the debts. Debt issuance costs of € 976 are expected to be amortized in 2007.

NOTE 15 *Shareholders' Equity*

Common shares

The authorized capital of the Company amounts to 110,000,000 shares of € 0.04 par value common shares, 118,000 shares of € 40 par value preferred shares and 8,000 shares of € 40 par value financing preferred shares, of which 53,828,745 common shares and no preferred or financing preferred shares were outstanding as at December 31, 2006. There are currently no preferred or financing preferred shares issued. All shares have one vote per € 0.04 par value.

Preferred and financing preferred shares

Financing preferred shares are designed to allow ASMI to finance equity with an instrument paying a preferred dividend, linked to EURIBOR loans and government loans, without the dilutive effects of issuing additional common shares. Preferred and financing preferred shares are issued in registered form only and are subject to transfer restrictions. Essentially, a preferred or financing preferred shareholder must obtain the approval of the Company's Supervisory Board to transfer shares. If the approval is denied, the Supervisory Board will provide a list of acceptable prospective buyers who are willing to purchase the shares at a cash price to be fixed by consent of the Supervisory Board and seller within two months after the approval is denied. If the transfer is approved, the shareholder must complete the transfer within three months, at which time the approval expires.

Preferred shares are entitled to a cumulative preferred dividend based on the amount paid-up on such shares. Financing preferred shares are entitled to a cumulative dividend based on the par value and share premium paid on such shares.

Accumulated other comprehensive loss

The changes in the amount of accumulated other comprehensive loss, allocated to shareholders of the parent, are:

	Foreign currency translation effects	Unrealized gains (losses) on derivative instruments, net	Equity component convertible subordinated notes, net	Total
Balance January 1, 2005	(67,888)	1,895	56,334	(9,659)
Foreign currency translation effect on translation of Foreign operations	22,106	-	-	22,106
Derecognition of equity component convertible subordinated notes, net	-	-	(24,352)	(24,352)
Decrease in fair value of derivative instruments	-	(3,328)	-	(3,328)
Transfer to Consolidated Statement of Operations of derivative instruments	-	1,065	-	1,065
Balance December 31, 2005	(45,782)	(368)	31,982	(14,168)

	Foreign currency translation effects	Unrealized gains (losses) on derivative instruments, net	Equity component convertible subordinated notes, net	Total
Balance December 31, 2005	**(45,782)**	**(368)**	**31,982**	**(14,168)**
Foreign currency translation effect on translation of foreign operations	**(17,633)**	**-**	**-**	**(17,633)**
Increase in fair value of derivative instruments	**-**	**190**	**-**	**190**
Transfer to Consolidated Statement of Operations of derivative instruments	**-**	**54**	**-**	**54**
Reclassification to Consolidated Statement of Operations of cumulative translation adjustment ASM NuTool	**4,832**	**-**	**-**	**4,832**
Balance December 31, 2006	**(58,583)**	**(124)**	**31,982**	**(26,725)**

NOTE 16 *Employee Benefits*

Pension plans

The Company has retirement plans covering substantially all employees. The principal plans are defined contribution plans, except for the plans of the Company's operations in the Netherlands and Japan.

The Company's employees in the Netherlands participate in a multi-employer plan ("Bedrijfstakpensioenfonds Metalektro"). The plan monitors the risks of the entire investment portfolio, not by individual company or employee, and is subject to regulation by Dutch governmental authorities. By Dutch law, a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of its assets to its obligations. This ratio must exceed 100%. Each company participating in the plan contributes a percentage of its total pensionable salaries, each company contributes the same percentage. The pension rights of individual employees are based on the employee's average salary during employment.

The Company accounts for the multi-employer plan as if it were a defined contribution plan as the manager of the plan, PME, stated that its internal administrative systems do not enable PME to provide the Company with the required Company-specific information in order to account for the plan as a defined benefit plan. In January 2007, PME issued a press release on its website which stated a coverage ratio of 129 percent as of December 31, 2006. The Company's net periodic pension cost for the multi-employer plan for a fiscal period is equal to the required contribution for that period.

A contingent liability may arise from, for example, possible actuarial losses relating to other participating companies because each company that participates in a multi-employer plan shares in the actuarial risks of other participating companies or any responsibility under the terms of a plan to finance any shortfall in the plan if other companies cease to participate. The plan thus exposes the participating companies to actuarial risks associated with current and former employees of other companies with the result that no consistent and reliable basis for allocating the pension obligation, plan assets and cost to individual companies participating in the plan exists.

The Company's employees in Japan participate in a defined benefit plan. The funded status of the plan and the amounts not yet recognized in the Consolidated Statement of Operations and the amounts recognized in the Consolidated Balance Sheet are as follows:

	December 31,	
	2005	**2006**
Defined benefit obligations	(7,176)	**(7,024)**
Fair value of plan assets	4,069	**4,375**
Funded status surplus / (deficit)	(3,107)	**(2,649)**
Unrecognized actuarial loss	225	**5**
Unrecognized transition amount	1,758	**1,453**
Adjustment to recognize minimum liability	(22)	**-**
Net assets / (liabilities)	(1,146)	**(1,191)**

The changes in defined benefit obligations and fair value of plan assets are as follows:

	Year ended December 31,	
	2005	**2006**
Defined benefit obligations		
Balance January 1	6,451	**7,176**
Current service cost	684	**679**
Interest cost	130	**134**
Actuarial losses (gains)	3	**(17)**
Benefits paid	(81)	**(112)**
Foreign currency translation effect	(11)	**(836)**
Balance December 31	7,176	**7,024**
Fair value of plan assets		
Balance January 1	3,212	**4,069**
Expected return on plan assets	35	**142**
Actuarial losses	374	**190**
Company contribution	542	**584**
Benefits paid	(81)	**(112)**
Foreign currency translation effect	(13)	**(498)**
Balance December 31	4,069	**4,375**

The net periodic benefit cost consists of the following:

	Year ended December 31,	
	2005	**2006**
Current service cost	684	**679**
Interest on obligation	130	**134**
Expected return on plan assets	(35)	**(142)**
Amortization of transition amount	124	**116**
Net periodic pension benefit cost	903	**787**

The actual return on plan assets was € 409 and € 333 for the years ended December 31, 2005 and 2006 respectively.

The assumptions in calculating the actuarial present value of benefit obligations and net periodic benefit cost are as follows:

	Year ended December 31,	
	2005	**2006**
Discount rate for obligations	2.00	**2.00**
Expected return on plan assets	3.50	**3.50**
Future salary increases	2.94	**2.94**

The allocation of plan assets is as follows:

	Year ended December 31,	
	2005	**2006**
Shares	1,886	**2,171**
Bonds	1,864	**1,867**
Loans	145	**134**
Real estate	34	**32**
Other	140	**171**
	4,069	**4,375**

The plan assets do not include any of the Company's shares. The Company expects to contribute € 672 to the defined benefit plan in 2007. The Company expects to pay benefits for years subsequent to December 31, 2006 as follows:

2007	20
2008	25
2009	95
2010	456
2011	118
Aggregate for the years 2012-2016	1,457
Total	2,171

Retirement plan costs consist of the following:

	Year ended December 31,	
	2005	**2006**
Defined contribution plans	6,191	**7,343**
Multi-employer plans	2,076	**2,197**
Defined benefit plans	903	**787**
Total retirement plan costs	9,170	**10,327**

The Company does not provide for any significant post retirement benefits other than pensions.

Employee Stock Option Plan

The Company has adopted various stock option plans and has entered into stock option agreements with various employees. Under these plans, employees may purchase a specific number of shares of the Company's common stock. Options are priced at market value in euros or U.S. dollars on the date of grant, are generally vesting in equal parts over a period of five years and generally expire after five or ten years. Under the 2001 Stock Option Plan the Company is authorized to issue 4,000,000 shares. At December 31, 2006, options to purchase 2,212,671 shares have been issued under the 2001 Stock Option Plan. Under previous plans no more options to purchase shares can be issued. Under the various stock option plans a total of 1,399,711 options to purchase common stock were outstanding at December 31, 2006, expiring at various dates through 2016.

The following is a summary of changes in options outstanding:

	Number of options	Weighted average exercise price in US$	Number of options	Weighted average exercise price in €
Balance January 1, 2005	1,361,940	15.81	476,716	14.13
Options granted	63,000	15.91	165,000	13.02
Options forfeited	(44,794)	20.78	(86,250)	12.77
Options exercised	(11,000)	10.10	(50,000)	11.41
Balance December 31, 2005	**1,369,146**	**15.70**	**505,466**	**14.26**
Options granted	**177,500**	**15.03**	**327,532**	**13.97**
Options forfeited	**(56,715)**	**20.88**	**(23,566)**	**15.49**
Options exercised	**(844,403)**	**15.23**	**(55,249)**	**12.12**
Balance December 31, 2006	**645,528**	**15.69**	**754,183**	**14.26**

The number of options exercisable at December 31, 2005 was 1,238,515.

The weighted average fair value of employee stock options granted in U.S. dollars were US$ 11.02 in 2005 and US$ 6.21 in 2006. The weighted average fair value of employee stock option granted in euros were € 7.95 in 2005 and € 4.90 in 2006.

The weighted average remaining contractual life of the outstanding options granted in 2006 is 6.0 years at December 31, 2006.

The total intrinsic value of options exercised was € 105, and € 3,451 for the years ended December 31, 2005 and 2006 respectively. For the exercise of options in 2005 and 2006, new shares have been issued.

The average closing prices of the Company's common shares on NASDAQ for the years ended December 31, 2005 and 2006 were US$ 15.82 and US$ 18.70 respectively. The average closing prices of the Company's common shares on Euronext Amsterdam for the years ended December 31, 2005 and 2006 were € 12.98 and € 14.84 respectively.

At December 31, 2006 options outstanding and options exercisable classified by range of exercise prices are:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
In US$		In years	In US$		In US$
1.00-10.00	36,526	2.15	5.63	36,526	5.63
10.00-15.00	320,918	5.54	13.76	100,518	12.10
15.00-20.00	163,784	5.56	17.05	103,084	17.41
20.00-30.00	124,300	3.11	21.83	62,320	22.10
1.00-30.00	645,528	4.89	15.69	302,448	15.19
In €		In years	In €		In €
6.00-10.00	4,000	2.73	6.90	4,000	6.90
10.00-15.00	510,833	5.33	13.21	94,998	12.40
15.00-20.00	234,350	1.49	16.54	166,350	16.84
20.00-30.00	5,000	1.20	20.00	5,000	20.00
6.00-30.00	754,183	4.10	14.26	270,348	15.19

At December 31, 2006, the aggregate intrinsic value of all options outstanding and all options exercisable is € 3,871 and € 1,532 respectively.

The Company applies IFRS 2 with respect to options granted after November 7, 2002 and not yet vested at January 1, 2005. The cost relating to employee stock options is measured at fair value on the grant date. The fair value was computed using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2005	**2006**
Expected life (years)	3 – 10	**5 – 10**
Risk free interest rate	5.0%	**4.0%**
Dividend yield	-	**-**
Expected volatility	61.9%	**35.8%**
Assumed forfeitures [1]	-	**-**

(1) Actual forfeitures, if different from assumed forfeitures, are not expected to have a material impact on the Company's Consolidated Statement of Operations.

In 2005, expected volatility was derived from the historical volatility of ASMI's stock price over the last 5 years. In 2006, the Company applied implied volatility. As the semiconductor industry becomes more mature, resulting in a decrease of volatility, the Company decided that implied volatility is a more appropriate assumption for the option pricing model than historical volatility.

The Company recorded in 2006 a compensation expense of € 1,336.

The Company purchased the remaining 84.3% interest in NuTool in 2004. Included in the consideration were replacement employee stock options to acquire 57,720 common shares of the Company. The Company has recognized compensation expenses of € 66 in 2005, based on the fair value of the replacement employee stock options that vested subsequent to the acquisition.

Employee Share Incentive Scheme ASMPT

In 1989, the shareholders of ASMPT approved a plan to issue up to 5.0 percent of the total issued shares of ASMPT to directors and employees. This plan has been extended in 1999 for a term up to March 23, 2010. The directors annually may approve an amount of supplemental compensation to the designated directors and officers, which will be used to issue or purchase ASMPT's common shares for the designees at current market value. In December 2006, 1,779,500 common shares of ASMPT were issued, for cash at par value of HK$ 0.10 per share, pursuant to the Employee Share Incentive Scheme of ASMPT. In 2005 1,791,000 ASMPT shares were issued to certain directors and employees under the plan. The effect of this transaction on ASMI was a dilution of its ownership interest in ASMPT of 0.24% in 2006 and 0.25% in 2005. The shares issued under the plan in 2006 have diluted ASMI's ownership in ASMPT to 53.35% as of December 31, 2006. In 2005 ASMI revised its assessment of the compensation expense related to the Employee Share Incentive Scheme which impacted ASMI's Consolidated Statement of Operations for the year ended December 31, 2005 positively by € 2,588. Total compensation expenses related to the Employee Share Incentive Scheme of respectively € 6,242 in 2005, and € 7,290 in 2006 were charged to the Consolidated Statement of Operations.

The dilution in ownership has resulted in a gain on the investment in ASMPT of € 2,781 in 2005 and € 3,031 in 2006, which gain has been separately included in the Consolidated Statement of Operations. Due to the participation exemption in the Netherlands no deferred income taxes have been provided for these gains. In 2006, the Company charged € 1,776 as a loss on the investment of ASMPT related to the repurchase of shares of ASMPT by ASMPT in 2004, initially recorded as goodwill.

NOTE 17 *Commitments and Contingencies*

Capital leases included in property, plant and equipment are as follows:

		December 31,
	2005	**2006**
Machinery and equipment	3,619	**4,085**
Furniture and fixtures	38	**596**
	3,657	**4,681**
Less accumulated depreciation	(1,662)	**(2,863)**
	1,995	**1,818**

The Company leases certain office and plant facilities and equipment under various operating lease arrangements.

At December 31, 2006 minimum rental commitments under capital leases and operating leases having initial or remaining non-cancelable terms in excess of one year are as follows:

	Capital leases	Operating leases
2007	730	7,944
2008	464	6,233
2009	277	5,357
2010	111	2,570
2011	-	1,989
Years thereafter	-	4,283
Total	1,582	28,376
Less amount representing interest	(47)	
Present value of net minimum lease payments	1,535	

Aggregate rental expense for operating leases was € 8,692 in 2005 and € 8,881 in 2006. At December 31, 2006 the Company had entered into purchase commitments with suppliers in the amount of € 97,177 for purchases, of which € 95,964 for purchases within the next 12 months. Commitments for capital expenditures at December 31, 2006 were € 8,883.

Change of Control Transaction

If the Company desires to effect a change of control transaction with a competitor of Applied Materials, Inc., ("Applied Materials") the Company must, pursuant to a litigation settlement agreement in 1997, as amended and restated in 1998, first offer the change of control transaction to Applied Materials on the same terms as the Company would be willing to accept from that competitor pursuant to a bona fide arm's-length offer by that competitor.

NOTE 18 *Litigation and Environmental Matters*

The Company is party to various legal proceedings generally incidental to its business and is subject to a variety of environmental and pollution control laws and regulations. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any claim which is pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on the financial position of the Company, but could materially affect the Company's results of operations in a given reporting period.

NOTE 19 *Financial Instruments and Risk Management*

Derivatives

The Company uses forward exchange contracts to hedge certain operational cash flow exposures resulting from changes in foreign currency exchange rates to occur within the next twelve months. The Company enters into these foreign exchange contracts to hedge anticipated sales or purchase transactions in the normal course of business for which the Company has a firm commitment from a customer or to a supplier. The terms of these contracts are consistent with the timing of the transactions being hedged. The Company does not use such instruments for trading or speculative purposes.

Furthermore, the Company continues to manage the currency exposure of certain receivables and payables using derivative instruments, such as forward exchange contracts and currency swaps, and non-derivative instruments, such as debt borrowings in foreign currencies. The gains or losses on these instruments provide an offset to the gains or losses recorded on the foreign currency receivables and payables. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under foreign currency transaction gains (losses) on the Consolidated Statement of Operations.

The Company expects that substantially all of the € 124 unrealized losses included in accumulated other comprehensive income as of December 31, 2006 will be reclassified to net earnings within the next 12 months upon completion of the underlying transactions. Unrealized losses included in other comprehensive income as of December 31, 2005 of € 368 were reclassified to earnings in 2006. Hedge ineffectiveness was insignificant for the years ended December 31, 2005 and December 31, 2006.

The outstanding currency forward exchange contracts are as follows:

	Currency	Notional amount	Forward contract value	Fair value	Difference between forward value and fair value	Included in accumulated other comprehensive income (loss)
			Euro	Euro	Euro	Euro
December 31, 2005:						
Assets:						
Cash flow hedges:						
Short position	US$	(18,675)	(15,271)	(15,676)	(405)	(368)
Other foreign currency contracts:						
Short position	US$	(27,199)	(21,839)	(23,011)	(1,172)	-
Liabilities:						
Cash flow hedges:						
Long position	US$	130	109	109	-	-
Other foreign currency contracts:						
Long position	US$	16,551	13,944	14,029	85	-
December 31, 2006:						
Assets:						
Cash flow hedges:						
Short position	US$	(26,604)	(19,467)	(19,766)	(299)	(131)
Other foreign currency contracts:						
Short position	US$	(16,530)	(12,740)	(12,511)	229	-
Liabilities:						
Cash flow hedges:						
Long position	US$	1,100	806	818	12	7
Other foreign currency contracts:						
Long position	US$	6,441	4,870	4,883	13	-

Long-term Debt and Subordinated Debt

At December 31, 2006 the Company had convertible subordinated debt borrowings outstanding of € 68,337 at a fixed interest rate, maturing in May 2010 and € 113,895 at a fixed interest rate, maturing in December 2011 and € 26,611 in long-term debt at fixed interest rates and € 19,657 in other borrowings with variable short-term interest rates. The Company is exposed to interest rate risk primarily through its borrowing activities. The Company does not enter into financial instrument transactions for trading or speculative purposes or to manage interest rate exposure.

The fair value amounts of long-term debt and convertible subordinated debt are as follows:

	2005			**2006**
	Carrying amount	Fair value	**Carrying amount**	**Fair Value**
Long-term debt, including current portion	32,891	32,891	**26,611**	**26,611**
Convertible subordinated debt, including equity component	197,201	205,089	**185,884**	**215,034**

Methods and Assumptions Used in Estimating Fair Value Disclosure for Financial Instruments

For cash and cash equivalents, accounts receivable, notes payable to banks, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

For long-term debt, the estimated fair values of the Company's long-term debt are based on current interest rates available to the Company for debt instruments with similar terms and remaining maturities. The fair values of the Company's convertible subordinated debt borrowings are based on the Company's estimates.

For forward exchange contracts market values based on external quotes from banks have been used to determine the fair value.

Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and from movements in interest rates and foreign currency exchange rates. The Company does not anticipate nonperformance by counterparties. The Company generally does not require collateral or other security to support financial instruments with credit risk. Concentrations of credit risk (whether on or off-balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Financial instruments on the Consolidated Balance Sheet that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains a policy providing for the diversification of cash and cash equivalent investments and places its investments in high quality financial institutions to limit the amount of credit risk exposure. The Company derives a significant percentage of its revenue from a small number of large customers. The Company's largest customer accounted for approximately 11.4% of net sales in 2006 (2005: 17.2%) and the ten largest customers accounted for approximately 33.9% of net sales in 2006 (2005: 43.7%). Sales to these large customers also may fluctuate significantly from time to time depending on the timing and level of purchases by these customers. Significant orders from such customers may expose the Company to a concentration of credit risk and difficulties in collecting amounts due, which could harm the Company's financial results. At December 31, 2006 one customer accounted for 8.8% of the outstanding balance in accounts receivable (2005: 12.4%).

NOTE 20 *Research and Development Expenses*

Research and development expenses, excluding capitalized development expenses, consists of the following:

	Year ended December 31,	
	2005	**2006**
Research and development expenses	91,085	**78,914**
Research and development grants and credits	(1,735)	**(1,589)**
Total research and development	89,350	**77,325**

The Company's operations in the Netherlands, Germany and the United States receive research and development grants and credits from various sources. The research and development grant received from governmental sources in the Netherlands is contingently repayable to the extent the Company recognizes sales of products to which the credit is related within an agreed upon period. The Company does not recognize a liability on the Consolidated Balance Sheet in respect of this credit until it recognizes sales of products to which the credit is related, within the agreed upon period and is then charged to cost of sales when such sales are recorded. The repayment amounts to 4.0% of the realized sales of these products. Interest on the contingent repayments is accrued at an interest rate of 6.05% per annum. The contingent repayment, including accrued interest, was € 3,236 at December 31, 2005 and € 3,093 at December 31, 2006. This amount has not been recognized as a liability in the Consolidated Balance Sheet since the Company has not recognized sales of products to which the credit is related. In 2005 and 2006 the Company accounted for repayments with respect to these credits of € 162 and € 243 respectively.

With respect to capitalized development expenses, reference is made to Note 7.

NOTE 21 *Income Taxes*

The components of earnings before income taxes consist of:

	Year ended December 31,	
	2005	**2006**
The Netherlands	(21,575)	**6,982**
Other countries	35,282	**98,542**
	13,707	**105,524**

The income tax expense consists of:

	Year ended December 31,	
	2005	**2006**
Current:		
The Netherlands	-	**-**
Other countries	(6,757)	**(14,246)**
	(6,757)	**(14,246)**
Deferred:		
The Netherlands	-	**-**
Other countries	(2,725)	**(1,686)**
	(2,725)	**(1,686)**
Income tax expense	(9,482)	**(15,932)**

The provisions for income taxes as shown in the Consolidated Statements of Operations differ from the amounts computed by applying the Netherlands statutory income tax rates to earnings before taxes. A reconciliation of the provisions for income taxes and the amounts that would be computed using the Netherlands statutory income tax rates is set forth as follows:

	Year ended December 31,	
	2005	**2006**
Earnings before income taxes	13,707	**105,524**
Netherlands statutory income tax rate	31.5%	**29.6%**
Income tax provision at statutory rate	(4,318)	**(31,234)**
Non-deductible expenses	(10,914)	**(8,405)**
Foreign taxes at a rate other than the Netherlands statutory rate	19,465	**30,012**
Valuation allowance	(19,750)	**(7,493)**
Non-taxable income	8,871	**9,340**
Other	(2,836)	**(8,152)**
Income tax expense	(9,482)	**(15,932)**

Included in non-taxable income is € 6,472 regarding the Company's manufacturing operations in Singapore where income covering certain products is non-taxable under a tax incentive scheme granted by the Singapore tax authority. The tax exemption scheme has a term ending December 31, 2010.

The government of the Netherlands has enacted income tax rate reductions at the end of 2004 to 31.5% in 2005, at the end of 2005 to 29.6 % in 2006, and at the end of 2006 to 25.5% for 2007 and following years. The Company's deferred tax assets and liabilities have been determined in accordance with these statutory income tax rates.

Deferred income taxes consist of the following:

	December 31,	
	2005	**2006**
Deferred tax assets:		
Reserves and allowances	2,261	**2,961**
Net operating loss carry forwards	122,026	**105,280**
Other	215	**376**
Gross deferred tax assets	124,502	**108,617**
Less: valuation allowance	(103,603)	**(96,905)**
Net deferred tax assets	20,899	**11,712**
Deferred tax liabilities:		
Depreciation	(1,919)	**(725)**
Research and development credits	(4,061)	**(789)**
Convertible subordinated notes	(11,503)	**(7,224)**
Capitalized development expenses	(2,175)	**(4,012)**
Other	(350)	**-**
Deferred tax liabilities	(20,008)	**(12,750)**
Net deferred income taxes	891	**(1,038)**

Deferred tax assets and liabilities are classified in the balance sheet as follows:

	December 31,	
	2005	**2006**
Deferred tax assets – non-current	3,377	**3,594**
Deferred tax liabilities – non-current	(2,486)	**(4,632)**
	891	**(1,038)**

Based on tax filings, ASMI and its individual subsidiaries have net operating losses available at December 31, 2006 of € 354,566 for tax return purposes to reduce future income taxes, mainly in Europe and the United States. The Company believes that realization of its net deferred tax assets is dependent on the ability of the Company to generate taxable income in the future. Given the volatile nature of the semiconductor equipment industry, past experience, and the tax jurisdictions where the Company has net operating losses, the Company believes that there is currently insufficient evidence to substantiate recognition of substantially all net deferred tax assets with respect to net operating losses. Accordingly, a valuation allowance of € 103,603 in 2005 and € 96,905 in 2006 has been recorded.

The amounts and expiration dates of net operating losses for tax purposes are as follows:

Expiration year	
2007	**1,035**
2008	**1,155**
2009	**2,045**
2010	**2,818**
2011	**221,486**
2012	**3,334**
2017	**56,150**
2018	**5,614**
2019	**1,061**
2021	**1,531**
2022	**10,555**
2023	**7,780**
2024	**558**
2025	**8,640**
2026	**16,453**
Unlimited	**14,351**
Net operating losses	**354,566**

The Company has not provided for deferred foreign withholding taxes, if any, on undistributed earnings of its foreign subsidiaries. At December 31, 2006 undistributed earnings of subsidiaries, subject to withholding taxes, were approximately € 20,582. These earnings could become subject to foreign withholding taxes if they were remitted as dividends or if the Company should sell its interest in the subsidiaries. However, the Company believes that Netherlands tax credits would largely eliminate any foreign withholding tax that might otherwise be due.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws. The Company's estimate for the potential outcome of any uncertain tax issue is highly judgmental. Tax contingencies mainly relate to transfer pricing positions, operational activities in countries where the Company is not tax registered, tax deductible costs and personnel related taxes. In December 2006, the Hong Kong Inland Revenue Department has issued an enquiry letter to the Company's subsidiary ASMPT with an attempt to investigate the ASMPT Group's tax affairs and other details. Settlement of tax uncertainties in a manner inconsistent with the Company's expectations could have a material impact on the Company's earnings, financial position and cash flows.

NOTE 22 *Disclosures about Segments and Related Information*

The Company organizes its activities in two operating segments, front-end and back-end.

The front-end segment manufactures and sells equipment used in wafer processing, encompassing the fabrication steps in which silicon wafers are layered with semiconductor devices. The segment is a product driven organizational unit comprised of manufacturing, service, and sales operations in Europe, the United States, Japan and Southeast Asia.

The back-end segment manufactures and sells equipment and materials used in assembly and packaging, encompassing the processes in which silicon wafers are separated into individual circuits and subsequently assembled, packaged and tested. The segment is organized in ASM Pacific Technology Ltd., in which the Company holds a majority of 53.35% interest, whilst the remaining shares are listed on the Stock Exchange of Hong Kong. The segment's main operations are located in Hong Kong, the People's Republic of China, Singapore and Malaysia.

	Front-end	Back-end	Total
Year ended December 31, 2005			
Net sales to unaffiliated customers	359,633	366,785	726,418
Gross profit	87,372	165,635	253,007
Earnings (loss) from operations	(67,938)	98,694	30,756
Net interest income (expense)	(24,553)	1,541	(23,012)
Foreign currency transaction gains (losses)	6,265	(302)	5,963
Income tax expense	(3,911)	(5,571)	(9,482)
Gain on dilution of investment in subsidiary	2,781	-	2,781
Net earnings (loss)	(87,356)	94,362	7,006
Net earnings (loss) allocated to:			
Shareholders of the parent	(87,356)	50,804	(36,552)
Minority interest	-	43,558	43,558
Capital expenditures	24,622	20,015	44,637
Purchase and capitalization of other intangibles	12,050	-	12,050
Depreciation	20,046	15,960	36,006
Amortization of intangible assets	1,748	-	1,748
Impairment of property, plant and equipment	5,442	-	5,442
Impairment of goodwill	28,582	-	28,582
Cash and cash equivalents	55,329	79,671	135,000
Capitalized goodwill	26,005	36,348	62,353
Other intangible assets	20,718	-	20,718
Other identifiable assets	341,652	253,470	595,122
Total assets	443,704	369,489	813,193
Total debt [1]	219,121	50	219,171
Headcount in full-time equivalents [2]	1,691	7,760	9,451

	Front-end	Back-end	Total
Year ended December 31, 2006			
Net sales to unaffiliated customers	407,905	468,108	876,013
Gross profit	127,664	210,961	338,625
Earnings (loss) from operations	(5,593)	128,090	122,497
Net interest income (expense)	(15,397)	3,307	(12,090)
Foreign currency transaction losses	(4,861)	(22)	(4,883)
Income tax expense	(2,813)	(13,119)	(15,932)
Gain on dilution of investment in subsidiary	1,255	-	1,255
Net earnings (loss)	(27,409)	118,256	90,847
Net earnings (loss) allocated to:			
Shareholders of the parent	(27,409)	63,374	35,965
Minority interest	-	54,882	54,882
Capital expenditures	18,811	20,563	39,374
Purchase and capitalization of other intangibles	15,893	687	16,580
Depreciation	18,070	16,997	35,067
Amortization of intangible assets	2,053	386	2,439
Impairment of property, plant and equipment	286	-	286
Impairment of goodwill	11,364	-	11,364
Cash and cash equivalents	104,599	89,273	193,872
Capitalized goodwill	14,349	30,777	45,126
Other intangible assets	27,723	302	28,025
Other identifiable assets	327,659	250,644	578,303
Total assets	474,330	370,996	845,326
Total debt [1]	199,463	707	200,170
Headcount in full-time equivalents [2]	1,860	9,008	10,868

(1) Excluding the equity component and including accreted interest of convertibles subordinated notes. Refer to Note 14.

(2) Headcount includes those employees with a fixed contract, and is exclusive of temporary workers.

There are no inter-segment transactions, other than charges for management services, which are based on actual cost. The accounting policies used to measure the net earnings and total assets in each segment are identical to those used in the Consolidated Financial Statements. The measurement methods used to determine reported segment earnings are consistently applied for all periods presented. There were no asymmetrical allocations to segments.

Geographical information is summarized as follows:

	Europe	United States	Japan	Southeast Asia	Corporate	Consolidated
Year ended December 31, 2005						
Net sales to unaffiliated customers	109,555	148,124	54,993	413,746	-	726,418
Long-lived assets	12,902	24,172	24,024	100,933	1,312	163,343
Total assets	101,095	144,145	111,247	416,870	39,836	813,193
Capital expenditures	2,402	11,033	9,622	22,952	42	46,051
Purchase and capitalization of other intangibles	1,581	4,903	5,179	387	-	12,050

	Europe	United States	Japan	Southeast Asia	Corporate	Consolidated
Year ended December 31, 2006						
Net sales to unaffiliated customers	100,620	159,686	69,746	545,961	-	876,013
Long-lived assets	11,616	20,690	18,449	99,281	1,229	151,265
Total assets	99,319	130,439	104,380	421,139	90,049	845,326
Capital expenditures	2,264	8,078	3,452	25,580	-	39,374
Purchase and capitalization of other intangibles	3,027	5,207	5,398	1,022	1,926	16,580

Long-lived assets for the years ended December 31, 2005 and 2006 consist of the Company's assets in property, plant and equipment.

NOTE 23 *Selected Operating Expenses and Additional Information*

Personnel expenses for employees were as follows:

	Year ended December 31,	
	2005	**2006**
Wages and salaries	163,065	**187,757**
Social security	16,755	**17,414**
Pension expenses	9,170	**10,327**
	188,990	**215,498**

Personnel expenses exclude option expenses, reference is made to Note 16.

The average number of employees, exclusive of temporary workers, by geographic area during the year was as follows:

	Year ended December 31,	
	2005	**2006**
The Netherlands	339	**340**
Other European countries	173	**178**
United States	606	**614**
Southeast Asia	7,505	**8,704**
Japan	273	**284**
	8,896	**10,120**

NOTE 24 *Earnings (Loss) per Share*

The following represents a reconciliation of net earnings (loss) allocated to shareholders of the parent and weighted average number of shares outstanding (in thousands) for purposes of calculating basic and diluted net earnings (loss) allocated to shareholders of the parent per share:

	Year ended December 31,	
	2005	**2006**
Net earnings (loss) allocated to shareholders of the parent used for purpose of computing basic earnings	(36,552)	**35,965**
After-tax equivalent of interest expense on convertible subordinated notes	-	**-**
Net earnings (loss) allocated to shareholders of the parent used for purposes of computing diluted net earnings (loss) per share	(36,552)	**35,965**
Basic weighted average number of shares outstanding during the year used for purpose of computing basic earnings per share	52,638	**53,403**
Dilutive effect of stock options	-	**172**
Dilutive weighted average number of shares outstanding	52,638	**53,575**

	Year ended December 31,	
	2005	**2006**
Net earnings (loss) per share allocated to shareholders of the parent:		
Basic	(0.69)	**0.67**
Diluted	(0.69)	**0.67**

For the year ended December 31, 2006, the effect of 11,887 conversion rights to acquire common stock was anti-dilutive. As a result of the losses incurred by the Company there is no difference between the basic and diluted loss per share for the year 2005, as the effects of the exercise of stock options and the conversion of the convertible subordinated debt borrowings would be anti-dilutive. For the year ended December 31, 2005, the effect of 152 stock options and 11,887 conversion rights to acquire common stock was anti-dilutive.

NOTE 25 *Board Remuneration*

The following table sets forth as to all current and former members of the Management Board and Supervisory Board of the Company information concerning all remuneration from the Company (including its subsidiaries) for services in all capacities:

	Year ended December 31,					
					2006	2005
	Base compensation	Bonuses	Pensions	Retirement compensation	Total	Total
Management Board:						
A.H. del Prado	583	-	-	-	583	583
P. Lam See Pong [1]	644	666	78	208	1,596	994
W.K. Lee [2]	196	106	12	-	314	-
C.D. del Prado [3]	258	-	12	-	270	-
A.J.M. van der Ven	275	-	18	-	293	186 [4]
J.F.M. Westendorp [3]	314	27	18	-	359	-
R.L. de Bakker [5]	-	-	-	-	-	103
H.D.J. Pietersma [6]	-	-	-	-	-	696
	2,270	799	138	208	3,415	2,562
Supervisory Board:						
P.C. van den Hoek	54	-	-	-	54	38
E.A. van Amerongen	35	-	-	-	35	26
L.P.E.M. van den Boom	31	-	-	-	31	11
B.C. Brix [7]	15	-	-	-	15	-
J.M.R. Danneels [8]	29	-	-	-	29	59
J. den Hoed [9]	16	-	-	-	16	22
H.W. Kreutzer [10]	3	-	-	-	3	-
A. Baan [11]	-	-	-	-	-	11
	183	-	-	-	183	167

(1) All remuneration for Mr. P. Lam See Pong relates to the compensation he received in his former capacity as Managing Director of ASMPT.

(2) Mr. W.K. Lee was appointed member of the Management Board effectively January 1, 2007. All remuneration for the year ended December 31, 2006 relates to the compensation he received in his former capacity as General Manager Southern Region of ASM Pacific Technology.

(3) Appointed member of the Management Board effectively May 18, 2006, remuneration for serving in all capacities during the year ended December 31, 2006.

(4) For the period May 15, 2005 through December 31, 2005.

(5) For the period January 1, 2005 through May 31, 2005.

(6) For the period January 1, 2005 through May 10, 2005. The remuneration of 2005 includes a retirement agreement of € 498 with respect to the retirement of Mr. Pietersma from the Management Board.

(7) For the period May 18, 2006 through December 31, 2006.

(8) The remuneration of 2005 includes the compensation of € 38 Mr. Danneels received for additional business review consultancy.

(9) For the period January 1, 2006 through July 31, 2006.

(10) For the period November 27, 2006 through December 31, 2006.

(11) For the period January 1, 2005 through May 19, 2005.

The remuneration for the Supervisory Board has been determined by the General Meeting of Shareholders.

No stock options have been issued to members of the Supervisory Board. The following table shows the outstanding options to purchase ASM International N.V. common shares held by current and former members of the Management Board, and changes in such holdings during 2006:

	Year of grant	Outstanding January 1, 2006	Granted in 2006	Exercised in 2006	Outstanding December 31, 2006	Exercise price	Remaining term, in years
A.H. del Prado	2001	250,000	-	250,000	-	-	-
A.H. del Prado [1]	2006	-	100,856	-	100,856	€ 14.08	8
P. Lam See Pong	2001	100,000	-	100,000	-	-	-
C.D. del Prado [2]	2003	20,000	-	-	20,000	US$ 11.35	7
C.D. del Prado [1]	2006	-	35,680	-	35,680	€ 14.08	8
A.J.M. van der Ven [3]	2005	30,000	-	-	30,000	€ 11.18	7
A.J.M. van der Ven [1]	2006	-	20,000	-	20,000	€ 14.13	8
A.J.M. van der Ven [1]	2006	-	15,680	-	15,680	€ 14.08	8
J.F.M. Westendorp [4]	2001	7,500	-	-	7,500	€ 15.00	1
J.F.M. Westendorp [4]	2006	-	56,000	-	56,000	€ 15.40	5
J.F.M. Westendorp [1]	2006	-	42,816	-	42,816	€ 14.08	8
		407,500	271,032	350,000	328,532		

New shares have been issued for the exercise of options.

The remuneration and stock option grants for the Management Board have been determined by the Supervisory Board.

(1) These options are conditional. A percentage – not exceeding 150% – of the options which have been granted conditionally will become unconditional after three years, based on the total return of the Company's shares for the three years after the options are granted compared to the average total return of the shares of a relevant number of companies which are similar to the Company during the same three-year period. The options are granted for a term of eight years.

(2) These options are granted for a term of ten years, and become exercisable in equal parts over a five year period.

(3) These options are granted for a term of eight years, and become exercisable in equal parts over a three year period, starting 2008.

(4) These options are granted for a term of five years, and become exercisable in equal parts over a five year period.

In February 2006, Mr. P. Lam See Pong in his former capacity of Director of the Board of ASMPT was granted 180,000 shares in the share capital of ASMPT under the Employee Share Incentive Scheme of ASMPT. These shares were issued in December 2006. The fair value of the shares granted amounted to € 737. In February 2005 Mr. P. Lam See Pong was granted 180,000 shares in the share capital of ASMPT, which were issued in December 2005. The fair value of the shares granted amounted to € 624.

In February 2006, Mr. W.K. Lee in his former capacity of General Manager Southern Region of ASMPT was granted 65,000 shares in the share capital of ASMPT under the Employee Share Incentive Scheme of ASMPT. The shares were issued in December 2006. The fair value of the shares granted amounted to € 266.

NOTE 26 *Share Ownership and Related Party Transactions*

The ownership or controlling interest of outstanding common shares of ASM International N.V. by members of the Management Board and Supervisory Board or members of their immediate family are as follows:

	December 31, 2005		December 31, 2006	
	Shares owned	Percentage of shares outstanding	Shares owned	Percentage of shares outstanding
Management Board:				
A.H. del Prado	3,784,839	7.18%	3,784,839	7.03%
P. Lam See Pong	395,300	0.75%	20,000	0.04%
C.D. del Prado	132,945	0.25%	132,945	0.25%
J.F.M. Westendorp	6,000	0.01%	6,000	0.01%
Supervisory Board:				
P.C. van den Hoek	300,000	0.57%	300,000	0.56%
Stichting Administratiekantoor ASMI	7,692,039	14.60%	7,692,039	14.29%

Stichting Administratiekantoor ASMI is a trust controlled by Mr. A.H. del Prado. The number of shares owned by Stichting Administratiekantoor ASMI includes 713,000 common shares which are beneficially owned by Mr. C.D. del Prado.

In 2006, Mr. P. Lam See Pong sold 375,300 shares in the share capital of the Company at market prices.

In 2005, Mr. P. Lam See Pong sold 2,180,000 shares in the share capital of ASMPT at market prices and Mr. P.C. van den Hoek sold 920,000 shares in the share capital of ASMPT at market prices.

In 2006, Mr. P. Lam See Pong sold 811,000 shares in the share capital of ASMPT at market prices and Mr. P.C. van den Hoek sold 450,000 shares in the share capital of ASMPT at market prices.

At December 31, 2006 Mr. P. Lam See Pong was owner of 339,000 shares in the share capital of ASMPT. This represents 0.09% of the total outstanding shares of ASMPT.

NanoPhotonics AG – In 1999, the Company acquired a 24.0% interest in NanoPhotonics, a German supplier of precision thin film metrology equipment, for € 407. In 1999, the Company's Chief Executive Officer also purchased a 44.5% interest in NanoPhotonics. Due to the issuance of new shares by NanoPhotonics to third parties in 2003, the Company's interest diluted to 23.61% and the Chief Executive Officer's interest diluted to 43.77%. In 2004 the Chief Executive Officer purchased an additional 1.72% interest in NanoPhotonics from another shareholder. For all the shares purchased by the Chief Executive Officer, the Company and the Chief Executive Officer agreed that the Company could purchase such shares at the same price the officer paid to acquire the shares. The Company exercised this option in December 2005, for a total consideration of € 1,101. In 2006 the Company acquired an additional 2% interest in NanoPhotonics for a consideration of € 300. At December 31, 2006 the Company holds a 71.1% interest in NanoPhotonics. At December 31, 2005 and December 31, 2006, the Company has provided NanoPhotonics with intercompany loans of € 8,909 and € 10,409, respectively. In 2005 and 2006 the Company purchased equipment from NanoPhotonics in the amount of € 427 and € 648, respectively.

In March 2000, the Company made an interest-bearing loan to its Chief Executive Officer in connection with the exercise of stock options at an average interest rate for 2006 of 5.12%. The outstanding amount of the loan is € 230 at December 31, 2006 and is secured by the shares received in the stock option exercise. The Company has custody of the shares until the loan is repaid. The loan has been included under other assets in the Consolidated Balance Sheet.

On June 2, 2004, the Company acquired the remaining 84.3% interest in NuTool, a privately held semiconductor equipment company based in California, United States. As a result of the acquisition, the Company owns 100% of the outstanding stock of NuTool. The Company's Chief Executive Officer owned 127,878 shares of NuTool's Series D Preferred Stock prior to acquisition of the remaining 84.3% interest. In consideration for his ownership of NuTool stock, he received 22,586 of the Company's common shares valued at US$ 481,759.

The Chairman of the Supervisory Board, Mr. P.C. van den Hoek, is a partner in the European law firm of Stibbe. Another partner at Stibbe serves as the Company's general outside legal counsel. Mr. van den Hoek has been with Stibbe since 1965. Mr. P.C. van den Hoek also serves on the boards of directors of various European companies. Fees for services to Stibbe amounted to € 226 and € 521 in 2005 and 2006, respectively.

NOTE 27 *Reconciliation of IFRS to US GAAP*

Since the initial listing of ASMI on NASDAQ in the United States of America, ASMI has followed accounting principles generally accepted in the United States of America ("US GAAP"), both for internal as well as external purposes. The principal differences between US GAAP and International Financial Reporting Standards ("IFRS") relate to accounting for goodwill, accounting for minority interest, accounting for convertible subordinated notes, accounting for development expenses, accounting for option plans and accounting for pension plans.

Goodwill – IFRS 1 "First time adoption of IFRS" includes a transition option to apply IFRS 3 prospectively from the transition date (January 1, 2004). ASMI has elected to apply this option and accordingly, all accounting under Dutch GAAP for business combinations prior to January 1, 2004 is fixed at the transition date and the corresponding value of goodwill is fixed as well. As a result of amortization of goodwill under Dutch GAAP prior to January 1, 2004, the value of goodwill under IFRS as of January 1, 2004 is lower when compared to the value of goodwill under US GAAP as of January 1, 2004. Since the difference relates to non-euro denominated acquisitions, this difference will fluctuate over time with currency rate fluctuations. In addition, IFRS requires the inclusion of contingent consideration in the cost of acquisition if it is probable and can be estimated reliably, while under US GAAP, contingent consideration is generally excluded from the cost of acquisition until the contingency is resolved.

Classification of Minority Interest – IAS 27 requires ASMI to classify minority interest of third parties in the Company's subsidiaries in its equity. Under US GAAP, minority interest is classified between liabilities and equity. Accordingly, IAS 27 requires ASMI not to deduct minority interest from net earnings. Instead, the allocation of net earnings to shareholders and minority interest is presented below the Consolidated Statement of Operations. Under US GAAP, minority interest in net earnings of subsidiaries is deducted from the Company's net earnings.

Convertible Subordinated Notes – The Company's convertible subordinated notes include a component that creates a financial liability to the Company and a component that grants an option to the holder of the convertible subordinated notes to convert it into common shares of the Company. IAS 32 "Financial Instruments: Disclosure and Presentation,"requires separate recognition of these components. The liability is initially measured at fair value and subsequently measured at amortized cost. Under US GAAP such a separation is not required. Subsequent to the initial separation, the liability component accrues over time to its nominal value, resulting in additional interest expenses.

Development Expenses – IAS 38 "Intangible Assets" requires capitalization of development expenses if, and only if, an entity can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. its intention to complete the intangible asset and use or sell it;
3. its ability to use or sell the intangible asset;
4. how the intangible asset will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Prior to December 31, 2004 ASMI's administrative systems did not distinguish between research expenses and development expenses and as a result, ASMI could not demonstrate its ability to measure the expenditure attributable to the intangible asset during its development reliably. At January 1, 2005, ASMI implemented a change to its administrative systems and is able to reliably capture development expenses. As a result, from 2005 onwards ASMI capitalizes development expenses that meet the above-mentioned criteria in its Consolidated Financial Statements prepared in accordance with IFRS. US GAAP prohibits capitalization of research and development costs.

Option Plans – IFRS 2 "Share-based Payment" requires expensing the fair value of options granted to employees. ASMI applies IFRS 2 with respect to options granted after November 7, 2002 and not yet vested at January 1, 2005. Under US GAAP, ASMI applied APB No. 25 until December 31, 2005 and provided pro forma disclosure of the impact of the fair value of options on net earnings. On January 1, 2006 ASMI adopted SFAS No. 123R "Share-Based

Payment" ("SFAS 123R"). ASMI applied SFAS 123R to all share-based payments, including employee stock options granted, vested, modified or settled subsequent to the date of adoption.

Pension Plans – Under US GAAP, ASMI applies Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of SFAS No. 87, 88, 106, and 132(R)". Accordingly, the Company recognizes in its Consolidated Balance Sheet an asset or a liability for the plan's overfunded status or underfunded status respectively. IAS 19 "Employee Benefits" does not require recognition of a plan's overfunded status or underfunded status. In accordance with IAS 19, the Company recognizes a plan's net assets or liabilities, taking into account unrecognized actuarial losses and transition amounts.

A reconciliation of net earnings (loss) according to IFRS versus US GAAP is as follows:

	Year ended December 31,	
	2005	**2006**
Net earnings in accordance with IFRS	7,006	**90,847**
Impairment of goodwill	(2,412)	**-**
Classification of minority interest	(43,558)	**(54,882)**
Convertible subordinated notes	6,504	**9,899**
Development expenses	(9,143)	**(11,445)**
Options plans	1,386	**(85)**
Net earnings (loss) in accordance with US GAAP	(40,217)	**34,334**

A reconciliation of shareholders' equity according to IFRS versus US GAAP is as follows:

	December 31,	
	2005	**2006**
Total equity in accordance with IFRS	394,168	**429,054**
Goodwill	11,686	**10,575**
Classification of minority interest	(119,665)	**(114,916)**
Convertible subordinated notes	(38,229)	**(28,330)**
Development expenses	(9,366)	**(19,065)**
Pension plans	-	**(860)**
Total shareholders' equity in accordance with US GAAP	238,594	**276,458**

Bilthoven,
April 18, 2007

Supervisory Board

P.C. van den Hoek
E.A. van Amerongen
L.P.E.M. van den Boom
B.C. Brix
J.M.R. Danneels
H.W. Kreutzer

Management Board

A.H. del Prado
C.D. del Prado
W.K. Lee
A.J.M. van der Ven
J.F.M. Westendorp

Balance Sheets ASM International N.V.

(After proposed appropriation of net earnings for the year)

(thousands except share data)			EUR
			December 31,
Assets	**Note**	2005	**2006**
Cash and cash equivalents		27,850	**77,371**
Amounts due from subsidiaries		165,764	**178,101**
Other current assets		1,290	**1,459**
Total current assets		194,904	**256,931**
Debt issuance costs		5,430	**3,938**
Loan advances due from investments	**2**	175,175	**175,370**
Investments	**2**	64,595	**35,236**
Other intangible assets, net	**3**	4,992	**5,998**
Goodwill, net	**4**	3,960	**4,260**
Property, plant and equipment, net	**5**	1,312	**1,229**
Total assets		450,368	**482,962**
Liabilities and Shareholders' Equity			
Amounts due to subsidiaries		4,960	**5,901**
Accrued expenses and other		5,256	**8,593**
Taxes and social securities		430	**428**
Total current liabilities		10,646	**14,922**
Convertible subordinated debt		165,219	**153,902**
Total liabilities		175,865	**168,824**
Common shares			
Authorized 110,000,000 shares, par value € 0.04,			
issued and outstanding 52,678,952 and 53,828,745 shares		2,107	**2,153**
Financing preferred shares			
Authorized 8,000 shares, par value € 40, none issued		-	**-**
Preferred shares			
Authorized 118,000 shares, par value € 40, none issued		-	**-**
Capital in excess of par value		303,325	**319,506**
Accumulated deficit		(147,434)	**(114,075)**
Legal reserves		130,673	**133,279**
Accumulated other comprehensive loss		(14,168)	**(26,725)**
Total shareholders' equity	**6**	274,503	**314,138**
Total liabilities and shareholders' equity		450,368	**482,962**

Statements of Operations ASM International N.V.

(thousands)		EUR
		Year ended December 31,
	2005	**2006**
Net earnings (loss) of subsidiaries	(25,765)	**38,441**
Net loss from holding activities	(10,787)	**(2,476)**
Net earnings (loss)	(36,552)	**35,965**

See Notes to Financial Statements ASM International N.V.

Amounts in euro thousands, unless otherwise stated

NOTE 1 *Summary of Significant Accounting Policies*

Significant Accounting Policies – In accordance with Article 362, Part 8, of Book 2 of the Netherlands Civil Code, ASM International N.V. has prepared its Statutory Financial Statements in accordance with accounting principles generally accepted in the Netherlands (Dutch GAAP), applying the same accounting principles as used in the Consolidated Financial Statements. Reference is made to Note 1 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 under application of Article 402, Part 9 of Book 2 of the Netherlands Civil Code.

Investments – Investments include capital investments in subsidiaries in which ASM International N.V. owns more than 50% of the shares and participating minority interests in legal entities with a capital investment less than 50% of the shares. Investments in participations with a capital investment of more than 20% of the shares are valued using the equity method of accounting. Investments with a capital investment of less than 20% of the shares are carried at cost, unless significant influence can be demonstrated.

NOTE 2 *Investments and Loan Advances due from Investments*

	Investments	Loan advances due from investments	Total
Balance, January 1, 2005	95,878	125,799	221,677
Capital investments	1,511	-	1,511
Conversion of loans in capital	10,236	(10,236)	-
Net result of subsidiaries	(25,765)	-	(25,765)
Dividend received	(36,988)	-	(36,988)
Issuance of loans	-	58,041	58,041
Repayments of loans	-	(2,034)	(2,034)
Unrealized losses on derivative instruments	(14)	-	(14)
Translation effect	19,737	3,605	23,342
Balance, December 31, 2005	**64,595**	**175,175**	**239,770**
Capital investments	**862**	**-**	**862**
Net result of subsidiaries	**38,441**	**-**	**38,441**
Dividend received	**(59,033)**	**-**	**(59,033)**
Issuance of loans	**-**	**15,025**	**15,025**
Repayments of loans	**-**	**(11,032)**	**(11,032)**
Unrealized losses on derivative instruments	**(180)**	**-**	**(180)**
Translation effect	**(9,449)**	**(3,798)**	**(13,247)**
Balance December 31, 2006	**35,236**	**175,370**	**210,606**

NOTE 3 *Other Intangible Assets*

	Software	Purchased technology and other intangible assets	Total
At cost:			
Balance January 1, 2005	-	7,867	7,867
Additions	9	-	9
Balance December 31, 2005	**9**	**7,867**	**7,876**
Additions	**1,551**	**374**	**1,925**
Balance December 31, 2006	**1,560**	**8,241**	**9,801**
Accumulated amortization:			
Balance January 1, 2005	-	2,097	2,097
Amortization for the year	-	787	787
Balance December 31, 2005	**-**	**2,884**	**2,884**
Amortization for the year	**89**	**830**	**919**
Balance December 31, 2006	**89**	**3,714**	**3,803**
Other intangible assets, net:			
December 31, 2005	9	4,983	4,992
December 31, 2006	**1,471**	**4,527**	**5,998**

Other intangible assets are amortized over useful lives of 3 to 7 years. Estimated amortization expenses relating to other intangible assets are as follows:

2007	982
2008	982
2009	982
2010	982
2011	938
Years thereafter	1,132
	5,998

NOTE 4 *Goodwill*

The changes in the carrying amount of goodwill are as follows:

At cost:	
Balance January 1, 2005	5,153
Acquired	1,101
Balance December 31, 2005	**6,254**
Acquired	**300**
Balance December 31, 2006	**6,554**
Accumulated amortization:	
Balance January 1, 2005	2,294
Amortization for the year	-
Balance December 31, 2005	**2,294**
Amortization for the year	**-**
Balance December 31, 2006	**2,294**
Goodwill, net:	
December 31, 2005	3,960
December 31, 2006	**4,260**

NOTE 5 *Property, Plant and Equipment*

	Land, buildings and improvements	Machinery, equipment, furniture and fixtures	Total
At cost:			
Balance January 1, 2005	4,348	425	4,773
Capital expenditures	-	42	42
Balance December 31, 2005	**4,348**	**467**	**4,815**
Capital expenditures	**-**	**-**	**-**
Balance December 31, 2006	**4,348**	**467**	**4,815**
Accumulated depreciation:			
Balance January 1, 2005	3,012	376	3,388
Depreciation for the year	68	47	115
Balance December 31, 2005	**3,080**	**423**	**3,503**
Depreciation for the year	**46**	**37**	**83**
Balance December 31, 2006	**3,126**	**460**	**3,586**
Property, plant and equipment, net:			
December 31, 2005	1,268	44	1,312
December 31, 2006	**1,222**	**7**	**1,229**

The useful life for buildings and improvements is 10-25 years. For machinery, equipment, furniture and fixtures the useful life is 2-10 years.

Property, plant and equipment include real estate held for sale with a carrying value of € 876.

NOTE 6 *Shareholders' Equity*

The changes in shareholders' equity are as follows:

(thousands)						EUR
	Common shares	Capital in excess of par value	Accumulated deficit	Legal reserves	Accumulated other comprehensive loss	Total shareholders' equity
Balance January 1, 2005	2,105	301,221	(96,748)	92,187	(9,659)	289,106
Issuance of common shares:						
For stock options	2	652	-	-	-	654
Compensation expense stock options	-	1,452	-	-	-	1,452
Derecognition of equity component convertible subordinated notes, net	-	-	24,352	-	(24,352)	-
Increased retained earnings subsidiaries	-	-	(26,945)	26,945	-	-
Capitalized development expenses	-	-	(11,541)	11,541	-	-
Other comprehensive loss	-	-	-	-	19,843	19,843
Net earnings	-	-	(36,552)	-	-	(36,552)
Balance December 31, 2005	**2,107**	**303,325**	**(147,434)**	**130,673**	**(14,168)**	**274,503**
Issuance of common shares:						
For stock options	**36**	**10,931**	**-**	**-**		**10,967**
Settlement agreement with former shareholders NuTool	**10**	**3,914**	**-**	**-**	**-**	**3,924**
Compensation expense stock options	**-**	**1,336**	**-**	**-**	**-**	**1,336**
Decreased retained earnings subsidiaries	**-**	**-**	**8,930**	**(8,930)**	**-**	**-**
Capitalized development expenses	**-**	**-**	**(11,536)**	**11,536**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**	**-**	**(12,557)**	**(12,557)**
Net earnings	**-**	**-**	**35,965**	**-**	**-**	**35,965**
Balance December 31, 2006	**2,153**	**319,506**	**(114,075)**	**133,279**	**(26,725)**	**314,138**

Legal reserves include legal reserves regarding retained earnings of subsidiaries, capitalized development expenses and the cumulative foreign currency translation effect on translation of foreign operations. Since the cumulative foreign currency translation effect on translation of foreign operations is negative, the related legal reserve is nil.

For more detailed information, reference is made to Note 15 to the Consolidated Financial Statements.

Employee Stock Option Plan

The Company has adopted various stock option plans and has entered into stock option agreements with various employees. Under these plans, employees may purchase a specific number of shares of the Company's common stock. For more detailed information, reference is made to Note 16 to the Consolidated Financial Statements.

NOTE 7 *Remuneration and Share Ownership of the Management Board and Supervisory Board*

With respect to remuneration and share ownership of the Management Board and Supervisory Board, reference is made to Note 25 and 26 to the Consolidated Financial Statements.

NOTE 8 *Commitments and Contingencies*

ASM International N.V. has guaranteed available short-term facilities of certain subsidiaries of € 45,048. With respect to certain Dutch subsidiaries ASM International N.V. has assumed joint and several liability in accordance with Article 403, Part 9 of Book 2 of the Netherlands Civil Code.

Bilthoven,
April 18, 2007

Supervisory Board

P.C. van den Hoek
E.A. van Amerongen
L.P.E.M. van den Boom
B.C. Brix
J.M.R. Danneels
H.W. Kreutzer

Management Board

A.H. del Prado
C.D. del Prado
W.K. Lee
A.J.M. van der Ven
J.F.M. Westendorp

Auditor's Report

The auditor's report is included on page 92 of this Statutory Annual Report 2006.

Appropriation and Determination of Profits

Article 32 of the Articles of Association of ASM International N.V. ("the Company") provides the following with regard to distribution of profit and can be summarized as follows:

Para 1-3:
From the profits, distributions shall in the first place, if possible, be made on the preferred shares equal to the EURIBOR-rate for six months' loans, increased by one and a half, on the paid up amount which had to be paid on the preferred shares, weighted to the number of days to which this was applicable. If profits are insufficient, the dividend will be paid from retained earnings with priority over any dividends. If retained earnings are insufficient, the dividend deficit has to be made up in future years;

Para 4-6:
Second, a dividend, if possible, is distributed on financing preferred shares. The dividend is a percentage of the par value, plus share premium paid, on the financing preferred shares. The percentage is determined by the Management Board, subject to approval of the Supervisory Board. The percentage is related to the average effective yield on government loans with a weighted average remaining term of no more than ten years, if necessary increased or decreased by no more than three percent, subject to the then prevailing market conditions. If profits are insufficient, the dividend shall be paid from retained earnings. If retained earnings are insufficient, the dividend deficit has to be made up in future years;

Para 7:
With the approval of the Supervisory Board, the Management Board will determine which part of the profit remaining after adoption of the provisions of the previous paragraphs will be reserved. The profit after reserving will be at the disposal of the General Meeting;

Para 9:
The Company may only make distributions to the shareholders and other persons entitled to profit eligible for distribution insofar as its equity exceeds the amount of the paid-up and called amount of the share capital increased with the reserves that must be kept by virtue of law;

Article 33, para 3 of the Articles of Association provides that dividend claims expire after the lapse of five years.

The Management Board with the approval of the Supervisory Board has decided that the earnings for the year 2006 will be added to retained earnings.

Special Statutory Control Rights

Article 27 of the Articles of Association provides that each common share gives the right to cast one vote, each preferred financing share to cast one thousand votes and each preferred share to cast one thousand votes;

Article 29 of the Articles of Association provides that meetings of holders of preferred shares or of financing preferred shares shall be convened as often and insofar as a decision of the meeting of holders of preferred shares or financing shares desires this, and furthermore as often as the Management Board and or the Supervisory Board shall decide to hold such a meeting. At the meeting resolutions will be passed with an absolute majority of the votes. In case of a tie vote there will not be effected any resolution.

The following resolutions and actions can only be taken on a proposal by the Management Board and the Supervisory Board:

- the amendment of the Articles of the Company;
- the dissolution of the Company.

Stichting Continuïteit ASM International

The object of Stichting Continuïteit ASM International ("Stichting") is to own and vote the Company's preferred shares in order to maintain amongst others the continuity of the Company. Towards that objective, Stichting will evaluate, when called for, whether an actual or expected take-over offer is in the best interest of the Company. In accordance with the applicable regulations of the Euronext Amsterdam, Stichting is managed by majority vote of a five-person Board, not more than two of which (Directors A) may be officers of the Company and at least three of which (Directors B) must be independent from the Company. Directors A are appointed by the Management Board, subject to the approval of the Supervisory Board, from among the Management and Supervisory Boards. Directors B must be independent from the Company and are appointed by the Board of Stichting, subject to approval of the Management Board with the consent of the Supervisory Board.

The Company has, as approved in the General Meeting of May 28, 1997, granted a right to purchase preferred shares to Stichting for a par value equal to the par value of half of the outstanding common shares at the time of purchase. The minimum purchase price of the preferred shares is 25% of the par value. The shareholders must be informed in a shareholders meeting about the Company's motives within four weeks after issuance of preferred shares. Within two years after issuing preferred shares, a proposal to withdraw or repurchase the shares must be submitted to shareholders and, if not accepted, every two years thereafter. No preferred shares are outstanding as per December 31, 2006.

The two directors of the Company (Directors A) who have been appointed to the Board of Stichting are Messrs. P.C. van den Hoek, Chairman of the Supervisory Board and A.H. del Prado, President and Chief Executive Officer. The three independent directors (Directors B) appointed to the Board of Stichting are Messrs. M.J.C. van Galen, R. Veenenga Kingma and L.Traas.

In the opinion of both the Company and members of the Board of Stichting, the Stichting is independent of the Company in the sense of Appendix X to the Listing Regulations issued by Euronext Amsterdam.

List of Subsidiaries and Offices

The subsidiaries and offices of the Company are listed on page 40 and 41 of the Statutory Annual Report.

Report on the financial statements

We have audited the accompanying financial statements for the year 2006 of ASM International N.V., Bilthoven. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, statement of operations, statement of shareholder's equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company statement of operations for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ASM International N.V. as at December 31, 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

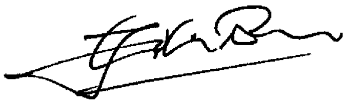
Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of ASM International N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.



J.G.C.M. Buné
Amsterdam, the Netherlands

April 18, 2007

ASM International

The Process of Innovation℠

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