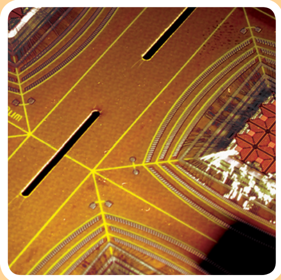
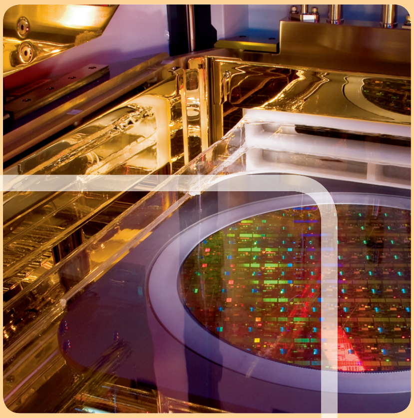
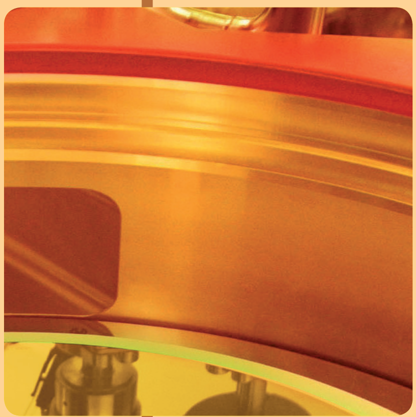
2008 Statutory Annual Report

The Process of Innovation℠







ASM International

2008 Statutory Annual Report

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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 revenue, sales, income, 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, 2008 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 2008 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 28 to the Consolidated Financial Statements.

Contents

ASM®

In the 40-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.

	Year ended December 31,	
	2007	**2008**
In million Euro		
Operations:		
Net sales:	955.2	**747.4**
Front-end	450.9	**296.8**
Back-end	504.3	**450.6**
Earnings from operations	162.2	**64.4**
Net earnings allocated to shareholders of the parent	89.5	**38.2**
Balance sheet:		
Net working capital (1)	271.5	**260.5**
Total assets	864.2	**801.0**
Net debt (2)	(0.5)	**(15.2)**
Backlog:	200.4	**90.7**
Front-end	99.2	**53.0**
Back-end	101.2	**37.7**
Number of staff:		
Full-time equivalents:	11,832	**11,714**
Front-end	1,843	**1,667**
Back-end	9,989	**10,047**
In Euro		
Per share data:		
Net earnings allocated to shareholders of the parent per share:		
Basic	1.66	**0.73**
Diluted	1.17	**0.44**
In thousands		
Weighted average number of shares used in computing per share amounts (in thousands):		
Basic	53,968	**52,259**
Diluted	65,076	**62,050**

(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, the liability component of the 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:

- Expanding returns on Front-end operations by executing on our "Roadmap to Front-end Profitability" that focuses on product commercialization, operating efficiencies and working capital reductions, while maintaining solid profitability for our Back-end segment.
- Streamlining our Front-end manufacturing processes to follow the highly successful vertical manufacturing model of our Back-end segment, by systematically reducing manufacturing costs through global sourcing, product platform consolidation, and locating significant parts of our manufacturing capability in more cost efficient countries.
- Maintaining our global reach through our operating, sales and customer service facilities in key parts of the world in order to establish and maintain long-term customer relationships.
- Leveraging our combined strong Front-end and Back-end technology leadership and manufacturing capabilities through advancements in our products and processes early in the technology lifecycle.
- Expanding the scope and depth of our research and development capabilities through strategic alliances with independent research institutes, universities, customers and suppliers, and expanding our intellectual property portfolio by filing patent applications for key developments in equipment, processes, materials and software, and by licensing programs for our technologies.

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 Atomic Layer Deposition technology platform, today we address all of the critical areas driving the semiconductor industry roadmap: silicon-on-insulator (SOI) and strained silicon, high-k and metal electrodes for logic and memory, and low-k for interconnect, enabling the industry transition to smaller line-widths and better transistors employing new materials.

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 lead frames. 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 Almere, the Netherlands, ASMI operates manufacturing facilities in the Netherlands, the United States, Japan, Hong Kong, the People's Republic of China, Singapore and 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 11,000 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.

Atomic Layer Deposition - A Critical Nanotechnology

Building Atom by Atom

Atomic Layer Deposition (ALD) is an advanced process that enables the formation of thin films atom by atom. This truly enabling technology creates atomically-engineered nanoscale structures and devices with unique properties that address the challenges of very small dimensions. Building devices at the atomic level provides precise process control for uniform thickness of deposition materials over all topographies.

Expanding Application Markets

ALD serves an expanding range of applications within the semiconductor industry and beyond, in consumer, medical and government sectors. Many leading edge products in use today - from automotive electroluminescent dashboard displays, to the low power chips and LED displays in our hand-held communication devices, to the high performance chips in our desktop PC's - are built using ASM International ALD technology.

Materials-Enabled Scaling

In the vast field of microelectronics, ALD is a critical technology for manufacturing integrated circuits that allows the continuation of *Moore's Law*. Inspired by Intel founder, Gordon Moore, *Moore's Law* states that the density of ICs will double approximately every two years. What makes ALD such a critical technology for the miniaturization of both transistors and capacitors is that it enables the semiconductor industry to lay down a myriad of new materials with atomic precision.

ASMI: Pioneer and Industry Leader

ASMI pioneered ALD technology for the semiconductor industry in 1999, and today is a leading supplier of ALD tools and process solutions, offering both single wafer and batch systems. The following highlights ASMI's portfolio and achievements:

ASMI Products and Processes

- **The Pulsar®** - a flexible, single wafer process module for high-k films for logic and flash gate stacks, as well as for other non-IC applications such as magnetic heads.

  ASMI has a global installed base of over 100 Pulsar ALD process modules in over 30 fabs for high volume manufacturing, pilot production, and process development. In 2008, ASMI's Pulsar 3000 was selected by Semiconductor International for its "Editor's Choice Best Product," the second time an ASMI ALD system received this distinction. Processes developed on the Pulsar, have achieved throughput comparable to MOCVD, while retaining ALCVD layer quality.

- **High-k Gates** - In 2007, ASMI and its partners charted a new course for the transistor, introducing high-k materials on semiconductor gate structures using ASMI's Pulsar reactor.

  According to Gordon Moore, this marked the most significant breakthrough in transistor technology since the transistor was introduced four decades ago. What this means for the consumer is that high performance servers and personal products, such as laptops, PDA's, and smart-phones can run on smaller, smarter chips that consume less power.

- **The Stellar™** - the world's first single-wafer PEALD high volume manufacturing tool.

  PEALD, or plasma-enhanced ALD, uses radio-frequency (RF) activated plasma processing to make deposition of denser materials possible at much lower temperatures than hitherto possible. ASMI's global installed base of Stellar systems includes RF Analog integrated circuits, CMOS Image Sensors, LCD's, and DRAM applications.

- **The A412™** - the world's most productive tool for batch ALD processing.

  Some ALD processes can be run in a batch tool thereby significantly enhancing productivity. Batch processing performs exactly the same deposition process on up to 150 wafers at a time. ASMI's global installed base of batch tools represents more than 1700 tubes, with several ALD tools now being qualified for production.

Leveraging Success

Based on its current success with semiconductor industry leaders, ASMI is well positioned to leverage its market leadership in ALD, also penetrating the industry fast-followers, and licensing its technology. In 2008, we extended our IP licensing program, and signed a licensing agreement with Tokyo Electronics Limited for ALD patents in batch ALD.

Global R&D: the Foundation for Future Enhancements

ASMI maintains the largest ALD development organization in the industry, with access to all the stages in its life cycle, from developing basic chemistry to the implementation in production. With research centers around the globe working on ALD - in Finland, the U.S., Japan, Korea, the Netherlands, and Belgium, as well as joint research projects with Europe's largest independent research institute, IMEC - at ASMI, developments in ALD are a priority, and a dynamic and ongoing process.

ALD: Driving Sustainable Growth

Over the next decade, ALD is expected to be one of the principal drivers of growth in microelectronics. In the next 5 years, the market for single wafer ALD equipment is expected to grow, from $ 119 million in 2008 to over $ 329 million in 2013 [VLSI Research, January 2009], representing a compound annual growth rate of over 20%.

At ASMI, ALD has grown from an emerging technology a decade ago, to a core product line today, and a principal driver of our growth going forward.

As the parameters of miniaturization forge new paths, atomic layer deposition, a “new” technology that has been around for over 20 years, is on the brink of becoming a core technology for the semiconductor industry. ASMI is strongly positioned and strategically focused to benefit from this momentum as ALD continues to shape the cutting edge of our industry-one atom at a time-as a true nanotechnology.

For ASMI, 2008 was a year of turning challenge into opportunity, and of executing both new and fundamental strategies with focus and commitment. While most industry players and peers were faced with the double blow of a cyclical downturn that coincided with a global economic upheaval of major proportions, ASMI faced the additional strategic challenge of executing a new roadmap to consistent Front-end operating profitability while addressing shareholder and other external proposals for major change.

Our net sales for the year equaled € 747 million, a decrease of 22% from 2007, with Front-end contributing 40% and Back-end, 60%. With Front-end customers reining in capital spending faster than our diverse Back-end customer base, Front-end sales were impacted throughout the year. Back-end billings remained healthy until the last quarter of 2008 when the global economy deteriorated rapidly.

Although Front-end operations' earnings slid into negative territory, margins remained relatively firm, excluding an inventory write-off and impairment charge, as a result of major cost-cutting efforts. Back-end remained profitable with a return on sales of over 18%, a testament to its highly efficient, vertically-integrated business model, and to a diverse customer base that continues to expand beyond the semiconductor industry. A decrease in working capital had a positive impact on both Front-end and Back-end cash positions.

Additionally, ASMI continued to honor its commitment to use the dividend stream from Back-end operations to increase shareholder value. In 2008, the € 49 million received from Back-end, and € 17 million in expected future cash dividends, were employed to:

- Repurchase 2.6 million common shares, and
- Retire US$ 48 million nominal amount of the 51/4% Convertible Subordinated Notes due 2010.

Market conditions enabled us to buyback our convertible debentures at very favorable discounted rates. Effectively, we only used € 30 million of the cash dividends to retire US$ 48 million (equal to € 38 million) of the notes due in 2010.

Clearly, our annual financial results reflect the severe business conditions that we faced in 2008. Even in this extremely difficult environment, however, ASMI made solid progress in the year - increasing the market penetration of some leading technologies, improving our Front-end operating model, executing strategic cost-cutting efforts, and leveraging the benefits of Front-end/Back-end diversifications.

Front-end: Leading with Innovation

Front-end faced this tumultuous year determined to stay the course of our strategy and vision. ASMI accomplished a great deal in recent years in positioning Front-end operations to capture key growth opportunities. We correctly envisioned the industry's technology roadmap, and invested heavily to build a strong technology capability that embraces our customers' challenges at successive technology migrations.

In fact, our ability to create intellectual capital is one of our core strengths. ASMI has a storied history of innovation and being first in bringing breakthrough technologies to high volume manufacturing. We are continuously developing new products, processes and materials for an ever-broadening range of applications, and assisting our customers to utilize them to their competitive advantage.

We also made significant financial and operational improvements in Front-end in 2008. These included reducing working capital and long term debt, cutting costs across all functions, and we prepared for Front-end administrative systems' improvements through a worldwide SAP program.

Front-end Operations Roadmap to Profitability

In 2008, Front-end entered a new phase in the Company's history with the implementation of our “Roadmap to Front-end Peer Group Profitability.”

While we believe ASMI is well-positioned to participate in the highest-value opportunities awaiting our industry when capital spending resumes, we also clearly recognize that under normal industry conditions, our Front-end operations have been less profitable than peer companies in the semiconductor equipment space. We therefore made some critical decisions in 2008 to accelerate our advance toward sustainable Front-end profitability.

Our "Roadmap to Front-end Profitability," announced in April 2008, is based on four key initiatives:

- Driving Revenue Growth
- Increasing Operating Margins
- Improving Cash Conversion
- Streamlining and Restructuring our Global Model

Although we began implementing the Roadmap in 2008, execution of some of the strategies was hampered by the precipitous decline in our industry and the global economic environment. As the year progressed, our primary focus shifted to cost reduction measures that would further reduce our net breakeven level and control working capital.

The current uncertainties in the market in no way change the fundamentals of our Roadmap. However, this downturn will impact the timing of financial benefits from some of the programs. For example, the positive impact from Material Cost Reductions, Global Sourcing, and Platform Consolidation will not accrue until the market recovers.

Nonetheless, the underlying Roadmap strategies remain relevant, and we continue to firmly implement them. The following highlights our initiatives and our progress in 2008, as well as the goals for 2009 going forward.

Driving Revenue Growth

An outstanding product portfolio in fast growing Front-end markets

- *ASMI ranks among the top three companies in market share with all four core product lines, Transistor Products ALD, Epitaxy, Vertical Furnace, and PECVD. Because ASMI participates in the industry's fastest growing market segments, we see strong potential to improve our position in each product line once industry spending recovers. For example, we expect aggressive growth in ALD based on the leveraging of our early lead in technology, HVM production, and IP licensing. Atomic layer deposition's potential is discussed further in this report's feature on nanotechnology.*

Realignment of our sales organization from a regional to global organization

- *In 2008 we appointed a Vice President of Global Sales and Service, located in Asia, to orchestrate this important change. His directive is to:*
  - *Strengthen the voice of the customer to the highest level in the organization.*
  - *Re-set our sales focus from product orientation to customer-centric concentration, and*
  - *Accelerate our overall market penetration in Asia, and in the memory and foundry markets in particular.*

Increasing Operating Margins

The following highlights the initiatives that are in place:

- *Front-end Manufacturing in Singapore (FEMS)*
  - *Five years ago, we began relocating Front-end manufacturing to Asia to secure a lower cost base with access to highly skilled personnel. FEMS (Front-end Manufacturing Singapore) has made successive progress each year with the transfer of core products' generic parts and subsystems manufacturing to Singapore. From FEMS' success we realized financial benefits evident in its positive impact on Front-end gross margins.*
  - *In 2008, we realized positive impacts from FEMS on material costs and gross margin. Generic parts and subassembly fabrication for Front-end core product groups, which represents 70% of cost of goods sold, progressed on schedule.*
  - *The transfer to FEMS of remaining product line generics, including Transistor Products generics, is expected to further trim costs.*
  - *Entering 2009, the lowered capacity utilization at FEMS, brought about by the global recession, allows us to accelerate our FEMS initiative. This year we will transfer the remaining Vertical Furnace manufacturing and procurement activities from the Netherlands to Singapore.*

- *Operating Efficiencies - In 2008, we made solid progress in lowering operating expenses and reducing our net breakeven level from approximately € 110 million to about € 90 million, completing the sale of Nanophotonics, and reducing permanent Front-end headcount by 10%. Additionally, the consolidation of our European offices with the headquarters' move to Almere contributed to the decrease in SG&A.*

- *Platform Consolidation - By 2010, substantially all single wafer applications will be consolidated on the Eagle/Dragon platform. Resulting contributions to margin improvement are expected to commence in 2010.*
- *Global Sourcing - Benefits from our Global Sourcing efforts in terms of better purchasing power, supply standardization, centralized supplier interface, currency independence, and overall cost reduction will become more visible when the markets recover.*
- *And finally, we are reorganizing our global R&D budget prioritization and allocation under the direction of our Vice President Front-end Products.*

Improving Cash Conversion

In the current economic environment where the timing of an industry upturn is extremely uncertain, cash preservation is an imperative. In 2008, we reduced the absolute amount of our working capital compared to 2007, and we held net capital spending in line with our Roadmap target.

Streamlining and Restructuring Our Global Model

We are restructuring our organization from a regional orientation to a global structure. With the 2008 appointments of:

- *our VP Global Sales and Service, we set in motion the reorganization of ASMI's sales, spares and services operations to a global, customer-centric model.*
- *our VP Front-end Products, we are strengthening the focus of our Front-end organization to execute the commercialization of technologies, tightly aligned with our customers' emerging needs.*

The full implementation of our Global Operations organization with the planned appointment of the VP of Global Operations will become visible in 2009 in the further streamlining of our manufacturing processes globally, with a focus on cost reduction.

Back-end: Infrastructure Refinements for Continued Growth

Downturns traditionally offer an opportunity to work on market share gains and for our Back-end operations, represented by our 53-percent interest in ASM Pacific Technology Ltd., 2008 was no exception. Even with industry order levels spiraling downward, ASMPT once again outperformed the industry and gained market share. As the world's largest assembly and packaging equipment supplier for the semiconductor and LED industries, ASMPT has continued to grow and widen the gap with its closest competitors each year since it captured the market leadership more than five years ago.

Back-end's superior performance record, evident in outstanding financials and consistent annual returns to shareholders, is built upon its unique business model: a vertically-integrated manufacturing base established in low-cost manufacturing centers in China and Southeast Asia, with multiple product lines serving diverse applications markets, and the successful introduction of advanced assembly and packaging products, year after year. Back-end's sustainable competitive advantage is its market-driven and customer-centric regional location and organization.

In 2008, Back-end responded to the global recession by adjusting its short-term business strategies and reducing costs. At the same time, it remained focused on longer-term goals. Through a steadfast commitment to a farsighted business strategy that has driven both its fundamental and strategic growth for over three decades, ASMPT has built a very solid foundation enabling it to maintain its highly competitive industry position even in periods of decreased activity.

Adjustments to Current Market Conditions

In aligning operating costs with deteriorating market conditions in 2008, Back-end took several immediate steps that included elements of its longer-term strategies.

For example, while Back-end reduced variable expenses with tighter controls of inventory, work in progress, and accounts receivable levels, extending holiday shutdowns and shortening workweeks, there were no major cuts in staffing. Because of its flexible work-schedule polices that rely on both variable hours and salary adjustments, Back-end can effectively manage its workforce in periods of contracted capacity utilization, and still retain the employee skill-set base, seeded and nurtured over the years, ready for the next upturn.

Because of its strong balance sheet, ASMPT is able to fund incremental investments during downturns to further automate and improve the efficiency of its manufacturing base. In the current environment, Back-end is particularly focused on innovative efforts to improve its long-term cost advantages. By simplifying manufacturing processes and adopting more automation on the production floor, ASMPT intends to permanently lower its total cost structure by reducing future cost-of-goods sold and time to market. In addition, Back-end will use the remainder of this depressed market period to work with customers on cost-effective technology solutions that meet the most demanding assembly and packaging challenges.

Growth Initiatives

The two main drivers behind Back-end's successful growth are: investing in cutting-edge technologies, and implementing gradual capacity additions.

Back-end's ability to continuously expand its product portfolio and addressable markets is based in its ongoing commitment to research and product development that claims 10% of Back-end revenues over the industry cycles. In October 2008, ASMPT opened its third research and development center, located in Chengdu, China, complementing its established R&D centers in Hong Kong and Singapore. At this trio of research facilities, product teams concentrate on improving existing systems while technology teams tackle innovation. By sharing technologies, Back-end's research groups, in close proximity to its largest customer bases can focus simultaneously on both present and future enabling integrated solutions.

Like Front-end, Back-end is a recognized innovator and has pushed the technology frontiers for new package types like QFN, stacked die, flip chip, and system-in-package; fine pitch wire bonding; thin die attach; ultra thin molded packages, and moisture sensitivity level-1 lead frames. And all of these achievements have the embedded advantage of lowering customers' assembly and packaging costs.

Although Back-end remains focused on the semiconductor industry, it has also succeeded in penetrating new markets that are becoming an increasingly important part of their revenue stream. In 2008, Back-end expanded its position in areas such as image sensors, power LED, RFID, micro-SD memory cards, and chip-on-glass. Going forward, we intend to further our organic growth by moving into additional untapped market spaces that provide opportunities for highly-profitable growth.

Resource Allocation

By controlling the allocation of resources to strategically realign specific business segments, Back-end has successfully strengthened its competitive position.

Following a year of strong sales expansion in 2007, lead frame sales experienced another year of very solid year-on-year growth in 2008. Lead frames now represent approximately 20% of total Back-end revenues.

Over the past few years, Back-end has realized benefits from strategic investments in new lead frame production facilities at low cost manufacturing locations in China and Malaysia. Combined with investments in technology, the increased resources allocated to expand stamped lead frame capacity at FuYong, Shenzhen, the ramp of etched lead frame production from the Malaysia facility, and the more recent expansion of etching capability at their Singapore plant, has brought ASMPT closer to customers, enhanced cost competitiveness, and helped satisfy the requirements of larger customers.

Taking a similar approach with the streamlining of its encapsulation and test handler product groupings, this year Back-end began seeing the positive results of major investments of the past two years. In 2006, ASMPT consolidated its encapsulation systems, ball placement, package singulation, and test handlers into one business unit. ASMPT's Back End Product (BEP) group ultimately expands its addressable market by promoting multiple product line sales to same customers, and offering truly integrated solutions to back-end-of-line processes. With initial expectations from the infusion of resources into BEP having been realized, Back-end expects this segment to be a promising growth-driver in the near future, and a major contributor to revenues in its own right, along side the assembly equipment and lead frame businesses.

The Road Ahead

As we enter 2009 the duration of economic volatility remains uncertain, presenting continued challenges for the global economy, our customers, and for ASMI.

Although we cannot control the macro-environment, we can manage our execution of fundamental business strategies in both Front- and Back-end. We will continue to focus on our business priorities, investing in our product portfolio, and serving our customers, using cash prudently during this downturn, as we further refine our cost structure.

Our commitment to aggressively implement our Front-end roadmap is clear. However, we recognize that under current business conditions, the full impact of these initiatives may be more protracted than in a more stable environment. Nonetheless, we strongly believe that with our outstanding product portfolio and solid business model, we will emerge from this downturn a stronger competitor than ever.

A Personal Note

As my first year as Chief Executive Officer of ASM International, 2008 held particular significance. A challenging year by any measure, it was at the same time gratifying to navigate with the strong support of the ASMI team through a period that demonstrated how competitive and resilient ASMI is in this dynamic industry, even during the unprecedented market weakness of the 2008 second half year. It also showed the ability of Management to stay focused on our long-term strategy and on our Front-end Profitability Roadmap amid adversity, as we prepare for the next upturn.

I am proud of the entire ASM global team, and greatly appreciate their tireless efforts and commitment to the Company during these arduous times. The progress we made during this volatile period is surely a testament to our employees' determination, skill sets and experience. More importantly, as we proceed into 2009, I look forward to addressing the challenges and opportunities before us as a unified group of stakeholders working toward a common goal - the realization of our peak potential.

Charles D. (Chuck) del Prado
President and Chief Executive Officer

Almere, the Netherlands
April 28, 2009

Financial Statements

We herewith present the ASMI 2008 Statutory Annual Report, as prepared by the Management Board and reviewed by the Supervisory Board. Our independent auditors, Deloitte Accountants B.V., have audited these Annual Accounts and issued an unqualified opinion. Their subsequent report appears on page 112 of this Annual Report.

Introduction

The year under review was characterised by a conflict between a group of shareholders (led by Hermes and Fursa) and the Company, and by unsolicited advances to buy parts of the Company stemming therefrom.

After proposals to dismiss and replace the CEO and the majority of the Supervisory Board had been put on the agenda of the 2008 AGM by Hermes, the Stichting Continuïteit ASM International exercised its call option to acquire preferred shares in the capital stock of the Company. Litigation instituted by Hermes and Fursa with the Enterprise Chamber of the Amsterdam Court of Appeal in order to "neutralise" these preferred shares was adjourned, when the Company had received indicative offers for its Front-end activities from certain parties and it was decided to explore the merits of these offers. For that purpose, the Company installed a Transaction Committee to carry out the discussions with these parties, and a Monitoring Committee to review the progress of these discussions. In November 2008 these contacts came to an end.
At the initiative of the Chairman of the Stichting Continuïteit discussions were held between the two largest shareholders of the Company (Arthur del Prado and Hermes) ending in an understanding in consultation with the Supervisory Board on the terms under which the preferred shares could be cancelled and the litigation could be terminated.

With due regard to the joint understanding as achieved by the Company's major shareholders, the Company engaged Frans van Houten as temporary advisor to the Management Board, and Gert-Jan Kramer and Jan Lobbezoo were proposed by the Supervisory Board as nominees for appointment to the Supervisory Board in the vacancies resulting from the retirement of Paul van den Hoek, and the resignation of Leon van den Boom. This episode has taken a lot of attention and time from both the Supervisory and Management Boards and created a great deal of unrest around the Company and its stock. The Supervisory and Management Boards trust that the appointment of Frans van Houten and the nomination of Gert-Jan Kramer and Jan Lobbezoo will contribute towards a quick resolution of the litigation and its causes in a manner satisfactory for all parties concerned so as to enable the management of the Company to fully concentrate on the business and the many challenges facing the Company in the current market conditions.

Supervision

Supervision of the Management Board, its policy decisions and actions, are entrusted to the Supervisory Board. In accordance with Dutch law, the Supervisory Board is a separate body, independent of the Management Board.

Meetings of the Supervisory Board

During 2008, the Supervisory Board met with the Management Board on nine occasions in person, and in a great number of conference calls. Furthermore the Supervisory Board had a few conference calls without the Management Board participating. In these meetings, the Boards discussed operations, business risks, product and market developments, the Company's organization, management and financial structure and performance, and initiatives from shareholders. In addition, developments in corporate governance and reporting requirements, particularly those required by section 404 of the Sarbanes-Oxley Act were discussed, as well as the composition of the Supervisory Board and the Management Board, and other strategic and operational issues.

In the absence of the Management Board, the Supervisory Board discussed the functioning of the Supervisory Board and its individual members, the relationship between the Supervisory Board and the Management Board, the composition of the Management Board, its performance, and the performance of its individual members.

Corporate Governance

Among the responsibilities of the Supervisory Board, one 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 21, 2008, Ulrich Schumacher, President of Grace Semiconductor Manufacturing Corporation, Shanghai, China, was elected to the Supervisory Board, succeeding Berend Brix, who retired from the Board. Leon van den Boom resigned from the Supervisory Board, effective March 9, 2009.

Management Board Composition

Effective March 1, 2008, Chuck del Prado assumed the position of Chief Executive Officer of ASMI. Chuck del Prado has served in the semiconductor and equipment industries for more than 20 years, having been with the Company since 2001, most recently as President and General Manager of ASM America.

Chuck del Prado succeeds Arthur del Prado, the founder of ASMI, who served as President and CEO since the Company was incorporated in the Netherlands in 1968. At the Meeting of Shareholders in May 2008, Arthur del Prado was elected Honorary Chairman of the Company in recognition of his invaluable contribution to the Company over four decades. Arthur del Prado will continue to serve the Company as advisor to the Supervisory Board on strategy and industry issues.

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 in 2008 consisted of Leon van den Boom (Chairman), Eric van Amerongen, and Heinrich Kreutzer.

During the year, the Supervisory Board Audit Committee held seven 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 testing operating effectiveness of internal controls required by Section 404 of the Sarbanes-Oxley Act; the Company's financial position and financing programs; the application of accounting principles; the establishment of an internal audit function; the appointment of Deloitte Accountants; the audit performed, and its findings, the Annual Report and Annual Accounts; and the budget and the quarterly progress reports prepared by the Management Board.

On one occasion, the Audit Committee met with Deloitte Accountants, without the members of the Management Board present, to discuss the risk of fraud. Furthermore, the Audit Committee discussed the auditor's performance with the Management Board without Deloitte Accountants present.

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, www.asm.com. 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 Eric van Amerongen (Chairman), Johan Danneels, and Paul van den Hoek.

In 2008, the Nomination, Selection and Remuneration Committee held two meetings. During these meetings, the Chief Executive Officer was present, except on the occasion when his own remuneration was discussed. For practical reasons most of the Committee's work was done by e-mail or telephone.

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 24 “Board remuneration” to the Consolidated Financial Statements 2008. The remuneration of the members of the Management Board during 2008 is fully in accordance with the Remuneration Policy. The Remuneration Policy for the Management Board has been submitted to, and adopted by, the 2005 Annual General Meeting of Shareholders.

Transaction and Monitoring Committees

As described in the introduction, the Transaction and Monitoring Committees were installed for the purpose of reviewing the unsolicited offer made by Applied Materials Inc. and Francisco Partners to acquire all of ASMI's Front-end activities. In November 2008, Applied Materials and Francisco Partners terminated contact with ASMI pertaining to this potential acquisition.

For most of the time, the Transaction Committee consisted of Leon van den Boom (member of the Supervisory Board) and Naud van der Ven (CFO). The Monitoring Committee was comprised of Paul van den Hoek (Chairman of the Supervisory Board), Heinrich Kreutzer (member of the Supervisory Board), Chuck del Prado (CEO), Arthur del Prado, and Wouter Rosingh, the latter representing shareholders Hermes and Fursa.

All of the members of the Supervisory Board have signed the Financial Statements in respect of the financial year 2008.

Word of Thanks

The unprecedented challenges that the Company faced in 2008 were met with equal measures of commitment and focus from ASMI employees worldwide. Their individual skills and collective resourcefulness is what has enabled ASMI to pursue and maintain its legacy of innovation as a leading supplier of enabling technologies to the semiconductor industry, and to serve an ever-expanding global customer base. We greatly appreciate their dedication and service in these extraordinary times.

Supervisory Board

P.C. van den Hoek, Chairman
E.A. van Amerongen
J.M.R. Danneels
H.W. Kreutzer
U.H.R. Schumacher

Almere, The Netherlands
April 28, 2009

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 of December 9, 2003.

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 applicable 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 of December 9, 2003.

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 Anti-Fraud 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 the Dutch Corporate Governance Code. 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.

An amended version of the Dutch Corporate Governance Code will most likely be granted statutory force in the course of 2009. In that event we will propose a separate agenda item concerning our corporate governance structure and compliance with the amended Code for the General Meeting of Shareholders to be held in 2010.

We currently comply with the principles and best practice provisions of the Dutch Corporate Governance Code, except for the following:

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. Our Rules concerning Insider Trading as well as our Supervisory Board Rules and Management Board Rules are explicit on this topic to reflect the spirit of this requirement, but we do not intend to start a formal additional quarterly reporting system. In this context we note that this rule has been deleted in the amended Code and will therefore not be applicable as of 2009.

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.

Rule III.3.5 - Supervisory Board terms

As ASMI wanted to continue to benefit from the valuable expertise and experience of Mr. van den Hoek and provide continuity within the Supervisory Board, it was proposed in 2005 to reappoint him to the Supervisory Board for another 4 year term, despite the fact that he has been member of the Supervisory Board since 1981. Mr. van den Hoek's term of office ends at the General Meeting of Shareholders to be held in May of this year. 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. We are of the opinion that at least 50% of the issued capital plus one vote should decide the 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. In May, 2008 we announced that the issue of appointment and dismissal of members of the Management Board and the Supervisory Board would be put on the agenda of our 2010 General Meeting of Shareholders.

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;
- 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 at the 2006 Annual General Meeting of Shareholders, for a five-year period ending 2011.

For further information regarding the remuneration of the Management Board, reference is made to the Remuneration Policy, which is posted on our website, the Remuneration Report 2008, which is posted on our website, the Report of the Supervisory Board 2008, which is included in our Statutory Annual Report 2008 Note 24 “Board Remuneration” of the Consolidated Financial Statements 2008.

Responsibility Statement

The members of the Management Board state that, to the best of their knowledge, (i) the Annual Accounts, as shown on pages 53 to 107 of this Statutory Annual Report, provide a true and fair view of the assets, liabilities, financial position and result for the financial year 2008 of ASM International N.V. and its subsidiaries included in the consolidated statements, (ii) the Statutory Annual Report provides a true and fair view of the position and the business of ASM International N.V. and its subsidiaries (details of which are contained in the annual accounts), and (iii) the Statutory Annual Report provides a description of the principal risks and uncertainties that ASM International N.V. faces.

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 a detailed discussion of our risk factors, see Item 3.D. "Risk Factors" of our Annual Report on Form 20-F.

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 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. In 2008 we started to further professionalize our approach by also integrating the principles of the COSO Enterprise *Risk Management - Integrated Framework* into our Risk Management and Control Framework.

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

Responsibilities

The Management Board is responsible for designing, implementing and operating an adequately 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 our Management Board's guidelines, and supported and supervised by ASMI departments.

Authorization

Management of risks is supported by authorization limits with respect to expenditures and commitments.

Planning and Control Cycle

The planning and control cycle starts with an annual budget approved by the Management Board and the Supervisory Board. The budget includes objectives and targets, which provide the basis for monitoring performance. The budget is 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 operational reviews at the operating units.

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

Code of Ethics, Whistleblower Policy, Anti-Fraud Policy

Our Code of Ethics is applicable to all of our employees, including the members of our Management Board (which includes the CEO and CFO) 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 who reports the violation or irregularity.

Our Anti-Fraud Policy provides specific rules to promote ethical conduct and understanding of legal requirements regarding anti-corruption matters (such as bribery and corruption of governmental officials) and anti-fraud matters (such as maintaining accurate and complete Company records, protection and use of Company resources, information security, and conflicts of interest).

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 applicable 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, 2008 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

We have embedded an Internal Risk Management and Control Framework (“Framework”) in the Company. Within the Framework, we continue to enhance our identification and assessment of our strategic, operational, financial, financial reporting, and compliance risks, and continue to expand our risk management policies. We have documented our internal controls both on the transaction level and the entity level and continuously assess 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 Framework, and 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 reports 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 *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 Section 404 of the Sarbanes Oxley Act of 2002 ("SOX 404") all of the members of the Management Board concluded that as of December 31, 2008, 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. In addition, to the best of the knowledge of the Management Board the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, as well as a description of the principal risks and uncertainties that the Company faces. There were no changes to the Company's internal control over financial reporting that occurred during 2008 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. 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.

Identification and Assessment of Risks

Risk management is a continuous process owned by management. Efforts have been made to establish a process for separate monitoring and reporting of business risks. Workshops and interviews have been conducted to identify and assess those risks that threaten ASMI in the achievement of our company objectives and strategy and the mitigating controls and programs in place. The assessment process is in progress and will continue on an ongoing basis. For an understanding of our business (risks), we give an indication of some risks that we face. We also refer to the section entitled "Risks related to our business" set forth in our Form 20-F filed with the SEC. It does not constitute a complete list of all strategic, operational, compliance, financial and financial reporting risks to which we are exposed, nor does it imply an order of priority.

- Economic and Market Risk

  ASMI is vulnerable to changing economic circumstance and market conditions. The semiconductor industry and market have always been very cyclical and dependent on the economic climate. The industry is currently highly affected by the economic downturn and the impact of the credit crisis. Potential ASMI customers have difficulties in obtaining credit facilities from financial institutions to fund investments in our equipment. Furthermore these customers suffer from the decrease of prices in the market (especially DRAM) and lower sales volumes. We face the risk of not being able to respond timely and effectively to these industry cycles, and not being able to reduce our activities and expenses in time. On the other hand, industry upturns have been characterized by fairly abrupt increases in demand for semiconductor devices and equipment and insufficient production capacity. During a period of increasing demand and rapid growth, we must be able to quickly increase manufacturing capacity to meet customer demand and to assimilate a sufficient number of additional qualified personnel. The economic and market conditions materially affect our revenues, income, assets and liquidity and capital resources.

  The cyclicality is inherent to the semiconductor industry, but we endeavor to mitigate its effects. As an example, we have increased flexibility of our employees. Furthermore we focus as well on the sales of spare parts and customer service, which are less correlated with the economic climate and are expected to continue even in a period of declining demand.

- Cash Resources Risk

  Managing our cash position becomes more important in periods of economic decline affecting our revenues and creditworthiness of customers. As a result, our cash position may be severely impacted. Credit facilities and borrowings are in place to mitigate the impact on our cash position. Furthermore we try to find a balance between cost control and reduction of expenses on the one hand, and continued investment in engineering and research and development for advanced technology on the other hand.

  - Balancing Cost Control and Long Term Investments

    As market conditions affect our business by a decline of revenues, cost control becomes an important measure to reduce the impact on financial results. Our industry is subject to rapid decline of revenues and we may not be able to respond in time by reducing costs and expenses to avoid negative impact on financial results.

    Furthermore our future success depends to a large extent upon our ability to define and realize Product Roadmaps that are well aligned with the industry, and may have technology projections forward by as much as 5-10 years. The execution of product roadmap needs expenditures in investments for research and development programs.

    Our ability to reduce costs and expenses is limited by our need for continued investments. In addition long lead time for production and delivery of some of our products creates a risk that we may incur expenditures and purchase inventories for products that we cannot sell.

    Cost and expense reduction programs are currently in place e.g. by strong reduction of head count and transferring operational activities to the central production facilities at FEMS in Singapore.

  - Customer Creditworthiness

    Our customers operate under difficult market conditions affecting the creditworthiness of several of these companies; some of these companies are actively pursuing funding from governments. We may not succeed in avoiding the effect of bad debts completely.

    Creditworthiness assessments of customers and the close monitoring of outstanding receivables have become more critical. Therefore risk profiles of customers are reviewed and based on due diligence information and adjusted. The assessment process is carried out under responsibility of the product managers with support from the regional and finance managers. Furthermore, provisioning has taken place to mitigate the impact of bad debts.

- o Availability of Financial Back-up Facilities

  Our cash position may be severely impacted by the current economic climate. ASMI has credit facilities for short term funding of working capital. The renewal of credit facilities may be at risk when financial institutions are not willing to provide new facilities leading to liquidity stringency. The current cash position and credit facilities of ASMI are considered adequate. We refer to item "Management Report" set forth in our Statutory Annual Report, for more insight in the financing position of the Company.

  ASMI has short term and long term credit facilities and borrowings. Some of these were renewed in 2008 and discussions are ongoing to renew more in 2009.

- Foreign Currency Exchange Rates Risk

  The foreign currency exchange risk exists of three types of risks:

  - o Transaction Risk

    We conduct business in a number of foreign countries, with certain transactions denominated in currencies other than our functional currency (Euro) or the currency of one of our subsidiaries.

    We manage the effect of most exchange rate fluctuations on revenues, costs and eventual cash flows and assets and liabilities denominated in selected foreign currencies, in particular in U.S dollar, by way of derivative instruments (including forward exchange contract).

  - o Translation Risk

    The translation of financial results from our foreign entities could lead to translation effects of reported results. These translation effects (especially from the US $ and the Japanese ¥ to the Euro) may have material effect on the reported results.

    As the translation to reporting currency does not lead to realized currency exchange results, and local activities are in the same currency, the translation risk is not covered.

  - o Economic Risk

    The activities in different countries and foreign currencies may have the economic risk that exchange rates changes are leading to unfavorable competitive circumstances. The mismatch of currency between revenues and expenditures leads to economic exposure.

    We have taken the following mitigating measures: borrowings in local currency mitigating the economic risk from currency mismatch, increased flexibility in the currency of sourcing and bringing manufacturing activities to Singapore. The movement to Singapore should primarily improve our competitive edge, but will also limit our economic risk to a certain extent.

- Change and Transition Risk

  Our future success depends on the successful execution of strategic goals as stated in the Roadmap to Front-end Peer Group Profitability and other programs within ASMI. The organizational changes and business transitions may be subject to risks that could have impact on the success of the change or transition process. Furthermore, the following inherent risks with impact on the change and transition processes could threaten ASMI in the achievement of its objectives e.g. control over costs incurred not sufficient, no actual achievement of pursued benefits, and finally, distraction of management from the business.

  Project management and change management are key instruments for the successful transitions to a more global organization including e.g. a global sales organization, a more centralized and cost efficient R&D, the implementation of a global SAP system, and the sharing of platforms between products. We have allocated dedicated resources.

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 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 three 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 five 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 program 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. van den Hoek as partner of Stibbe N.V., 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 consisted in 2008 of Mr. van den Boom (Chairman), Mr. van Amerongen, and Mr. Kreutzer.

  The Audit Committee supervises the activities of the Management Board with respect to:

  - the structure and 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 internal and 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 financial position; 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 served as a Financial Expert until his resignation. The Supervisory Board intends to propose a new member on the Supervisory Board who has the qualifications to serve as a Financial Expert.

- 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. 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. 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 and to adopt the Annual Accounts.

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 outstanding. On May 14, 2008 21,985 preferred shares were issued to Stichting Continuïteit ASM International.

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 2009 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 External Auditor and the Internal Auditor Function

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 B.V. ("Deloitte"), was reappointed in the 2008 General Meeting of Shareholders. The Audit Committee has determined that the provision of services by Deloitte and its member firms is compatible with maintaining Deloitte's independence. All audit and permitted non-audit services provided by Deloitte and its member firms during 2008 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.

- Audit Fees. Deloitte Accountants B.V., its affiliates, and its member firms (“Deloitte”) billed us an aggregate € 2,902,577 and € 2,116,740 for the audit of our Consolidated Financial Statements for the years ended December 31, 2007 and 2008, respectively, and certain agreed upon procedures regarding our quarterly financial results. These amounts accounted for 76% and 68% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

- Audit-Related Fees. Deloitte billed us an aggregate of € 14,327 and € 406,406 for fees for audit related services for the years ended December 31, 2007 and 2008, respectively. These amounts accounted for 1% and 13% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

- Tax Fees. Deloitte billed us an aggregate of € 863,141 and € 533,144 in 2007 and 2008, respectively, for tax services relating to tax compliance, tax planning and advice. These amounts accounted for 22% and 17% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

- All Other Fees. Deloitte billed us an aggregate of 54,245 and 57,907 in 2007 and 2008, respectively, for all other services. These amounts accounted for 1% and 2% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

Internal Audit

The Internal Audit function is established to strengthen the governance of the Company by creating an independent, objective function that adds value by improving operation by providing assurance, audit recommendations and advisory activities.

Internal Audit assists the Audit Committee and the Management Board in accomplishing their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In addition, Internal Audit provides an advisory service to the Company, based on the outcome of its experience in reviewing and appraising operations and systems.

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 39.7% of our net sales in 2008, through our principal facilities in the Netherlands, the United States, Japan and Singapore. We conduct our Back-end business, which accounted for 60.3% of our net sales in 2008, through our principal facilities in Hong Kong, the People's Republic of China, Singapore and Malaysia. Our Back-end operations are conducted through our 52.87% majority-owned subsidiary, ASM Pacific Technology.

We sell our products worldwide to the semiconductor industry, which is subject to sudden and extreme cyclical variations in product supply and demand. Currently, the industry is experiencing a dramatic and unprecedented decline in demand for semiconductor devices due to the worldwide economic downturn, which has led to the announcement of significant layoffs, plant closings, reduced capital expenditures and other cost reduction measures by semiconductor manufacturers. These conditions have caused a substantial diminution in the demand for our products, which represent capital expenditures for our customers. In addition, these conditions may lead to the consolidation in the semiconductor manufacturing industry, which could further reduce demand for our products in the future. Our backlog at December 31, 2008 was down more than 50%, year over year, in both our Front-end and Back-end businesses. As with all such cycles, the timing, length and severity of this cycle cannot be predicted. The unprecedented nature of the current global financial crisis and economic downturn may result in changes in the semiconductor manufacturing industry and the manner in which we must conduct our business, in ways that we cannot now predict.

In response to this downturn, we are implementing a number of cost control measures. In our Front-end operations, we have announced the restructuring of our ASM Europe (ASME) operations and accelerated the transfer of Front-end manufacturing operations to FEMS, our low-cost manufacturing hub in Singapore. FEMS was established 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 and strengthen our gross profit margin. As of year-end 2008, generic subassemblies for vertical furnaces, epitaxy and PECVD systems were manufactured in this facility. We intend eventually to manufacture generic systems and parts for substantially all of our Front-end products in our manufacturing base in Singapore. We initiated other Front-end cost control measures in the second half of 2008 and we intend to pursue further measures in 2009 in various formats throughout our global operations. These steps include, among others, workforce reductions, hiring freezes, factory shutdowns, mandatory vacations, unpaid leave and salary freezes. The timing and scope of these initiatives vary in each of our regions. For a discussion of our ASME restructuring and the related current and expected impairment charges, see Note 26 of the Notes to our Consolidated Financial Statements included elsewhere in this report.

In 2008, we announced our plan to dispose of our rapid thermal processing line. We expect this disposition to be completed in 2009.

In our Back-end operations, we have implemented significant cost-reduction measures, including a hiring freeze, elimination of overtime, plant shutdowns during Christmas, New Year and the Chinese New Year and implementation of a short work week for some areas. We are focused on driving down the costs of our products, streamlining business and manufacturing processes, reducing time to market, and expanding automation in our manufacturing.

We face increased payment and performance risk in the current economic downturn from our customers, which may result in write-downs in the value of customer receivables and, in some cases, may cause receivables from some customers to become uncollectible. In order to promote sales, we may be required to provide extended payment terms, lease financing or other modified sale terms for some customers, which will increase our sales expenses and further increase our exposure to customer credit risk, all in an environment of downward pressure on average selling prices. Even though we may be a secured creditor or lessor in these arrangements with rights in the underlying equipment, the equipment may have only limited value upon a customer default, especially if activity in our markets remains at the current low levels, which may result in substantial write-downs upon a customer default. To manage these challenges, we are monitoring our sales activities closely and taking a disciplined approach to evaluating and addressing customer credit risks. Where we deem it appropriate, we are bearing increased customer credit risk.

In this difficult economic environment, we also are subject to increased risk of performance failures of our suppliers, which could disrupt our manufacturing and/or increase our costs.

Our inventories, particularly in our Front-end business, have decreased but are still high relative to our sharply reduced sales due to the long manufacturing lead time for some of our products and the time lag in reducing deliveries from our suppliers. If the downturn persists, we may have to write-off portions of our inventory as excess or because technological changes have rendered the inventory obsolete.

Despite the difficult industry market, we must maintain our research and development at a high level to remain competitive in the future.

During 2009, € 52.6 million of outstanding long-term debt and available credit facilities for our Front-end business, substantially all of which is for our operations in Japan, matures and will need to be renewed. The current conditions in the worldwide credit markets are unpredictable and very challenging and there is no guarantee that we will be able to renew or replace these credit facilities or renew or replace them on terms acceptable to us. If we cannot effect a renewal or replacement, we will need to reallocate internal resources to repay the outstanding portions of these facilities which may negatively affect our ability to meet customer demand and invest in R&D for the future.

In the past, industry downturns have been followed by robust market upturns. It is important for us to retain sufficient production capacity to be able effectively to respond to such a market upturn, which limits our ability to reduce costs by reducing our manufacturing capacity and our commitments to our suppliers. If we are unable to retain adequate production capacity and supplier production capacity, whether due to cost reduction measures or otherwise, we may be unable to respond timely to a subsequent increase in demand, which would negatively affect our customer relationships and financial performance.

During 2008 we began the preparation for worldwide implementation in our Front-end segment of a new integrated enterprise resource planning information technology platform, which we expect to implement in 2009. We expect to realize efficiencies and other advantages from this integrated system. However, the implementation is a complex process and will require us to devote substantial time and resources. If we experience any disruptions in our information management or operations during the implementation of this system, our operating results, cash flow and financial condition could be materially adversely affected.

In April 2008 we announced our Roadmap to Peer Group Profitability that included various milestones in our plan to improve the profitability of our Front-end operations. The present downturn has allowed us to accelerate certain elements of the Roadmap, but also makes our achievement of the Roadmap milestones more challenging and the specific milestones less relevant. We do not envision a change in the fundamentals of the Roadmap as the underlying strategies still hold.

At this time, we have two primary focuses: first, to implement and refine our comprehensive cost reduction program; and second, to position and prepare our innovative product portfolios in Front-end and Back-end for the eventual order cycle recovery.

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 2007 and 2008:

			Year ended December 31,	
(euro millions)	2007		2008	
	€	%	€	%
Front-end:				
Taiwan	122.3	27.1	54.4	18.3
United States	113.1	25.1	96.7	32.6
Europe	81.2	18.0	73.4	24.7
Japan	78.2	17.3	54.0	18.2
Other	56.1	12.5	18.3	6.2
	450.9	100.0	296.8	100.0
Back-end:				
People's Republic of China	161.9	32.1	159.4	35.4
Taiwan	112.9	22.4	76.2	16.9
Malaysia	65.8	13.0	60.6	13.4
South Korea	37.3	7.4	26.4	5.9
Hong Kong	34.7	6.9	30.5	6.8
Thailand	24.4	4.8	23.7	5.3
Philippines	21.1	4.2	20.5	4.5
United States	14.9	3.0	13.6	3.0
Singapore	11.0	2.2	12.4	2.8
Other	20.3	4.0	27.3	6.0
	504.3	100.0	450.6	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 59.7% and 60.4% of Front-end net sales in 2007 and 2008, respectively. The composition of our ten largest Front-end customers changes from year to year. The largest Front-end customer accounted for 19.7% and 31.7% of Front-end net sales in 2007 and 2008, 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 29.4% and 26.3% of Back-end net sales in 2007 and 2008, 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 5.3% and 4.4% of Back-end net sales in 2007 and 2008, 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 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 and the United States receive research and development grants and credits from various sources. The research and development grants and credits received from governmental sources in the Netherlands include a credit that 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 to 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. In 2007 and 2008 we accounted for repayments with respect to these credits of € 0.1 million and € 0.1 million respectively. Interest on the contingent repayments is accrued at an interest rate of 6.05% per annum. The contingent repayment, including accrued interest, was € 3.0 million at December 31, 2007 and € 3.1 million at December 31, 2008. This amount has not been recognized as a liability in the Consolidated Balance Sheet.

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 2008 Annual Report on Form 20-F for a detailed description of the following risk factors:

Risk factors related to our industry:

- The industry in which we operate is highly cyclical and is currently experiencing an unprecedented downturn which has negatively impacted our business.
- 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.
- Industry Alliances May Not Select our Equipment.

Risk factors related to our business:

- Our customers are facing challenges in the current economic downturn and if they cannot perform their obligations to us our financial results will suffer.
- 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 if they reschedule, reduce or cancel orders, or fail to make payments, our revenues would be reduced and our financial results would suffer. Our largest customers account for a significant percentage of our revenues. Our largest customer accounted for 13.8% and our ten largest customers accounted for 32.0% of our net sales in 2008.
- 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.
- Our products generally have long sales cycles and implementation periods, which increase our costs in obtaining orders and reduce the predictability of our earnings.
- 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.
- As of December 18, 2007, we ceased paying royalties under certain Applied Materials patent licenses in respect to patents that we no longer practice. If it is determined that we still practice these patents, we will owe royalty payments to Applied Materials on our sales of covered products since that time.

- Our net earnings could be negatively impacted by currency fluctuations.
- 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 could be harmed by the loss of key management.
- We are subject to various legal proceedings and claims, the outcomes of which are uncertain. If we fail to accurately evaluate the probability of loss or the amount of possible losses, an adverse outcome may materially and adversely affect our financial condition and results of operations.
- 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 materially adverse effect on our business, financial position and net earnings.
- 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 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.
- 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.
- 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 reliance on a limited number of suppliers and a single manufacturing facility could result in disruption of our operations.
- 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.
- Environmental laws and regulations may expose us to liability and increase our costs.
- Any acquisitions or investments we may make in the future could disrupt our business and harm our financial condition.

Risks related to an investment in our shares:

- Our founder and members of our Supervisory Board and Management Board control approximately 23.1% of our voting power (without regard to the 21,985,000 votes the holder of our preferred shares is entitled to cast) 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 our founder and members of the Supervisory Board and Management Board.
- Our anti-takeover provisions may prevent a beneficial change of control.
- We must offer a possible change of control transaction to Applied Materials first.
- Our failure to maintain effective internal controls over financial reporting may prevent our auditor from attesting to our evaluation of our controls.
- Our stock price has fluctuated and may continue to fluctuate widely.
- Our quarterly revenues and earnings from operations have varied significantly in the past and may vary in the future due to a number of factors, including, without limitation:

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 Stated 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.

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements prepared in accordance with IFRS. We apply the going concern basis in preparing our Consolidated Financial

Statements. Historical cost is used as the measurement basis unless otherwise indicated. The preparation of these Consolidated Financial Statements requires us to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments 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 that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition. We recognize 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, 2007 and December 31, 2008 we have deferred revenues from fair value of installations in the amount of € 12.4 million and € 5.0 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, 2007 we had no deferred revenues from sales of equipment. At December 31, 2008 we had no deferred revenue from sales of equipment.

We provide training and technical support service to customers. Revenue related to such services 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 year ended December 31, 2007, we did not record an impairment charge to goodwill as a result of our tests performed. For the year ended December 31, 2008 we recorded impairment charges of € 1.4 million with respect to goodwill resulting from the acquisition of NanoPhotonics. 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 results of operations at that time. At December 31, 2008, a decrease in estimated cash flows of 10% and an increase of 10% of the discount rate used in calculating the fair value would not result in an impairment of the carrying value of goodwill.

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 undiscounted cash flows expected to result from the use of the asset and its eventual disposition. In 2007 we did not record an impairment charge to long-lived assets. In 2008 we recorded an impairment charge of € 7.1 million related to the restructuring of ASM Europe. 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. At December 31, 2008, a decrease in estimated cash flows of 10% would not result in an impairment of the carrying value of long-lived assets.

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.

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, 2008 we have charged € 11.7 million to cost of sales as a result of our analysis of the value of inventory. At December 31, 2008 our allowance for inventory obsolescence amounted to € 32.6 million, which is 14.2% of our total inventory. If circumstances related to our inventories change, our estimate of the values of inventories could materially change. At December 31, 2008, 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 € 23.0 million.

Warranty. We provide maintenance on our systems during the warranty period, usually one to two years. Costs of warranty include the cost of labor, material and related overhead necessary to repair a product during the warranty period. We accrue for the estimated cost of the warranty on products shipped in a provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty. 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 future profitability and our ability to generate taxable income, changes in market conditions and other factors. At December 31, 2008, 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 € 109.5 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, 2008 is not realizable, this would result in an additional valuation allowance and an income tax expense of € 0.7 million.

The calculation of our tax positions involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is highly judgmental. Settlement of uncertain tax positions in a manner inconsistent with our estimates could have a material impact on the Company's earnings, financial position and cash flows.

Results of Operations

The following table shows certain Consolidated Statement of Operations data as a percentage of net sales for our Front-end and Back-end segments for the years 2007 and 2008:

	Front-end		Back-end		Total	
					Year ended December 31,	
	2007	2008	2007	2008	2007	2008
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(67.8)	(68.4)	(57.2)	(60.9)	(62.2)	(63.8)
Gross profit	32.2	31.6	42.8	39.1	37.8	36.2
Selling, general and administrative expenses	(16.7)	(24.1)	(10.8)	(12.2)	(13.6)	(16.9)
Research and development expenses	(8.7)	(13.2)	(5.9)	(6.9)	(7.2)	(9.4)
Amortization of other intangible assets	(0.1)	(0.2)	-	-	(0.1)	(0.1)
Impairment of goodwill	-	(0.4)	-	-	-	(0.2)
Restructuring expenses	-	(2.4)	-	-	-	(0.9)
Earnings (loss) from continuing operations	6.7	(8.7)	26.1	20.0	17.0	8.6
Net interest income (expense)	(3.4)	(4.0)	0.5	0.2	(1.3)	(1.5)
Gain (expense) resulting from early extinguishment of debt	(0.5)	3.8	-	-	(0.2)	1.5
Gain on revalation conversion option	4.3	6.5	-	-	2.0	2.6
Foreign currency exchange gains (losses)	(0.9)	-	0.2	0.3	(0.3)	0.2
Income tax expense	(1.0)	(0.8)	(3.3)	(2.4)	(2.2)	(1.7)
Net earnings (loss) before gain on dilution of investment in subsidiary	5.2 %	(3.2)%	23.5 %	18.2 %	14.9	9.7
Gain on dilution of investment in subsidiary	-	-	-	-	0.3	0.5
Net earnings (loss)	-	-	-	- %	15.2 %	10.2 %
Allocation of net earnings (loss)						
Shareholders of the parent	5.8 %	(1.8)%	12.5 %	9.7 %	9.4 %	5.1 %
Minority interest	-	-	11.0 %	8.5 %	5.8 %	5.1 %

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net Sales. The following table shows our net sales for our Front-end and Back-end segments and the percentage change between the years 2007 and 2008:

(euro millions)	Year ended December 31,		
	2007	2008	% Change
Front-end	450.9	296.8	(34)%
Back-end	504.3	450.6	(11)%
Total net sales	955.2	747.4	(22)%

In 2008, net sales of wafer processing equipment (Front-end segment) represented 40% of total net sales. Net sales of assembly and packaging equipment and materials (Back-end segment) represented 60% of total net sales.

The decline in Front-end and Back-end sales in 2008 compared to 2007 reflects the general decline in market demand in 2008.

The movements of the yen, U.S. dollar and U.S. dollar related currencies against the euro in 2008 as compared to 2007 impacted net sales negatively by 6%. The impact on Front-end and Back-end net sales were respectively 2% and 9%.

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 change for 2008 compared to 2007:

(euro millions)					Year ended December 31,
	Gross profit 2007	Gross profit 2008	Gross profit margin 2007	Gross profit margin 2008	Decrease percentage points
Front-end	145.0	93.9	32.2%	31.6%	(0.6)
Back-end	216.1	176.4	42.8%	39.1%	(3.7)
Total gross profit	361.1	270.3	37.8%	36.2%	(1.6)

The gross profit margin of our Front-end segment decreased due to the write-off in 2008 of € 3.9 million on RTP inventory. Without the write-off the gross margin would have increased by 0.7% percentage points to 32.9%, even though the sales in 2008 decreased by 34% compared to 2007. The gross profit margin was positively impacted by the sales mix and higher gross profit margins in three of our four established Front-end product lines.

The gross profit margin of our Back-end segment decreased mainly as a result of the lower utilization.

Selling, General and Administrative Expenses. The following table shows selling, general and administrative expenses for Front-end and Back-end segments and the percentage change for 2007 and 2008:

(euro millions)			Year ended December 31,
	2007	2008	% Change
Front-end	75.4	71.6	(5)%
Back-end	54.3	55.0	1 %
Total selling, general and administrative expenses	129.7	126.6	(2)%

As a percentage of net sales, selling, general and administrative expenses were 14% in 2007 and 17% in 2008.

The decrease in the Front-end segment would have been higher without the write-off on accounts receivable of € 2.9 million in 2008.

Research and Development Expenses. The following table shows research and development expenses for Front-end and Back-end segments and the percentage change for 2007 and 2008:

(euro millions)			Year ended December 31,
	2007	2008	% Change
Front-end	38.8	39.2	1.1 %
Back-end	29.8	31.2	4.5 %
Total research and development expenses	68.6	70.4	2.6 %

As a percentage of net sales, research and development expenses increased from 7.2% in 2007 and 9.4% in 2008.

The decrease in the Front-end segment was the result of increased focus on efficiency and prioritization of research and development projects.

Earnings (Loss) from Operations. The following table shows earnings from operations for the Front-end and Back-end segments and the percentage change between the year 2007 and 2008:

(euro millions)			Year ended December 31,
	2007	2008	Change
Front-end	30.3	(25.8)	(56.1)
Back-end	131.9	90.2	(41.7)
Total earnings from operations	162.2	64.4	(97.8)

Net Interest Expense. Net interest expense amounted to € 10.9 million in 2008 compared to the net interest expense of € 12.7 million in 2007.

Gain (expense) resulting from early extinguishment of debt. In 2008, we repurchased US$ 48.3 million in convertible debt at a lower market value than the nominal value of the outstanding convertible debt. The difference between the market value and the nominal value and the write off of unamortized issuance costs amounted to a gain of € 11.2 million. In 2007, we repurchased US$ 35.4 million in convertible debt at a market value higher than the nominal value of the outstanding convertible debt. The difference between the market value and the nominal value and the write off of unamortized issuance costs amounted to an expense of € 2.2 million.

Gain on revaluation conversion option. The conversion component of the subordinated notes is measured at fair value. The market values for these options were as follows:

	Valuation in US$ per note of nominal US$ 1,000	
	5.25% Convertible subordinated notes, due May 2010	4.25% Convertible subordinated notes, due December 2011
Valuation per 31 December 2006	328.70	264.40
Valuation per 31 December 2007	251.60	149.96
Valuation per 31 December 2008	13.32	29.99

Income Tax Expense. Income tax expenses decreased from € 21.3 million in 2007 to € 13.0 million in 2008, principally due to the reduction in operating income in 2008.

Net Earnings. The following table shows net earnings for the Front-end and Back-end segments and the change for 2007 and 2008:

(euro millions)	Year ended December 31,		
	2007	2008	Change
Front-end	23.2	(9.5)	(32.7)
Back-end	118.6	81.9	(36.7)
Gain on dilution of investment in ASM Pacific Technology / Back-end	3.0	4.1	1.1
Consolidated net earnings	144.8	76.5	(68.3)

Net earnings of our Front-end segment for 2008 include impairment charges of € 1.3 million related to goodwill of our investment in NanoPhotonics, charges of € 7.1 million relating to impairment on fixed assets of ASM Europe in the Netherlands related to our restructuring; a € 3.9 million write-off on RTP inventory; a € 11.2 million gain on the early extinguishment of debt and a € 19.4 gain on the revaluation of the conversion option. Excluding these charges and gain, the net loss of our Front-end segment was € 27.8 million.

The gain on dilution of investment in ASM Pacific Technology / Back-end is shown as a separate line item.

Backlog

Our backlog includes orders for which purchase orders or letters of intent have been accepted, typically for up to one year. Historically, orders have been subject to cancellation or rescheduling by customers. In addition, orders have been subject to price negotiations and changes in specifications as a result of changes in customers' requirements. Due to possible customer changes in delivery schedules and requirements and to cancellation of orders, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

The following table shows the level of new orders during 2007 and 2008 and the backlog at December 31, 2007 and December 31, 2008 and the percentage change:

(euro millions)	2007	2008	% Change
Front-end:			
New orders for the year	394.6	250.6	(36)%
Backlog at the end of the year	99.2	53.0	(47)%
Book-to-bill ratio (new orders divided by net sales)	0.88	0.84	
Back-end:			
New orders for the year	526.7	387.1	(27)%
Backlog at the end of the year	101.2	37.7	(63)%
Book-to-bill ratio (new orders divided by net sales)	1.04	0.86	
Total			
New orders for the year	921.3	637.7	(31)%
Backlog at the end of the year	200.4	90.7	(55)%
Book-to-bill ratio (new orders divided by net sales)	0.96	0.85	

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. If demand for our products continues to fall during this current downturn, 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.

Net cash provided by operations in 2008 was € 154.8 million, compared to € 120.7 million for 2007. This increase is primarily the result of decreased working capital. Both our Front-end and Back-end segments achieved positive cash flow from operating activities in 2008.

Net cash used in investing activities in 2008 was € 49.8 million, compared to € 61.9 million for 2007. This decrease is a result of our decision to decrease investments in light of the deteriorating market circumstances.

Net cash used in financing activities for 2008 was € 121.5 million, compared to € 81.3 million in 2007. In 2008, we repaid € 5.2 million of short-term bank facilities, spent € 29.6 million to buy back nominal € 38/US$ 48 million of convertible subordinated debt, repaid € 16.2 million of long-term debt, received € 8.0 million in new long-term debt and purchased treasury shares of € 36.5 million. In 2008, ASM Pacific Technology paid € 43.4 million in dividends to its minority shareholders. With our purchase of treasury shares and our buy-back of convertible debt - in total an amount of € 66.1 million - we have in 2008 spent more than the distribution of € 49.1 million cash dividend received from ASM Pacific Technology in 2008.

Net working capital, consisting of accounts receivable, inventories, other current assets, accounts payable, accrued expenses, advance payments from customers, and deferred revenue decreased from € 271.5 million at December 31, 2007 to € 260.5 million at December 31, 2008. The decrease is primarily the result of decreased sales and manufacturing levels, partly offset by the effect of the strengthening of yen, U.S. dollar, and U.S. dollar-related currencies to the euro. The number of outstanding days of working capital, based on annual sales, increased from 104 days at December 31, 2007 to 127 days at December 31,

2008. For the same period, our Front-end segment increased from 125 days to 176 days, and our Back-end segment increased from 85 days to 95 days.

At December 31, 2008, our principal sources of liquidity consisted of € 157.3 million in cash and cash equivalents and € 87.8 million in useable undrawn bank lines. Approximately € 78.4 million of the cash and cash equivalents and € 27.8 million of the undrawn bank lines are restricted to use in the Company's Back-end operations, and € 11.7 million of the cash and cash equivalents and € 29.0 million in undrawn bank lines are restricted to use in the Company's Front-end operations in Japan.

For the most part, our cash and cash equivalents are not guaranteed by any governmental agency. We place our cash and cash equivalents with high quality financial institutions to limit our credit risk exposure.

The net debt of ASMI, excluding Back-end, at December 31, 2008 was € 62.8 million. This net debt is the balance of € 79.0 million cash and € 141.8 million debt. The debt of € 141.8 million consists of € 94.9 million convertible debt and € 46.9 million other debt. Furthermore, ASMI, excluding Back-end, has useable undrawn credit lines of € 60.0 million.

Front-end Segment

The following table shows the financing position of ASMI excluding Back-end at December 31, 2008:

(euro millions)	Front-end ASMI	Front-end Excl. Japan	Front-end Japan
Cash	79.0	67.3	11.7
Debt			
Convertible at nominal value excluding conversion option and capitalized issuance costs (1)	94.9	94.9	-
Other (2)	46.9	2.9	44.0
Total debt	141.8	97.8	44.0
Net debt (debt-cash)	(62.8)	(30.5)	(32.3)
Additional credit lines			
Nominal	79.0	50.0	29.0
Of which useable	60.0	31.0	29.0

(1) The maturity dates for the convertible bonds are May 2010, for € 15.0 million, and December 2011, for € 91.8 million. There are no financial covenants in the convertible bonds.
(2) € 23.6 million of the € 46.9 million other debt and € 29.0 million of the nominal and useable credit lines are up for renewal in 2009.

A large part of the local bank financing for our Front-end operations in Japan - € 44.0 million debt and undrawn credit lines of € 29.0 million - include financial covenants. The most important covenants, measured at December 31 of each year, include:

- no two loss making years in a row (ASM Japan was profitable in the year 2008);
- no annual loss in excess of a certain percentage of the equity of ASM Japan;
- pledge of accounts receivable if the total debt of ASM Japan exceeds 60% of sales.

We are in compliance with these financial covenants as of December 31, 2008 and we believe that the financial position of ASM Japan is such that we can expect to be in compliance in the next twelve months. Therefore we believe that these financial covenants will not have an impact on the availability of the debt financing of ASM Japan and the undrawn credit lines of ASM Japan in 2009, with the proviso that part of the debt and credit lines are up for renewal in 2009. ASMI is guarantor with respect to € 8.9 million debt of ASM Japan and with respect to € 11.9 million credit lines of ASM Japan of which € 7.1 million is outstanding as of December 31, 2008.

We have a bank credit facility with Rabobank of € 50.0 million, of which € 31.0 million was useable as of December 31, 2008. The facility, available through February 28, 2010, is secured by a portion of our shareholding in ASM Pacific Technology. The available part of this credit facility can be increased to the original € 50.0 million by increasing the portion of our shareholding in ASM Pacific Technology by which this facility is secured. The bank credit facilities include two financial covenants: a solvency ratio and a total net debt/equity ratio. These financial covenants are measured twice each year, at June 30 and December 31. We are in compliance with these financial covenants as of December 31, 2008 and we believe that the financial position of ASMI is such that we can expect to be in compliance in the next twelve months.

During 2009, € 52.6 million of outstanding long-term debt and available credit facilities for our Front-end business, substantially all of which is for our operations in Japan, matures and will need to be renewed. The current conditions in the worldwide credit markets are unpredictable and very challenging and there is no guarantee that we will be able to renew or replace these credit facilities or renew or replace them on terms acceptable to us. If we cannot effect a renewal or replacement, we will need to reallocate internal resources to repay the outstanding portions of these facilities which may negatively affect our ability to meet customer demand and invest in R&D for the future.

We are obligated to fund defined benefit pension plans for our employees in Japan. We expect that the amount of this funding in 2009 will be approximately € 748,000. Our employees in the Netherlands participate in a multi-employer plan. 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 includes a minimum coverage ratio of 105%. At December 31, 2008 the coverage ratio of the multi-employer plan was 90% (December 31, 2007: 135%) as a result of the economic crisis in 2008. Consequently, the Board of the multi-employer plan decided that existing pension obligations will not be indexed, and pension premiums will increase by 1% for the year 2009. For a discussion of our pension obligations, see Note 15 of the Notes to our Consolidated Financial Statements included elsewhere in this report.

Back-end Segment

Our Back-end segment, which is conducted through ASM Pacific Technology, our 52.87%-owned subsidiary, is entirely self-financed and at December 31, 2008 had no long-term debt. 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.

We historically relied on dividends from ASM Pacific Technology for a portion of our cash flow for use in our Front-end operations. Cash dividends received from ASM Pacific Technology during 2007 and 2008 were € 49 million and € 49 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 the most appropriate use or combination of uses, of these funds, from time to time. During 2008, we expended approximately € 66.1 million for the foregoing purposes, which was € 17.0 million in excess of the aggregate amount of dividends received during 2008 from ASM Pacific Technology. Accordingly, we intend to retain for use in our Front-end business the next € 17.0 million of dividends received from ASM Pacific Technology. We expect the aggregate amount of ASM Pacific Technology dividends in 2009 will be substantially lower than in 2008.

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 2008 was approximately € 488.5 million, which is lower than the market value of approximately € 1,036.2 million at the end of 2007.

Subsequent Events

On January 9, 2009 the Company announced its plans for a major restructuring of ASM Europe. This plan involves the transfer from Almere, the Netherlands, of manufacturing and operational procurement activities for the Vertical Furnace product line to the Company's Front-end manufacturing operations in Singapore and further reduction in workforce due to market circumstances. The implementation will take place in 2009. The Company expects restructuring expenses in the amount of € 25 - € 30 million related to impairment charges on property, plant and equipment, contractual obligations including operational leases, one-time termination benefits to employees and other transition costs. In the year ended December 31, 2008, the Company recorded € 7,068 in non-cash impairment charges on property, plant and equipment and expects the majority of the remaining restructuring expenses (all cash items) to incur in the year ending December 31, 2009.

Outlook

We have developed forecasts and projections of cash flows and liquidity needs for the upcoming year taking into account the current market conditions, reasonably possible changes in trading performance based on such conditions, and our ability to modify our cost structure as a result of changing economic conditions and sales levels and the fact that we have already started with the implementation of the restructuring program. We have also considered in the forecasts the total cash balances amounting to € 157.3 million as of December 31, 2008, available borrowings, the ability to renew debt arrangements and to access additional indebtedness and whether or not we will maintain compliance with our financial covenants. Based on this, we believe that our cash on hand at the end of 2008 is adequate to fund our operations, our investments in capital expenditures and to fulfill our existing contractual obligations for the next twelve months.

Contractual Obligations, Contingent Liabilities and Commitments

The following table summarizes our contractual obligations as of December 31, 2008 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)	17.2	17.2	-	-	-
Long-term debt (1) (2)	31.4	7.3	20.6	3.5	-
Convertible subordinated debt (1)	120.1	4.7	115.4	-	-
Operating leases	25.5	8.5	9.8	4.5	2.7
Purchase obligations:					
Purchase commitments to suppliers	35.0	34.5	0.5	-	-
Capital expenditure commitments	1.7	1.7	-	-	-
Unrecognized tax benefits (FIN 48)	14.8	14.8	-	-	-
Total contractual obligations	245.7	88.7	146.3	8.0	2.7

(1) Including interest expense based on the percentages at the reporting date.
(2) Capital lease obligations of € 1.9 million are included in long-term debt.

For a further discussion of our contractual obligations see Notes 9, 12, 13, 16, 18 and 20 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, 2008 we had contingent payables of € 3.1 million, including accrued interest, related to a research and development credit received. The credit received is repayable only to the extent we recognize sales of products to which the credit is related within an agreed upon time period.

Market Risk Disclosure

We are exposed to market risks (including foreign exchange rate risk and interest rate risk), credit risk and liquidity risk. We use forward exchange contracts to hedge foreign exchange risk. We do not enter into financial instrument transactions for trading or speculative purposes.

Foreign Exchange Rate Risk Management

We conduct business in a number of foreign countries, with certain transactions denominated in currencies other than the functional currency of ASM International (euro) or one of our subsidiaries conducting the business. The purpose of the Company's foreign currency management is to manage the effect of exchange rate fluctuations on revenues, costs and cash flows and assets and liabilities denominated in selected foreign currencies, in particular denominated in U.S. dollars.

Our Front-end segment uses forward exchange contracts to hedge its foreign exchange risk of anticipated sales or purchase transactions in the normal course of business, which occur within the next twelve months, for which it 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 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 accumulated other comprehensive income in Shareholders' Equity, and is reclassified into earnings when the hedged transaction affects earnings.

The majority of revenues and costs of our Back-end segment are denominated in Hong Kong dollars, Chinese Yuan and U.S. dollars. The functional currency of our Back-end segment (Hong Kong dollar) is linked to the U.S. dollar. Since foreign currency exposure is not significant, no forward exchange contracts are used. The effect of exchange rate fluctuations on revenues, costs and cash flows and assets and liabilities denominated in foreign currencies is periodically reviewed.

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. We record all derivatives, including forward exchange contracts, on the balance sheet at fair value in other current assets or accrued expenses.

We expect that substantially all of the € 47,000 unrealized gains included in accumulated other comprehensive income as of December 31, 2008 will be reclassified to net earnings within the next twelve months, upon completion of the underlying transactions. 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 exchange gains (losses) in the Consolidated Statement of Operations. Hedge ineffectiveness was insignificant for the years ended December 31, 2007 and December 31, 2008.

Furthermore, we manage the currency exposure of certain receivables and payables using derivative instruments, such as forward exchange contracts (fair value hedges) 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 receivables and payables denominated in foreign currencies. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under foreign currency exchange gains (losses) in the Consolidated Statement of Operations. Receivables and payables denominated in foreign currencies 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 exchange gains (losses) in the Consolidated Statement of Operations.

We do not use forward exchange contracts for trading or speculative purposes.

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, 2007, we recorded an unfavorable movement of € 13.2 million. For the year ended December 31, 2008, we recorded a favorable movement of € 14.9 million. See Note 14 to our Consolidated Financial Statements.

The following table summarizes our financial instruments as of December 31, 2008 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, 2008:						
Notes payable to banks,						
due within twelve months	yen	2,000.0	15.9	15.9	14.3	17.5
	SG$	2.0	1.0	1.0	0.9	1.1
Long-term debt with maturities						
due from 2009 - 2012	yen	3,552.1	28.2	28.2	25.4	31.0
due from 2010	euro	0.4	0.4	0.4	0.4	0.4
due from 2011	SG$	2.9	1.4	1.4	1.3	1.6
Convertible subordinated debt:						
due May 15, 2010	US$	20.9	15.0	13.7	13.5	16.5
due December 6, 2011	US$	127.7	91.8	56.2	82.6	100.9
Foreign exchange contracts:						
purchase of currency contracts to be settled within twelve months:	US$	4.3	3.1	3.1	2.8	3.4
sale of currency contracts to be settled within twelve month:	US$	23.6	17.0	17.0	15.3	18.7

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.

The following tables analyze our sensitivity to a hypothetical 10% strengthening and 10% weakening of the U.S. dollar, Hong Kong dollar or Japanese yen against the euro as of December 31, 2008. This analysis includes foreign currency denominated monetary items and adjusts their translation at year end for a 10% increase and 10% decrease of the U.S. dollar, Hong Kong dollar, or Japanese yen against the euro.

A positive amount indicates an increase in shareholders' equity. Recognized in equity is the revaluation effect of subsidiaries denominated in U.S. dollars, Hong Kong dollars and Japanese yen.

	2007 Impact on equity	**2008 Impact on equity**
10% increase of U.S. dollar versus euro	(7,715)	**(686)**
10% decrease of U.S. dollar versus euro	7,715	**686**
10% increase of Hong Kong dollar versus euro	12,690	**16,853**
10% decrease of Hong Kong dollar versus euro	(12,690)	**(16,853)**
10% increase of Japanese yen versus euro	4,642	**5,404**
10% decrease of Japanese yen versus euro	(4,642)	**(5,404)**

A positive amount indicates a gain in net earnings.

A hypothetical 10% strengthening or 10% weakening of any currency other than the U.S. dollar, Hong Kong dollar, or Japanese yen against the euro as of December 31, 2007 and December 31, 2008 would not result in a material impact on equity.

The following table analyzes our sensitivity to a hypothetical 10% strengthening and 10% weakening of the U.S. dollar and Hong Kong dollar against the euro at average exchange rates for the years 2007 and 2008. A positive amount indicates an increase in net earnings.

	2007 Impact on Net earnings	**2008** **Impact on** **Net earnings**
10% increase of U.S. dollar versus euro	(499)	**2,646**
10% decrease of U.S. dollar versus euro	499	**(2,646)**
10% increase of Hong Kong dollar versus euro	6,697	**4,819**
10% decrease of Hong Kong dollar versus euro	(6,697)	**(4,819)**

A hypothetical 10% strengthening or 10% weakening of any currency other than the U.S. dollar and the Hong Kong dollar against the euro at average exchange rates for the years 2007 and 2008 would not result in a material impact on net earnings.

Interest Risk

We are exposed to interest rate risk primarily through our borrowing activities. We do not enter into financial instrument transactions or trading for speculative purposes, or to manage interest rate exposure. At December 31, 2008 we had convertible subordinated debt borrowings outstanding of € 15,037 at a fixed interest rate, maturing in May 2010 and € 91,756 at a fixed interest rate, maturing in December 2011 and € 30,031 in long-term debt at fixed interest rates and € 16,858 in other borrowings with variable short-term interest rates. A hypothetical change in the average interest rate by 10% on the portion of debt bearing interest at variable rates would not result in a material change in interest expense at December 31, 2007 and December 31, 2008 borrowing levels.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and derivative instruments. These instruments contain a risk of counterparties failing to discharge their obligations. We monitor credit risk and manage credit risk exposure by type of financial instrument by assessing the creditworthiness of counterparties. We do not anticipate nonperformance by counterparties given their high creditworthiness.

Our customers are semiconductor device manufacturers located throughout the world. 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.

A significant percentage of our revenue is derived from a small number of large customers. Our largest customer accounted for approximately 13.8% of net sales in 2008 (2007: 9.6%) and the ten largest customers accounted for approximately 32.0% of net sales in 2008 (2007: 32.4%). 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 us to a concentration of credit risk and difficulties in collecting amounts due, which could harm our financial results. At December 31, 2008 one customer accounted for 12.3% of the outstanding balance in accounts receivable (2007: 7.8%).

We place our cash and cash equivalent and derivative instruments with high quality financial institutions to limit the amount of credit risk exposure.

The maximum credit exposure is equal to the carrying values of cash and cash equivalent and accounts receivable.

Corporate Information

Honorary Chairman

Arthur H. del Prado (1931)
Nationality: Dutch
Chairman of the Board of ASM Pacific Technology Ltd.
Director of MEDEA

Supervisory Board

Paul C. van den Hoek[1] (1939)
Chairman
Nationality: Dutch
Current term expires: 2009
Chairman of the Supervisory Boards of AON Groep Nederland B.V. and Wavin N.V.

Eric A. van Amerongen[1][2] (1953)
Vice-Chairman
Nationality: Dutch
Current term expires: 2010
Chairman of the Supervisory Boards of Centraal Bureau Rijvaardigheid and BT Nederland N.V.
Vice-Chairman of the Supervisory Board of HITT N.V.
Member of the Supervisory Boards of ANWB, Imtech N.V. and Ortel Mobile B.V.
Senior independent non-executive director Shanks Group Plc

Johan M.R. Danneels[1] (1949)
Nationality: Belgian
Current term expires: 2012
Chief Executive Officer of Essensium N.V.

Heinrich W. Kreutzer[2] (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
Chairman of the Supervisory Board of BKtel communications GmbH, Germany

Ulrich H.R. Schumacher (1959)
Nationality: German
Current term expires: 2012
CEO & President Grace Semiconductor Manufacturing Corporation

Management

Charles D. (Chuck) 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.

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 Vice President Front-end Products

Per Öve (Peo) Hansson
Regional Manager Front-end Operations U.S.A. and General Manager ASM America, Inc.

Albert Hasper
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.

Tom Wu
Vice President Global Sales & Service Front-end

Ivo J. M.M. Raaijmakers
Chief Technology Officer Front-end and Director of Research and Development

Hans van Selm
Finance Director Front-end

Richard W. Bowers
Chief Legal Officer Front-end

Lo Tsan Yin, Peter
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.

Tang Koon Hung, Eric
Member of the Board of Directors and Chief Financial Officer of ASM Pacific Technology Ltd.

Wong Yam Mo
Chief Technical Officer of ASM Pacific Technology Ltd.

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ABN AMRO Bank N.V.
Breda, the Netherlands

Independent Auditors

Deloitte Accountants B.V.
Amsterdam, the Netherlands

Trade Register

Chamber of Commerce
Utrecht, the Netherlands
Number 30037466

Annual Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on May 14, 2009

Financial Calendar for 2009

April 28, 2009
Announcement of first quarter results 2009

July 29, 2009
Announcement of second quarter results 2009

November 3, 2009
Announcement of third quarter results 2009

(1) *Member Nomination, Selection and Remuneration Committee*
(2) *Member Audit Committee*

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		EUR	
		December 31,	
(thousands except share data)	**Note**	2007	**2008**
Assets			
Cash and cash equivalents	**3**	167,923	**157,277**
Accounts receivable (less allowance for doubtful accounts of € 5,075 and € 7,300)	**4**	229,160	**172,603**
Inventories, net	**5**	205,504	**197,700**
Income taxes receivable		117	**108**
Other current assets		26,786	**27,323**
Total current assets		629,490	**555,011**
Deferred tax assets	**20**	4,494	**5,693**
Other intangible assets, net	**6**	40,074	**53,711**
Goodwill, net	**7**	40,452	**38,005**
Property, plant and equipment, net	**8**	149,642	**148,557**
Total assets		864,152	**800,977**
Liabilities and Shareholders' Equity			
Notes payable to banks	**9**	16,677	**16,858**
Accounts payable		99,046	**69,718**
Provision for warranty	**10**	17,039	**9,913**
Accrued expenses and other	**11**	73,853	**57,451**
Income taxes payable		19,686	**26,964**
Current portion of long-term debt	**12**	15,438	**6,763**
Total current liabilities		241,739	**187,667**
Pension liabilities	**15**	2,606	**3,375**
Deferred tax liabilities	**20**	6,905	**7,530**
Long-term debt	**12**	15,828	**23,488**
Convertible subordinated debt	**13**	119,526	**94,931**
Conversion option	**13**	25,622	**2,952**
Total liabilities		412,2264	**319,943**
Commitments and contingencies	**16, 17**		
Common shares:			
Authorized 110,000,000 shares, par value € 0.04, issued and outstanding 54,005,214 and 54,275,131 shares		2,160	**2,171**
Capital in excess of par value		322,412	**327,462**
Treasury shares at cost		(3,985)	**(37,215)**
Retained earnings		82,358	**120,324**
Accumulated other comprehensive loss		(71,643)	**(56,847)**
Total shareholders' equity	**14**	331,302	**355,895**
Minority interest		120,624	**125,139**
Total equity		451,926	**481,034**
Total liabilities and shareholders' equity		864,152	**800,977**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

		EUR	
		Year ended December 31,	
(thousands, except per share data)	**Note**	2007	**2008**
Net sales	**21**	955,239	**747,362**
Cost of sales		(594,163)	**(477,100)**
Gross profit	**21**	361,076	**270,262**
Operating expenses:			
Selling, general and administrative		(129,670)	**(126,591)**
Research and development, net	**19**	(68,624)	**(70,414)**
Amortization of other intangible assets	**6**	(553)	**(475)**
Impairment of goodwill	**7**	—	**(1,314)**
Restructuring expenses	**8**	—	**(7,068)**
Total operating expenses		(198,847)	**(205,862)**
Earnings from operations	**21**	162,229	**64,400**
Interest income		6,113	**4,047**
Interest expense		(18,776)	**(14,955)**
Gain on revaluation conversion option	**13**	19,211	**19,372**
Gain (expense) resulting from early extinguishment of debt	**13**	(2,306)	**11,254**
Foreign currency exchange gains (losses), net		(3,289)	**1,343**
Earnings before income taxes		163,182	**85,461**
Income tax expense	**20**	(21,339)	**(13,029)**
Earnings		141,843	**72,432**
Gain on dilution of investment in subsidiary	**15**	3,010	**4,088**
Net earnings		144,853	**76,520**
Allocation of net earnings:			
Shareholders of the parent		89,508	**38,222**
Minority interest		55,345	**38,298**
Net earnings per share, allocated to the shareholders of the parent:	**23**		
Basic		1.66	**0,73**
Diluted		1.17	**0.44**
Weighted average number of shares used in computing per share amounts (in			
Basic		53,968	**52,259**
Diluted		65,076	**62,050**

See Notes to Consolidated Financial Statements.

		EUR	
		Year ended December 31,	
(thousands)	**Note**	2007	**2008**
Net earnings		144,853	**76,520**
Other comprehensive income (loss)			
Foreign currency translation effect	**14**	(25,841)	**19,781**
Unrealized gains (losses) on derivative instruments, net of tax	**14**	270	**(99)**
Total other comprehensive income (loss)		(25,571)	**19,682**
Comprehensive income		119,282	**96,202**
Allocation of comprehensive income:			
Shareholders of the parent		76,572	**53,018**
Minority interest		42,710	**43,184**

See Notes to Consolidated Financial Statements.

(thousands, except per share data) EUR

	Note	Number of common shares	Common shares	Capital in excess of par value	Treasury shares at cost	Retained earnings	Accumulated other comprehensive income (loss)	Total Share-holders' Equity	Minority interest	Total equity
Balance January 1, 2007		53,828,745	2,153	319,506	-	(1,390)	(58,707)	261,562	114,916	376,478
Issuance of common shares:										
For stock options	**15**	176,469	7	2,319	-	-	-	2,326	-	2,326
Compensation expense stock options	**15**	-	-	1,712	-	-	-	1,712	-	1,712
Purchase of common shares	**14**	-	-	-	(8,162)	-	-	(8,162)	-	(8,162)
Exercise of stock options out of treasury shares	**14**	-	-	(1,125)	4,177	(363)	-	2,689	-	2,689
Dividend		-	-	-	-	(5,397)	-	(5,397)	-	(5,397)
Net earnings		-	-	-	-	89,508	-	89,508	55,345	144,853
Other comprehensive loss	**14**	-	-	-	-	-	(12,936)	(12,936)	(12,635)	(25,571)
Other movements in minority interest:										
Dividend paid		-	-	-	-	-	-	-	(42,900)	(42,900)
Gain on dilution		-	-	-	-	-	-	-	4,150	4,150
Financial restructuring		-	-	-	-	-	-	-	1,748	1,748
Balance December 31, 2007		**54,005,214**	**2,160**	**322,412**	**(3,985)**	**82,358**	**(71,643)**	**331,302**	**120,624**	**451,926**
Compensation expense stock options	**15**	**-**	**-**	**2,024**	**-**	**-**	**-**	**2,024**	**-**	**2,024**
Purchase of common shares	**14**	**-**	**-**	**-**	**(36,453)**	**-**	**-**	**(36,453)**	**-**	**(36,453)**
Conversion of debt into common shares	**13**	**269,917**	**11**	**3,582**	**-**	**-**	**-**	**3,593**	**-**	**3,593**
Conversion of debt into common shares out of treasury shares	**13, 14**	**-**	**-**	**-**	**1,373**	**-**	**-**	**1,373**	**-**	**1,373**
Exercise of stock options out of treasury shares	**14, 15**	**-**	**-**	**(556)**	**1,850**	**(255)**	**-**	**1,039**	**-**	**1,039**
Net earnings		**-**	**-**	**-**	**-**	**38,222**	**-**	**38,222**	**38,298**	**76,520**
Other comprehensive income	**14**	**-**	**-**	**-**	**-**	**-**	**14,796**	**14,796**	**4,886**	**19,682**
Other movements in minority interest:										
Dividend paid		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(43,398)**	**(43,398)**
Gain on dilution		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,729**	**4,729**
Balance December 31, 2008		**54,275,131**	**2,171**	**327,462**	**(37,215)**	**120,324**	**(56,847)**	**355,895**	**125,139**	**481,034**

See Notes to Consolidated Financial Statements.

(thousands, except for number of shares)	Note	2007	2008
		EUR	
		Year ended December 31,	
Cash flows from operating activities:			
Net earnings		144,853	**76,520**
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation	8	33,250	**33,176**
Amortization of other intangible assets	6	1,752	**3,887**
Impairment of property, plant and equipment	8	(788)	**7,068**
Impairment of capitalized development expenses	6	2,184	**9,736**
Impairment of goodwill	7	—	**1,395**
Compensation expense employee share incentive scheme	15	7,685	**7,524**
Compensation expense employee stock option plan	15	1,712	**2,024**
Deferred income taxes		(913)	**(514)**
(Gain) expense resulting from early extinguishment of debt	13	2,306	**(11,254)**
Gain on revaluation conversion option	13	(19,211)	**(19,372)**
Gain on dilution of investment in subsidiary	15	(3,010)	**(4,088)**
Increase (decrease) in allowance for doubtful receivables	4	(260)	**1,927**
Accrual of dividend preferred shares		-	**10**
Accrual of interest convertible subordinated notes	13	9,734	**7,941**
Changes in assets and liabilities:			
Accounts receivable		(47,599)	**73,159**
Inventories		(26,613)	**23,980**
Other current assets		(5,184)	**1,699**
Accounts payable and accrued expenses		9,872	**(54,471)**
Advance payments from customers		3,044	**(4,339)**
Deferred revenue		(741)	**(7,680)**
Pension liabilities		775	**743**
Income taxes		7,875	**5,705**
Net cash provided by operating activities		120,723	**154,775**
Cash flows from investing activities:			
Capital expenditures	8	(47,206)	**(31,450)**
Capitalization of development expenses		(17,389)	**(16,817)**
Purchase of intangible assets	6	(695)	**(5,362)**
Acquisition of business	7	(281)	**(176)**
Proceeds from sale of business	7	—	**410**
Proceeds from sale of property, plant and equipment	8	3,652	**3,569**
Net cash used in investing activities		(61,919)	**(49,826)**
Cash flows from financing activities:			
Notes payable to banks, net		(2,013)	**(5,172)**
Proceeds from long-term debt and subordinated debt		14,496	**8,200**
Repayments of long-term debt and subordinated debt		(42,344)	**(45,754)**
Purchase of treasury shares	14	(8,162)	**(36,453)**
Proceeds from issuance of common shares and exercise of stock options		5,015	**1,039**
Dividends to minority shareholders ASMPT		(42,900)	**(43,398)**
Dividend to shareholders ASMI		(5,397)	**—**
Net cash used in financing activities		(81,305)	**(121,538)**
Foreign currency translation effect		(3,448)	**5,943**
Net (decrease) increase in cash and cash equivalents		(25,949)	**(10,646)**
Cash and cash equivalents at beginning of year	3	193,872	**167,923**
Cash and cash equivalents at end of year	3	167,923	**157,277**
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest		3,890	**3,843**
Income taxes		14,329	**8,438**

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).

These Consolidated Financial Statements, prepared for statutory purposes, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

The Company applies the going concern basis in preparing its Consolidated Financial Statements. Historical cost is used as the measurement basis unless otherwise indicated.

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 hosting liability instrument and an embedded derivative. 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 recognized as a separate liability.

The interest expense on the liability component is calculated by applying the market interest rate for similar non-convertible debt at the date of issue 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 change in fair value of the conversion option is recognized in the consolidated statements of operations.

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

Derivative Financial Instruments
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 (euro) 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 revenues, costs and cash flows and assets and liabilities denominated in selected foreign currencies, in particular denominated in U.S. dollar.

The Company's front-end segment uses forward exchange contracts to hedge its foreign exchange risk of anticipated sales or purchase transactions in the normal course of business, which occur within the next twelve months, 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 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 accumulated other comprehensive loss in Shareholders' Equity, and is reclassified into earnings when the hedged transaction affects earnings.

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. The Company records all derivatives, including forward exchange contracts, on the balance sheet at fair value in other current assets or accrued expenses.

Substantially all amounts included in accumulated other comprehensive loss at December 31, 2007 will be reclassified to net earnings within the next twelve months, upon completion of the underlying transactions. 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 exchange gains (losses) in the Consolidated Statement of Operations.

Furthermore, the Company manages the currency exposure of certain receivables and payables using derivative instruments, such as forward exchange contracts (fair value hedges) 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 receivables and payables denominated in foreign currencies. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under foreign currency exchange gains (losses) in the Consolidated Statement of Operations. Receivables and payables denominated in foreign currencies 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 exchange gains (losses) in the Consolidated Statement of Operations.

The Company does not use forward exchange contracts for trading or speculative purposes.

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.

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, in addition to shipment and factory acceptance,is 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. Costs of warranty include the cost of labor, material and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. The Company accrues for the estimated cost of the warranty on its products shipped in a provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. 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 19.

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 during the period in which the enacted rate changes. Deferred tax assets are reduced through a valuation allowance, based on available evidence at such time, 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 since 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 to 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 to 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 15.

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 15.

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.

Use of Estimates –The preparation of the Company's Consolidated Financial Statements, and applying the Company's accounting policies as described, 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.

Impairment of goodwill, long-lived assets and other intangible assets

Reference is made to the corresponding accounting policies.

Revenue Recognition

Reference is made to the corresponding accounting policy.

Warranty

Costs of warranty include the cost of labor, material and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. The Company accrues for the estimated cost of the warranty on its products shipped in a provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

Capitalization of Development Expenses

In determining the capitalization of development expenses the Company makes estimates and assumptions based on expected future economic benefits generated by products that are the result of these development expenses. Other important estimates and assumptions are the required internal rate of return, the distinction between research, development and high volume manufacturing and the estimated useful life.

Income Taxes

Reference is made to Note 20.

New Accounting Pronouncements

On a regular basis, the IASB issues new accounting standards, amendments to existing standards and interpretations. These new accounting standards, amendments to existing standards and interpretations are subject to endorsement by the European Union. In 2008 the following new accounting standards, amendments and revisions to existing standards and interpretations were issued by the IASB, or became applicable for ASMI.

Standards, amendments and interpretations effective to ASMI in 2008:

1AS 39 and IFRS 7 (Amendments) 'Reclassification of Financial Assets' The amendments to IAS 30 and IFRS 7 'Reclassification of Financial Assets' are applicable for reporting periods starting on or after July 1, 2008. The amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit and loss by the entity upon initial recognition) out of the fair value through profit and loss category. The amendments also permit an entity to transfer from the available-for-sale category to loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The application of this amendment did not have an impact on the consolidated financial statements.

IFRS 8 'Operating Segments' IFRS 8 Is applicable for reporting periods starting on or after January 1, 2009. IFRS 8 supersedes IAS 14 'Segment Reporting' and aligns segment reporting with the requirements of US standard SFAS No.131 'Disclosures about Segments of an Enterprise and Related Information'. ASMI early adopted the application of IFRS 8 which resulted in changed allocation of earnings over the segments.

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions' IFRIC 11 is applicable for reporting periods beginning on or after March 1, 2007. IFRIC 11 requires a share-based payment arrangement, in which an entity receives goods or services as consideration for its own equity instruments, to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained.
IFRIC 11 also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. ASMI has chosen to adopt IFRIC 11 early as of December 1, 2006.The application of IFRIC 11 did not have any impact on ASMI's consolidated financial statements.

Interpretations not relevant to ASMI:

IFRIC 12 'Service Concession Arrangements' IFRIC 12 is applicable for reporting periods starting on or after January 1, 2008. IFRIC 12 is subject to endorsement by the European Union. IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. ASMI is not a service concession operator. IFRIC 12 is therefore not relevant to ASMI.

IFRIC 13 'Customer Loyalty Programmes' IFRIC 13 is applicable for reporting periods starting on or after July 1, 2008. Customer Loyalty Programmes are used by entities to provide customers with incentives to buy products or services by providing 'bonus points'. IFRIC 13 requires that entities recognize these 'bonus points' as a separately identifiable component of the sales transaction. ASMI does not use 'Customer Loyalty Programmes, IFRIC 13 is therefore not relevant to ASMI.

IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' IFRIC 14 is applicable for reporting periods starting on or after January 1, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. IFRIC 14 also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to ASMI.

IFRIC 15 'Agreements for the Construction of Real Estate' IFRIC 15 is applicable for reporting periods starting on or after January 1, 2009. IFRIC 15 is subject to endorsement by the European Union. This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 addresses two issues: (a) is the agreement within the scope of IAS 11 or IAS 18 and (b) when should revenue from the construction of real estate be recognized. ASMI is not involved in development of real estate. IFRIC 15 is therefore not relevant to ASMI.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' IFRIC 16 is applicable for reporting periods starting on or after October 1, 2008. IFRIC 16 is subject to endorsement by the European Union. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation. The interpretation also provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. lAS 21 and IAS 39 require cumulative amounts recognized in equity relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment to be reclassified from equity to profit or loss as a reclassification adjustment when the parent disposes of the foreign operation. IFRIC 16 provides guidance on how an entity should determine the amounts to be reclassified from equity to the income statement for both the hedging instrument and the hedged item. ASMI does not apply net investment hedging. IFRIC 16 is therefore not relevant to ASMI.

IFRIC 17 'Distribution of Non-cash Assets to Owners' IFRIC 17 is applicable for reporting periods starting on or after July 1, 2009. IFRIC 17 is subject to endorsement by the European Union. IFRIC 17 provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its shareholders. ASMI does not distribute assets other than cash when it pays dividends to its shareholders. IFRIC 17 is therefore not relevant to ASMI.

Standards, amendments, revisions and interpretations not yet effective to ASMI:

ASMI has not yet adopted these Standards and Interpretations in its Consolidated Financial Statements and anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on its Consolidated Financial Statements.

IAS 1 (Amendment) 'Presentation of Financial Statements' The amendment to IAS 1 'Presentation of Financial Statements' is applicable for reporting periods starting on or after January 1, 2009. The amendment intends to improve users' capability of analyzing and comparing the information in financial statements.

IAS 27 (Revision) 'Consolidated and Separate Financial Statements' IAS 27 (Revised) 'Consolidated and Separate Financial Statements' is applicable for reporting periods starting on or after July 1, 2009. IAS 27 (Revised) is subject to endorsement by the European Union. IAS 27 revised supersedes IAS 27 (issued in 2003) and aligns the requirements with the requirements of US standard SFAS No.160 'Non controlling Interests in Consolidated Financial Statements'.

IAS 32 and IAS 1 (Amendments) 'Puttable Financial Instruments and Obligations Arising on Liquidation' The amendments to IAS 32 and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation' is applicable for reporting periods starting on or after January 1, 2009. The amendment requires financial instruments 'puttable at fair value' and financial instruments that give right to payments on liquidation under certain circumstances to be classified as equity.

IAS 39 (Amendment) 'Eligible Hedged Items'
The amendment to IAS 39 'Eligible Hedged Items' is applicable for reporting periods starting on or after July 1, 2009. The amendment to IAS 39 is subject to endorsement by the European Union. The amendment clarifies how the principles that determine whether a risk or portion of cash flow is eligible for designation and if it should be applied in particular situations.

IFRS 1 and IAS 27 (Amendments) 'Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate'
The amendments of IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate' are applicable for reporting periods starting on or after January 1, 2009. The amendments no longer require the application of the 'cost' method for accounting an investment in a subsidiary, jointly controlled entity or associate.

IAS 23 (Amendment) 'Borrowing Costs'
The amendment to IAS 23 'Borrowing Costs' is applicable for reporting periods starting on or after January 1, 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment is not expected to have a significant impact on the consolidated financial statements.

IFRS 2 (Amendment) 'Vesting Conditions and Cancellations' The amendment to IFRS 2 'Vesting Conditions and Cancellations' is applicable for reporting periods starting on or after January 1, 2009. The amendment provides clarification of the definition of vesting conditions and the treatment of all-non vesting conditions.

IFRS 3 (Revision) 'Business Combinations' IFRS 3 (Revised) 'Business Combinations' is applicable for reporting periods starting on or after July 1, 2009. The revised IFRS 3 is subject to endorsement by the European Union. IFRS 3 revised supersedes IFRS 3 (as issued in 2004) and aligns accounting for business combinations with the requirements of US standard SFAS No.141 'Business Combinations'.

IFRIC 18 ‘Transfers of Assets from Customers’ . IFRIC 18 Is applicable for reporting periods starting on or after July 1, 2009. IFRIC 18 is subject to endorsement by the European Union. This interpretation relates to agreements in which an entity receives from a customer an item of property, plant and equipment – or cash earmarked exclusively for its acquisition or construction – that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation specifies the circumstances and timing of asset recognition by the receiving entity and how the asset is to be measured. It also clarifies how to determine the receiving entity’s obligation to render one or more separately identifiable services in exchange for the transferred asset and sets forth the conditions for revenue recognition.

Change in accounting policy with retrospective application

During 2008 the Company changed its accounting policy regarding the classification of the component of convertible subordinated notes that grants an option to the holder of the convertible note to convert it into common shares.

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 market interest rate for similar non-convertible debt at the date of issue 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.

In previous periods, 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, was included in equity (as part of accumulated other comprehensive loss). The company has now decided to change such accounting policy and to classify such component as a liability as a result of further interpretation and industry practice including authoritative interpretation under US GAAP - EITF 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. Management therefore provides reliable and more relevant information.

The Company's IFRS information for 2007 has been adjusted to retrospectively reflect this change in accounting policy. The following presents the effect of this change in accounting policy on the Company's net earnings for 2006 and 2007 and shareholders' equity as of December 31, 2007. Opening shareholder's equity has been reduced by € 52,576, which is the amount of the adjustment relating to periods prior to 2007.

(thousands)	EUR 2007	EUR 2006
Net earnings in accordance with IFRS, as previously reported	121,093	90,847
Revaluation conversion option	19,211	(8,876)
Early extinguishment of debt	4,549	-
Net earnings in accordance with IFRS, as adjusted	144,853	81,971

(thousands)	EUR 1 January, 2007
Shareholders' equity in accordance with IFRS, as previously reported	314,138
Reclassification of conversion option to liabilities	(52,576)
Shareholders' equity in accordance with IFRS, as adjusted	261,562

(thousands)	EUR 31 December, 2007
Shareholders' equity in accordance with IFRS, as previously reported	356,924
Reclassification of conversion option to liabilities in opening balance sheet 2007	(52,576)
Revaluation conversion option	26,954
Shareholders' equity in accordance with IFRS, as adjusted	331,302

	EUR 2007
Net earnings (loss) per share allocated to shareholders of the parent as previously reported	
Basic	1.22
Diluted	1.21
Net earnings (loss) per share allocated to shareholders of the parent as adjusted	
Basic	1.66
Diluted	1.17

NOTE 2 *List of Significant Subsidiaries*

Name	Location	% Ownership December 31, 2007	% Ownership December 31, 2008
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%
ASM Pacific Holding B.V.[3]	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%	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	Singapore	100.00%	100.00%
ASM Far East Marketing Ltd.	Hsin-Chu, Taiwan	100.00%	100.00%
ASM Front-End Sales & Services Taiwan Co.,	Hsin-Chu, Taiwan	100.00%	100.00%
ASM Front-End Manufacturing Singapore Pte	Singapore	100.00%	100.00%
ASM NuTool, Inc.	Phoenix, Arizona, United States	100.00%	100.00%
ASM Genitech Korea Ltd.	Cheonan, South Korea	100.00%	100.00%
NanoPhotonics AG	Mainz, Germany	72.86%	—
ASM Pacific Technology Ltd.	Kwai Chung, Hong Kong, People's Republic of China	53.10%	52.87%
ASM Assembly Automation Ltd.[2]	Kwai Chung, Hong Kong, People's Republic of China	53.10%	52.87%
ASM Assembly Materials Ltd.[2]	Kwai Chung, Hong Kong, People's Republic of China	53.10%	52.87%
ASM Technology Singapore Pte Ltd.[2]	Singapore	53.10%	52.87%
ASM Technology (M) Sdn. Bhd.[2]	Johor Bahru, Malaysia	53.10%	52.87%
ASM Semiconductor Materials (Shenzhen)	Shenzhen, People's Republic of China	53.10%	52.87%
ASM Pacific Investments Ltd.[2]	Kwai Chung, Hong Kong, People's Republic of China	53.10%	52.87%
Edgeward Development Ltd.[2]	Guernsey, Channel Islands	53.10%	52.87%
Edgeward USA L.L.C.[2]	Wilmington, Delaware, United States	53.10%	52.87%
Shenzhen ASM Micro Electronic Technology	Shenzhen, People's Republic of China	53.10%	52.87%

(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.

(3) ASM Pacific Holding B.V. is holding 52.87% of the shares in 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 3 *Cash and Cash Equivalents*

At December 31, 2008, cash and cash equivalents of the Company's subsidiaries ASMPT and ASM Japan amounted to € 78,380 and € 11,735 respectively, which are restricted for use only in the operations of ASMPT and ASM Japan respectively.

NOTE 4 *Accounts receivable*

The carrying amount of accounts receivable is as follows:

	Current	Overdue < 30 days	Overdue 31 – 60 days	Overdue 61 – 120 days	Overdue > – 120 days	Total
December 31, 2007	175,195	24,989	14,123	9,537	5,316	229,160
December 31, 2008	**138,430**	**15,982**	**8,236**	**8,468**	**1,487**	**172,603**

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

Balance January 1, 2007	(5,926)
Charged to selling, general and administrative expenses	(137)
Deductions	397
Foreign currency translation effect	591
Balance December 31, 2007	**(5,075)**
Charged to selling, general and administrative expenses	**(2,859)**
Deductions	**932**
Foreign currency translation effect	**(298)**
Balance December 31, 2008	**(7,300)**

NOTE 5 *Inventories*

Inventories consist of the following:

	December 31, 2007	December 31, 2008
Components and raw materials	106,565	**97,824**
Work in process	83,444	**82,341**
Finished goods	42,988	**50,150**
Total inventories, gross	232,997	**230,315**
Allowance for obsolescence	(27,493)	**(32,615)**
Total inventories, net	205,504	**197,700**

The changes in the allowance for obsolescence are as follows:

Balance January 1, 2007	(28,062)
Charged to cost of sales	(6,268)
Deductions	4,320
Foreign currency translation effect	2,517
Balance December 31, 2007	**(27,493)**
Charged to cost of sales	**(11,711)**
Deductions	**8,299**
Foreign currency translation effect	**(1,710)**
Balance December 31, 2008	**(32,615)**

NOTE 6 *Other Intangible Assets*

Other intangible assets include purchased technology from third parties and software developed or purchased for internal use. The changes in the amount of other intangible assets are as follows:

	Capitalized development expenses	Software	Purchased technology and other intangible assets	Total
At cost:				
Balance January 1, 2007	23,077	3,605	3,675	30,357
Capitalization of development expenses	17,389	-	-	17,389
Impairment charges	(2,184)	-	-	(2,184)
Additions	-	695	-	695
Reclassification	-	718	-	718
Foreign currency translation effect	(2,098)	(278)	(359)	(2,735)
Balance December 31, 2007	**36,184**	**4,740**	**3,316**	**44,240**
Capitalization of development expenses	**16,817**	-	-	**16,817**
Impairment charges	**(9,737)**	-	-	**(9,737)**
Additions	-	**5,362**	—	**5,362**
Sale of NanoPhotonics AG	-	**(146)**	—	**(146)**
Foreign currency translation effect	**5,374**	**155**	**(562)**	**4,967**
Balance December 31, 2008	**48,638**	**10,111**	**2,754**	**61,503**
Accumulated amortization:				
Balance January 1, 2007	-	955	1,377	2,332
Amortization for the year	361	838	553	1,752
Reclassification	-	409	-	409
Foreign currency translation effect	-	(146)	(181)	(327)
Balance December 31, 2007	**361**	**2,056**	**1,749**	**4,166**
Amortization for the year	**2,484**	**1,009**	**475**	**3,968**
Sale of NanoPhotonics AG	-	**(138)**	—	**(138)**
Foreign currency translation effect	-	**115**	**(319)**	**(204)**
Balance December 31, 2008	**2,845**	**3,042**	**1,905**	**7,792**
Other intangible assets, net:				
December 31, 2007	35,823	2,684	1,567	40.074
December 31, 2008	**45,793**	**7,069**	**849**	**53,711**

Other intangible assets are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount (value in use) of an asset may not be recoverable. The Company recorded impairment charges with respect to selected development projects for which the Company estimated no future economic benefits.

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

2009	4,949
2010	11,993
2011	10,090
2012	9,644
2013	9,308
2014	7,728
	53,711

NOTE 7 *Goodwill*

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

Balance January 1, 2007	45,126
Addition:	
ASM Genitech Korea Ltd.	(444)
Foreign currency translation effect	(4,230)
Balance December 31, 2007	**40,452**
Impairment charge:	
NanoPhotonics AG	**(1,314)**
Deductions:	
Release contingency ASM Genitech Korea Ltd.	**(224)**
Sale of NanoPhotonics AG	**(334)**
Foreign currency translation effect	**(575)**
Balance December 31, 2008	**38,005**

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

	December 31,	
	2007	2008
Front-end segment:		
ASM Microchemistry Oy	2,612	**2,612**
NanoPhotonics AG	1,648	-
ASM Genitech Korea Ltd.	8,657	**6,285**
Back-end segment:		
ASM Pacific Technology Ltd.	27,535	**29,108**
Total	40,452	**38,005**

NanoPhotonics AG—In September 2008, the Company sold its entire 72.86% interest in NanoPhotonics AG. The Company recorded an impairment charge of € 1,314 related to goodwill of its investment in NanoPhotonics AG in June 2008.

The proceeds from the sale of NanoPhotonics AG and the impairment charge can be summarized as follows:

Carrying value of assets and liabilities:	
Intangible assets:	8
Goodwill	1,648
Property, plant & equipment	346
Other assets and liabilities	(278)
	1,724
Cash proceeds from sale of NanoPhotonics AG	(410)
Impairment charge	1,314

ASM Genitech Korea Ltd.—In 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 possible future variable cash payments of up to US$ 9,200 if certain financial performance targets are satisfied at various times from the acquisition date in 2004 through the year ended December 31, 2008. The total consideration at the date of the acquisition in 2004, including expenses, amounted to € 7,939, excluding variable cash payments that may be payable in the future based on certain financial performance targets.

The excess of the purchase price over the fair value of the identifiable net assets has been recorded as goodwill in the amount of € 6,917 in 2004. In 2006, 2007 and 2008 the Company recorded € 862, € 281 and € 176 respectively as additional purchase consideration as certain financial performance targets were satisfied.

NOTE 8 *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, 2007	98,220	283,771	381,991
Capital expenditures	11,942	35,264	47,206
Reclassification	-	(718)	(718)
Revaluation fixed assets held for sale	788	-	788
Retirements and sales	(603)	(9,304)	(9,907)
Foreign currency translation effect	(7,382)	(27,249)	(34,631)
Balance December 31, 2007	**102,965**	**281,764**	**384,729**
Capital expenditures	**6,406**	**25,044**	**31,450**
Reclassification	**766**	**(766)**	-
Impairment charges	**(7,068)**	-	**(7,068)**
Sale of NanoPhotonics AG	-	**(1,043)**	**(1,043)**
Retirements and sales	**(6,838)**	**(4,535)**	**(11,373)**
Foreign currency translation effect	**8,629**	**27,319**	**35,948**
Balance December 31, 2008	**104,860**	**327,783**	**432,643**
Accumulated depreciation:			
Balance January 1, 2007	49,766	180,960	230,726
Depreciation for the year	6,400	26,850	33,250
Reclassifications	-	(409)	(409)
Retirements and sales	(75)	(6,179)	(6,254)
Foreign currency translation effect	(4,386)	(17,840)	(22,226)
Balance December 31, 2007	**51,705**	**183,382**	**235,087**
Depreciation for the year	**7,332**	**25,844**	**33,176**
Sale of NanoPhotonics AG	-	**(697)**	**(697)**
Retirements and sales	**(4,149)**	**(3,655)**	**(7,804)**
Foreign currency translation effect	**4,268**	**20,056**	**24,324**
Balance December 31, 2008	**59,156**	**224,930**	**284,086**
Property, plant and equipment, net:			
December 31, 2007	51,260	98,382	149,642
December 31, 2008	**45,704**	**102,853**	**148,557**

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

ASM Japan and ASM Front-End Manufacturing Singapore have pledged real estate with a carrying value of € 23,601 to secure loan facilities outstanding in Japan and Singapore.

In 2008 the Company recorded an impairment charge related to the manufacturing plant at ASM Europe in the Netherlands of € 7,068. The impairment is the consequence of the announcement in January 2009 of the restructuring of the ASM Europe operations including the transfer of the manufacturing operations to the Company's subsidiary ASM Front-End Manufacturing Singapore. ASM Europe will cease using the manufacturing plant upon completion of the transfer.

The impairment charge is included in the Consolidated Statements of Operations as restructuring expenses.

NOTE 9 *Notes Payable to Banks*

Information on notes payable to banks is as follows:

Short-term debt outstanding in:	December 31,	
	2007	2008
Japan	15,756	**15,860**
Singapore	921	**998**
	16,677	**16,858**

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

	December 31,	
	2007	2008
Japanese yen	2,600,000	**2,000,000**
Singapore dollar	1,950	**2,000**

Short-term debt outstanding in Japan in the amount of € 7,137 is collateralized by real estate with a carrying value of € 7,413 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 2.13% at December 31, 2008.

Total short-term lines of credit amounted to € 104,660 at December 31, 2008. The amount outstanding at December 31, 2008 was € 16,858 and the undrawn portion totaled € 87,802. The undrawn portion includes the Company's available credit facility of € 31,000 with Rabobank. The facility, available through February 28, 2010, is secured by a portion of the Company's shareholding in ASMPT. The available part of this facility can be increased to € 50,000 by increasing the portion of the Company's shareholding in ASMPT by which this facility is secured. The undrawn portion further includes € 27,756 for ASMPT, which amount is restricted to be used only in the operations of ASMPT. The undrawn portion further includes € 29,024 for ASM Japan, which amount is restricted to be used only in the operations of ASM Japan.

The credit facility of € 31,000 with Rabobank include two financial covenants: a solvency ratio and a total net debt/equity ratio. These financial covenants are measured twice each year, at June 30 and December 31. The Company is in compliance with these financial covenants as of December 31, 2008. Short-term line of credits of ASM Japan of € 41,236 include financial covenants, of which the most important covenants, measured at December 31 of each year are as follows:

- no two loss making years in a row (ASM Japan was profitable in the year 2008);
- no annual loss in excess of a certain percentage of the equity of ASM Japan;
- pledge of accounts receivable if the total debt of ASM Japan exceeds 60% of sales.

ASM Japan is in compliance with these financial covenants as of December 31, 2008.

ASMI is guarantor with respect to all short-term debt outstanding of ASM Front-End Manufacturing Singapore. ASMI is guarantor with respect to a credit line of € 11,895, with € 7,137 outstanding, of ASM Japan. 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 10 *Provision for Warranty*

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

Balance January 1, 2007	16,299
Charged to cost of sales	13,808
Deductions	(12,228)
Foreign currency translation effect	(840)
Balance December 31, 2007	**17,039**
Charged to cost of sales	**6,610**
Deductions	**(14,882)**
Foreign currency translation effect	**1,146**
Balance December 31, 2008	**9,913**

Costs of warranty include the cost of labor, material and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. The Company accrues for the estimated cost of the warranty on its products shipped in the provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

NOTE 11 *Accrued Expenses and Other*

Accrued expenses and other consist of the following:

	December 31,	
	2007	2008
Advance payments from customers	10,039	**5,728**
Deferred revenue	12,377	**4,979**
Personnel related items	24,219	**24,284**
Other	27,218	**22,460**
	73,853	**57,451**

NOTE 12 *Long-term Debt*

Long-term debt consists of the following:

	December 31,	
	2007	2008
Term loans:		
Japan, 1.3-2.4%, due 2009 – 2012	21,780	**21,585**
Finland, 1.8%, due 2010	641	**427**
Singapore, 4.5%, due 2011	2,333	**1,436**
South Korea, 4.9%, due 2008	37	-
Mortgage loans:		
Japan, 2.1-2.2%, due 2012	4,242	**4,718**
Capital lease commitments:		
Japan, 1.8%, due 2009 – 2012	2,233	**1,865**
Financing preferred shares	-	-
Preferred shares	-	**220**
	31,266	**30,251**
Current portion	(15,438)	**(6,763)**
	15,828	**23,488**

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

	December 31,	
	2007	2008
Euro	641	**647**
Japanese yen	4,662,546	**3,552,162**
Singapore dollars	4,939	**2,876**
Korean won	50,000	-

Aggregate annual principal repayments for years subsequent to December 31, 2008 are:

2009	6,763
2010	6,080
2011	13,746
2012	3,442
	30,031

Long-term debt outstanding in Japan in the amount of € 14,234 is collateralized by real estate with a carrying value of € 4,966 of ASM Japan

Long-term debt outstanding in Singapore in the amount of € 1,436 is collateralized by real estate with a carrying value of € 11,223 and other assets with a carrying value of € 16,240 of ASM Front-End Manufacturing Singapore.

Long-term debt of ASM Japan of € 9,516 include financial covenants, of which the most important covenants, measured at December 31 of each year are as follows:

- no two loss making years in a row (ASM Japan was profitable in the year 2008);
- no annual loss in excess of a certain percentage of the equity of ASM Japan.

ASM Japan is in compliance with these financial covenants as of December 31, 2008.

ASMI is guarantor with respect to all long-term debt outstanding of ASM Front-End Manufacturing Singapore and is guarantor with respect to € 8,882 long-term debt outstanding of ASM Japan.

Capital lease commitments relate to commitments for equipment and machinery.

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, authorized 118,000, are entitled to a cumulative preferred dividend based on the amount paid-up on such shares. In the event preferred shares are issued, the Management Board must, within two years after such preferred shares were issued, submit to the general meeting a proposal to annul the preferred shares. On May 14, 2008, 21,985 preferred shares were issued to Stichting Continuïteit ASM International ("Stichting"). The amount paid-up by Stichting was € 220, which is the equivalent of one/fourth of the nominal value of the preferred shares. The preferred dividend on the amount paid-up was €10 for the year 2008

Financing preferred shares are entitled to a cumulative dividend based on the par value and share premium paid on such shares. Authorized are 8,000 shares, par value € 40. No financing preferred shares were issued as per 31 December 2008.

NOTE 13 *Convertible Subordinated Debt*

Change in accounting policy with retrospective application

During 2008 the Company changed its accounting policy for the classification of the component of the convertible subordinated notes that grants an option to the holder of the convertible note to convert it into common shares.

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 market interest rate for similar non-convertible debt at the date of issue 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.

In previous periods, 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, was included in equity (as part of accumulated other comprehensive loss). The company has now decided to change such accounting policy and to classify such component as a liability as a result of further interpretation and industry practice including authoritative interpretation under US GAAP - EITF 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. Management therefore provides reliable and more relevant information.

The Company's IFRS information for 2007 has been adjusted to retrospectively reflect this change in accounting policy. The following presents the effect of this change in accounting policy on the Company's net earnings for 2007 and shareholders' equity as of December 31, 2007. Opening shareholder's equity has been reduced by € 52,576, which is the amount of the adjustment relating to periods prior to 2007.

Convertible Subordinated Debt

The changes in the outstanding amounts of convertible subordinated debt are 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
Debt issuance costs	(3,303)	(3,574)
Conversion option (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	56,175	81,980
Liability component at January 1, 2007	58,138	91,826
Accrual of interest	2,374	3,808
Repurchasing of notes	(13,451)	(8,932)
Foreign currency translation effect	(5,067)	(9,170)
Liability component at December 31, 2007	**41,994**	**77,532**
Accrual of interest	**2,314**	**3,359**
Repurchasing of notes	**(33,429)**	-
Conversion of notes into common shares	**(7)**	**(4,162)**
Foreign currency translation effect	**3,218**	**4,112**
Liability component at December 31, 2008	**14,089**	**80,841**

	5.25% convertible subordinated notes, due 2010	4.25% convertible subordinated notes, due 2011
Nominal value in US$:		
December 31, 2007	69,212	135,400
December 31, 2008	**20,925**	**127,687**
Nominal value in €:		
December 31, 2007	47,016	91,977
December 31, 2008	**15,037**	**91,756**

5.25% convertible subordinated notes, due 2010

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.

In 2007, US$ 20.8 million of the US$ 90.0 million convertible subordinated notes has been repurchased. The US$ 20.8 million nominal value has been repurchased for a market value of US$ 29.0 million. The premium of € 8,138, paid above the carrying value of the notes, has been recorded as expense resulting from early extinguishment of debt in the Consolidated Statement of Operations for the year 2007 for an amount of € 1,152.

In 2008, US$ 48.3 million convertible subordinated notes has been repurchased. The US$ 48.3 million has been repurchased for a market value of US$ 37.7 million. The gain from the early extinguishment of the notes of € 11,254, which includes the difference between the nominal value and the lower market value and the write-off of unamortized issuance costs, has been recorded as a gain from early extinguishment of debt in the Consolidated Statement of Operations for the year 2008.

In 2008 US$ 0.01 million in convertible subordinated notes were converted into 520 common shares out of the treasury shares, previously purchased by the Company.

4.25% convertible subordinated notes, due 2011

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. Effective December 6, 2007, the conversion price is adjusted for the cash dividend paid in September 2007 to US$ 20.71 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.

In 2007, US$ 14.6 million of the US$ 150.0 million convertible subordinated notes has been repurchased. The nominal value US$ 14.6 million has been repurchased for a market value of US$ 19.4 million. The premium of € 5,463, paid above the carrying value of the notes, has been recorded as expense resulting from early extinguishment of debt in the Consolidated Statement of Operations for the year 2007 for an amount of € 1,154.

In 2008 US$ 7.7 million in convertible subordinated notes were converted into 372,426 common shares of which 102,509 out of the treasury shares previously purchased by the Company and 269,917 newly issued common shares.

The 4.25% convertible subordinated notes rank pari passu with the 5.25% convertible subordinated notes.

Conversion option
The conversion component of the subordinated notes is measured at fair value. The market values for these options were estimated as follows:

Valuation in USD per note of nominal USD 1,000	5.25% Convertible subordinated notes, due May 2010	4.25% Convertible subordinated notes, due December 2011
Valuation per 31 December 2006:		
Implied volatility	59.5%	53.3%
USD interest average	5.25%	5.25%
Stock price	€ 15.98	€ 15.98
Conversion price	US$ 19.22	US$ 20.71
Value of the option	US$ 328.70	US$ 264.40
Valuation per 31 December 2007:		
Implied volatility	28.3%	106.9%
USD interest average	4.25%	4.25%
Stock price	€ 16.75	€ 16.75
Conversion price	US$ 19.22	US$ 20.71
Value of the option	US$ 251.60	US$ 149.96
Valuation per 31 December 2008:		
Implied volatility	17.4%	10.0%
USD interest average	1.86%	1.86%
Stock price	€ 6.16	€ 6.16
Conversion price	US$ 19.22	US$ 20.71
Value of the option	US$ 13.32	US$ 29.99

NOTE 14 *Shareholders' Equity*

Common shares, preferred and financing preferred 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 54,275,131 common shares, 21,985 preferred and no financing preferred shares were outstanding as at December 31, 2008. All shares have one vote per € 0.04 par value. Treasury shares held by the Company cannot be voted on.

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.

Under IFRS, Common Shares are recorded as equity attributable to shareholders of the Company. Preferred Shares and financing preferred shares are recorded as liabilities.

Treasury shares at cost

The changes in the number and amount of treasury shares at cost is as follows:

	Number of treasury shares	Amount	Amount per share
Balance January 1,2007	—	—	—
Purchase of common shares	428,706	8,162	19.02
Issuance of treasury shares upon exercise of options	(214,919)	(4,177)	19.40
Balance December 31, 2007	**213,787**	**3,985**	**18.64**
Purchase of common shares	**2,655,100**	**36,453**	**13.73**
Issuance of treasury shares upon exercise of options	**(99,367)**	**(1,850)**	**18.63**
Issuance of treasury shares upon conversion of convertible subordinated notes	**(103,029)**	**(1,373)**	**13.32**
Balance December 31, 2008	**2,666,491**	**37,215**	**13.96**

From the treasury shares outstanding on December 31, 2008 2,552,071 shares are held in custody with Lehman Brothers Europe International and 114,420 shares are held in custody with Fortis Bank (Nederland) N.V.

Retained earnings

Distributions to common shareholders are limited to the extent the total amount of shareholders' equity exceeds the amounts of nominal paid-in share capital (exclusive any share premium) and any reserves to be formed pursuant to law or the Company's articles of association. The amounts are derived from the Statutory Financial Statements of ASM International N.V.

Accumulated other comprehensive loss

The changes in the amount of accumulated other comprehensive loss are as follows:

	Foreign currency translation effects	Unrealized gains (losses) on derivative instruments, net	Total
Balance January 1, 2007	(58,583)	(124)	(58,707)
Foreign currency translation effect on translation of foreign operations	(13,206)	-	(13,206)
Increase in fair value of derivative instruments, net of tax	-	1,159	1,159
Transfer to Consolidated Statement of Operations of derivative instruments, net of tax	-	(889)	(889)
Total change in accumulated other comprehensive loss	(13,206)	270	(12,936)
Balance December 31, 2007	**(71,789)**	**146**	**(71,643)**
Foreign currency translation effect on translation of foreign operations	**14,895**	-	**14,895**
Increase in fair value of derivative instruments, net of tax	-	**799**	**799**
Transfer to Consolidated Statement of Operations of derivative instruments, net of tax	-	**(898)**	**(898)**
Total change in accumulated other comprehensive loss	**14,895**	**(99)**	**14,796**
Balance December 31, 2008	**(56,894)**	**47**	**(56,847)**

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On May 22, 2007, the General Meeting of Shareholders authorized the Company, for an 18-month period, to be calculated from the date of the General Meeting, to repurchase its own shares up to the statutory maximum, at a price at least equal to the shares' nominal value and at most a price equal to 110% of the share's average closing price according to the listing on the Euronext Amsterdam stock exchange during the five trading days preceding the purchase date.

The number of shares bought back under the authorization of May 22, 2007 was 2,655,100. Of this number, 135,580 were sold upon the exercise of options by employees of ASMI, under the Employee Stock Option Plan and 103,029 were issued upon conversion of convertible subordinated debt.

The following table summarizes shares repurchased under the authorization of May 22, 2007:

Period	Total Number of Shares Purchased	Total Number of Shares Purchased as Part of Publicly		Average Price Paid per Share	Maximum Number of Shares that May Yet be Purchased under the Programs
August 2007	250,000	250,000	€	18.67	—
March and April 2008	2,405,100	2,405,100	€	13.31	—

On May 21, 2008, the General Meeting of Shareholders authorized the Company, for an 18-month period, to be calculated from the date of the General Meeting, to repurchase its own shares up to the statutory maximum, at a price at least equal to the shares' nominal value and at most a price equal to 110% of the share's average closing price according to the listing on the Euronext Amsterdam stock exchange during the five trading days preceding the purchase date.

The number of shares bought back under the authorization of May 21, 2008 was 250,000.

The following table summarizes shares repurchased under the authorization of May 21, 2008:

Period	Total Number of Shares Purchased	Total Number of Shares Purchased as Part of Publicly		Average Price Paid per Share	Maximum Number of Shares that May Yet be Purchased under the Programs
September 2008	250,000	250,000	€	17.74	2,758,656

The maximum of shares that may yet be purchased under the program takes into account the 2,666,491 treasury shares held by the Company at December 31, 2008 and the maximum number of common shares which the Company can hold according to its Articles of Association. This maximum is 10% of the number of common shares issued.

NOTE 15 *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 includes a minimum coverage ratio of 105%. 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.

At December 31, 2008 the coverage ratio of the multi-employer plan was 90% (December 31, 2007: 135%) as a result of the economic crisis in 2008. Consequently the Board of the multi-employer plan decided that existing pension obligations will not be indexed and pension premiums will increase with 1% of the pensionable salaries for the year 2009.

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. 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,	
	2007	**2008**
Defined benefit obligations	(7,401)	**(10,046)**
Fair value of plan assets	4,831	**4,973**
Funded status deficit	(2,570)	**(5,073)**
Unrecognized actuarial loss (gain)	(6)	**1,586**
Unrecognized transition amount	1,272	**1,530**
Net liabilities	(1,304)	**(1,957)**

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

	Year ended December 31,	
	2007	2008
Defined benefit obligations		
Balance January 1	7,024	**7,401**
Current service cost	650	**739**
Interest on obligation	135	**160**
Actuarial losses (gains)	52	**(159)**
Benefits paid	(70)	**(439)**
Foreign currency translation effect	(390)	**2,344**
Balance December 31	7,401	**10,046**
Fair value of plan assets		
Balance January 1	4,375	**4,831**
Expected return on plan assets	156	**193**
Actuarial losses	64	**(1,485)**
Company contribution	555	**610**
Benefits paid	(70)	**(439)**
Foreign currency translation effect	(249)	**1,263**
Balance December 31	4,831	**4,973**

The net periodic benefit cost consists of the following:

	Year ended December 31,	
	2007	2008
Current service cost	650	**739**
Interest on obligation	135	**160**
Expected return on plan assets	(156)	**(193)**
Amortization of transition amount	106	**113**
Net periodic pension benefit cost	735	**819**

The actual return on plan assets was € 219, and (€ 1,293) for the years ended December 31, 2007 and 2008 respectively.

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

	Year ended December 31,	
	2007	2008
Discount rate for obligations	2.00%	**2.00%**
Expected return on plan assets	3.50%	**3.00%**
Future salary increases	2.94%	**2.94%**

The allocation of plan assets is as follows:

	Year ended December 31,			
	2007		2008	
Shares	2,508	51.9%	**2,229**	**44.8%**
Bonds	1,912	39.6%	**2,150**	**43.2%**
Loans	125	2.6%	**267**	**5.4%**
Real estate	34	0.7%	**54**	**1.1%**
Other	252	5.2%	**273**	**5.5%**
	4,831	100.0%	**4,973**	**100.0%**

The plan assets do not include any of the Company's shares.

The Company expects to contribute € 748 to the defined benefit plan in 2009. The Company expects to pay benefits for years subsequent to December 31, 2008 as follows:

2009	193
2010	200
2011	263
2012	276
2013	350
Aggregate for the years 2014-2018	2,372
Total	3,654

Retirement plan costs consist of the following:

	Year ended December 31,	
	2007	**2008**
Defined contribution plans	7,813	**7,863**
Multi-employer plans	2,586	**2,792**
Defined benefit plans	735	**819**
Total retirement plan costs	11,134	**11,474**

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, 2008, options to purchase 2,893,345 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 1,460,730 options to purchase common stock were outstanding at December 31, 2008, expiring at various dates through 2018. The number of options outstanding at December 31, 2007 and 2008 were 1,189,797 and 1,460,730 respectively.

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, 2007	645,528	15.69	754,183	14.26
Options granted	72,000	24.35	217,868	18.46
Options forfeited	(18,594)	16.80	(89,800)	18.07
Options exercised	(256,137)	16.76	(135,251)	13.80
Balance December 31, 2007	**442,797**	**16.43**	**747,000**	**15.10**
Options granted	**276,000**	**20.49**	**148,000**	**12.36**
Options forfeited	**(36,500)**	**16.43**	**(17,200)**	**17.55**
Options exercised	**(79,357)**	**15.07**	**(20,010)**	**13.85**
Balance December 31, 2008	**602,940**	**18.47**	**857,790**	**14.61**

The weighted average fair value of employee stock options granted in U.S. dollars were US$ 13.85 in 2007 and US$ 11.01 in 2008. The weighted average fair values of employee stock option granted in euros were € 7.27 in 2007 and € 5.55 in 2008.

The weighted average remaining contractual life of the outstanding options granted in 2008 is 7.8 years at December 31, 2008.

The total intrinsic value of options exercised was € 2,320, and € 818 for the years ended December 31, 2007 and 2008 respectively. New shares have been issued for the exercise of 176,469 options in 2007. No new shares have been issued for the exercise of options in 2008.

The average closing prices of the Company's common shares on NASDAQ for the years ended December 31, 2007 and 2008 were US$ 25.08 and US$ 19.52 respectively. The average closing prices of the Company's common shares on Euronext Amsterdam for the years ended December 31, 2007 and 2008 were € 18.37 and € 13.27 respectively.

At December 31, 2008 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	6,000	0.32	6.46	6,000	6.46
10.00-15.00	250,700	3.58	12.97	102,700	12.94
15.00-20.00	136,100	7.16	17.98	32,600	17.36
20.00-30.00	210,140	8.55	25.68	27,800	24.13
1.00-30.00	602,940	6.08	18.47	169,100	15.40
In €		In years	In €		In €
1.00-10.00	22,000	4.84	7.79	—	—
10.00-15.00	529,922	3.83	13.12	101,487	12.16
15.00-20.00	305,868	4.34	17.68	58,480	16.10
1.00-20.00	857,790	4.04	14.61	159,967	13.61

At December 31, 2008, the aggregate intrinsic value of all options outstanding and all options exercisable is € 11,474 and € 2,005 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,	
	2007	**2008**
Expected life (years)	5 – 10	**5 – 10**
Risk free interest rate	4.0%	**4.0%**
Dividend yield	—	**0.85**
Expected volatility	30.0%	**72.5%**

The Company recorded compensation expenses of € 1712 in 2007 and € 2,024 in 2008.

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 2008, 1,728,700 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 2007 1,789,000 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 0.23% in 2008 and 0.25% in 2007. The shares issued under the plan in 2008 have diluted ASMI's ownership in ASMPT to 52.87% as of December 31, 2008. Total compensation expenses related to the Employee Share Incentive Scheme of respectively € 7,685 in 2007, and € 7,524 in 2008 were charged to the Consolidated Statement of Operations.

The dilution in ownership has resulted in a gain on the investment in ASMPT of € 3,010 in 2007, and € 4,088 in 2008, 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.

NOTE 16 *Commitments and Contingencies*

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

	December 31,	
	2007	**2008**
Machinery and equipment	4,990	**6,530**
Furniture and fixtures	597	**780**
	5,587	**7,310**
Less accumulated depreciation	(3,380)	**(5,418)**
	2,207	**1,892**

At December 31, 2008 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**
2009	872	8,477
2010	665	5,409
2011	258	4,377
2012	113	2,730
2013	—	1,805
Years thereafter	—	2,722
Total	1.908	25,520
Less amount representing interest	(43)	
Present value of net minimum lease payments	1,865	

Aggregate rental expense for operating leases was € 7,873 in 2007 and € 9,748 in 2008. At December 31, 2008 the Company had entered into purchase commitments with suppliers in the amount of € 35,049 for purchases, of which € 34,537 for purchases within the next 12 months. Commitments for capital expenditures at December 31, 2008 were € 1,721.

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 17 *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.

Under a license agreement with Applied Materials, the Company pays royalties based upon our sales of equipment that employs technology covered by the licensed patents. The Company believes that it no longer practices patents applicable to certain equipment and ceased paying royalties on the sale of such equipment as of December 18, 2007. Applied Materials is verifying our position through the review by an independent expert. If this review is not conclusive, Applied Materials may proceed arbitration regarding the Company's obligation to pay these royalties. Although the Company believes that its position is correct, the outcome of any such arbitration is uncertain and, if the Company is not successful, it could be required to pay up to approximately € 2.5 million for royalties as of December 31, 2008.

NOTE 18 *Financial Instruments and Risk Management*

Categories of Financial Instruments

Financial instruments include:

Financial assets:

	December 31,	
	2007	**2008**
Cash and cash equivalents	167,923	**157,277**
Accounts receivable	229,160	**172,603**
Derivative instruments designated in cash flow hedges	163	**172**
Derivative instruments designated in fair value hedges	226	**613**

Financial liabilities:

	December 31,	
	2007	**2008**
Notes payable to banks	16,677	**16,858**
Accounts payable	99,046	**69,718**
Current portion of long-term debt	15,438	**6,763**
Long-term debt	15,828	**23,268**
Convertible subordinated notes	119,526	**94,931**
Conversion option	25,622	**2,952**
Derivative instruments designated in cash flow hedges	29	**55**
Derivative instruments designated in fair value hedges	7	**360**

Gains or losses related to financial instruments are as follows:

	Year ended December 31,	
	2007	**2008**
Interest income	6,113	**4,047**
Interest expense	(18,776)	**(14,955)**
Gain on change in fair value conversion option	19,211	**19,372**
Gain (expense) from early extinguishment of debt	(2,306)	**11,254**
Foreign currency exchange gain (losses), net	(3,289)	**1,343**
Addition to allowance for doubtful accounts receivable	(137)	**(2,859)**

Financial Risk Factors

ASMI is exposed to a number of risk factors: market risks (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company uses forward exchange contracts to hedge its foreign exchange risk. The Company does not enter into financial instrument transactions for trading or speculative purposes.

Foreign Exchange Risk

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 (euro) 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 revenues, costs and cash flows and assets and liabilities denominated in selected foreign currencies, in particular denominated in U.S. dollar.

The Company's front-end segment uses forward exchange contracts to hedge its foreign exchange risk of anticipated sales or purchase transactions in the normal course of business, which occur within the next twelve months, 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 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 accumulated other comprehensive loss in Shareholders' Equity, and is reclassified into earnings when the hedged transaction affects earnings.

The majority of revenues and costs of the Company's back-end segment are denominated in Hong Kong dollars, Chinese Yuan and U.S. dollars. Since foreign currency exposure is not significant, no forward exchange contracts are used. The effect of exchange rate fluctuations on revenues, costs and cash flows and assets and liabilities denominated in foreign currencies is periodically reviewed.

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. The Company records all derivatives, including forward exchange contracts, on the balance sheet at fair value in other current assets or accrued expenses.

The Company expects that substantially all of the € 47 unrealized gains included in accumulated other comprehensive loss as of December 31, 2008 will be reclassified to net earnings within the next twelve months, upon completion of the underlying transactions. 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 exchange gains (losses) in the Consolidated Statement of Operations. Unrealized gains included in accumulated other comprehensive loss as of December 31, 2007 of € 146 were reclassified to earnings in 2008. Hedge ineffectiveness was insignificant for the years ended December 31, 2007 and December 31, 2008.

Furthermore, the Company manages the currency exposure of certain receivables and payables using derivative instruments, such as forward exchange contracts (fair value hedges) 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 receivables and payables denominated in foreign currencies. The derivative instruments are recorded at fair value and changes in fair value are recorded in earnings under foreign currency exchange gains (losses) in the Consolidated Statement of Operations. Receivables and payables denominated in foreign currencies 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 exchange gains (losses) in the Consolidated Statement of Operations.

To the extent that exchange rate fluctuations impact the value of the Company's investments in its foreign subsidiaries, they are not hedged. The cumulative effect of these fluctuations is separately reported in Consolidated Shareholders' Equity. Reference is made to Note 14.

The outstanding 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, 2007:						
Assets:						
Cash flow hedge contracts:						
Short position	US$	(14,073)	(9,671)	(9,537)	134	146
Fair value hedge contracts:						
Short position	US$	(7,774)	(5,499)	(5,273)	226	—
Liabilities:						
Fair value hedge contracts:						
Long position	US$	42,500	28,900	28,870	(30)	—
	Euro	1,350	1,318	1,341	23	—
December 31, 2008:						
Assets:						
Cash flow hedge contracts:						
Short position	US$	(3,892)	(2,988)	(2,789)	199	128
Fair value hedge contracts:						
Short position	US$	(19,724)	(14,531)	(14,185)	346	—
Liabilities:						
Cash flow hedge contracts						
Long position	US$	2,228	1,687	1,606	(81)	(81)
Fair value hedge contracts:						
Long position	US$	2,038	1,560	1,466	(94)	—

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

The following table analyzes the Company's sensitivity to a hypothetical 10% strengthening and 10% weakening of the U.S. dollar, Hong Kong dollar and Japanese yen against the euro as of December 31, 2007 and December 31, 2008. This analysis includes foreign currency denominated monetary items and adjusts their translation at year end for a 10% increase and 10% decrease of the U.S. dollar, Hong Kong dollar or Japanese yen against the euro. A positive amount indicates an increase in equity. Recognized in equity is the revaluation effect of subsidiaries denominated in U.S. dollar, Hong Kong dollar and Japanese yen.

	2007	2008
	Impact on equity	Impact on equity
10% increase of U.S. dollar versus euro	(6,868)	**(686)**
10% decrease of U.S. dollar versus euro	6,868	**686**
10% increase of Hong Kong dollar versus euro	12,793	**16,853**
10% decrease of Hong Kong dollar versus euro	(12,793)	**(16,853)**
10% increase of Japanese yen versus euro	4,651	**5,404**
10% decrease of Japanese yen versus euro	(4,651)	**(5,404)**

A hypothetical 10% strengthening or 10% weakening of any currency other than the U.S. dollar, Hong Kong dollar and Japanese yen against the euro as of December 31, 2007 and December 31, 2008 would not result in a material impact on equity.

The following table analyzes the Company's sensitivity to a hypothetical 10% strengthening and 10% weakening of the U.S. dollar and Hong Kong dollar against the euro at average exchange rates for the year 2008. A positive amount indicates an increase in net earnings.

	2007	2008
	Impact on	Impact on net earnings
10% increase of U.S. dollar versus euro	(499)	**2,646**
10% decrease of U.S. dollar versus euro	499	**(2,646)**
10% increase of Hong Kong dollar versus euro	6,697	**4,819**
10% decrease of Hong Kong dollar versus euro	(6,697)	**(4,819)**

A hypothetical 10% strengthening or 10% weakening of any currency other than the U.S. dollar and Hong Kong dollar against the euro at average exchange rates for the years 2007 and 2008 would not result in a material impact on net earnings.

Interest Risk

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. At December 31, 2008 the Company had convertible subordinated debt borrowings outstanding of € 15,037 at a fixed interest rate, maturing in May 2010 and € 91,756 at a fixed interest rate, maturing in December 2011 and € 30,031 in long-term debt at fixed interest rates and € 16,858 in other borrowings with variable short-term interest rates. A hypothetical change in the average interest rate by 10% on the portion of the Company's debt bearing interest at variable rates would not result in a material change in interest expense at December 31, 2007 and December 31, 2008 borrowing levels.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and derivative instruments. These instruments contain a risk of counterparties failing to discharge their obligations. The Company monitors credit risk and manages credit risk exposure by type of financial instrument by assessing the creditworthiness of counterparties. The Company does not anticipate nonperformance by counterparties given their high creditworthiness.

The Company's customers are semiconductor device manufacturers located throughout the world. 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.

The Company derives a significant percentage of its revenue from a small number of large customers. The Company's largest customer accounted for approximately 13.8% of net sales in 2008 (2007: 9.6%%) and the ten largest customers accounted for approximately 32.0% of net sales in 2008 (2007: 32.4%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, 2008 one customer accounted for 12.3% of the outstanding balance in accounts receivable (2007: 7.8%

The Company places its cash and cash equivalent and derivative instruments with high quality financial institutions to limit the amount of credit risk exposure.

The maximum credit exposure is equal to the carrying values of cash and cash equivalent and accounts receivable.

Liquidity Risk

The following table summarizes the Company's contractual obligations as at December 31, 2008 aggregated by type of contractual obligation:

Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Forward exchange contracts	1,466	1,466			
Notes payable to banks[1]	17,217	17,217	-	-	-
Long-term debt[1, 2]	31,392	7,326	20,569	3,497	-
Convertible subordinated debt[1]	120,070	4,689	115,381	-	-
Total contractual obligations arising from financial instruments	170,145	30,698	135,950	3,497	-
Operating leases	25,520	8,477	9,786	4,535	2,722
Purchase obligations:					
Purchase commitments to suppliers	35,049	34,535	514	-	-
Capital expenditure commitments	1,721	1,721	-	-	-
Total contractual obligations	232,435	75,431	146,250	8,032	2,722

(1) Including interest expense based on the percentages at the reporting date.
(2) Capital lease obligations of € 1,865 are included in long-term debt.

Total short-term lines of credit amounted to €104,660 at December 31, 2008. The amount outstanding at December 31, 2008 was € 16,858 and the undrawn portion totaled € 87,802. The undrawn portion includes the Company's bank credit facility of € 31,000 with Rabobank. The facility, available through February 28, 2010, is secured by a portion of the Company's shareholding in ASMPT. The available part of this facility can be increased to € 50,000 by increasing the portion of the Company's shareholding in ASMPT. The undrawn portion includes € 27,756 for ASMPT, which amount is restricted to be used only in the operations of ASMPT. The undrawn portion includes € 29,024 for ASM Japan, which amount is restricted to be used only in the operations of ASM Japan.

The Company uses notes payable to banks to manage short term liquidity and uses long-term debt and convertible subordinated debt to manage long term liquidity.

For the majority of purchase commitments, the Company has flexible delivery schedules depending on the market conditions, which allows the Company, to a certain extent, to delay delivery beyond originally planned delivery schedules.

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 estimated fair values of long-term debt approximate the carrying amount of long-term debt.

The fair values of the Company's convertible subordinated debt borrowings are based on the Company's estimates:

		2007		2008
	Carrying amount	Fair Value	Carrying amount	Fair value
Convertible subordinated debt, including conversion option	138,993	174,508	**106,793**	**69,865**

NOTE 19 *Research and Development Expenses*

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

	Year ended December 31, 2007	2008
Research and development expenses	66,951	**58,832**
Amortization of capitalized development expenses	361	**2,484**
Impairment of capitalized development expenses	2,184	**9,737**
Research and development grants and credits	(872)	**(639)**
Total research and development	68,624	**70,414**

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 grants and credits received from governmental sources in the Netherlands include a credit which 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. In 2007 and 2008 the Company accounted for repayments with respect to such credits of € 114 and € 86 respectively. Interest on the contingent repayments is accrued at an interest rate of 6.05% per annum. The contingent repayment, including accrued interest, was € 2,953 at December 31, 2007 and € 3,162 at December 31, 2008. 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.

With respect to capitalized development expenses, reference is made to Note 6.

NOTE 20 *Income Taxes*

The components of earnings (loss) before income taxes and minority interest consist of:

	Year ended December 31, 2007	2008
The Netherlands	26,709	**(15,504)**
Other countries	136,473	**100,965)**
	163,182	**85,461**

The income tax expense consists of:

	Year ended December 31, 2007	2008
Current:		
The Netherlands	(320)	**(64)**
Other countries	(19,838)	**(12,594)**
	(20,158)	**(12,658)**
Deferred:		
The Netherlands	-	-
Other countries	(1,181)	**(371)**
	(1,181)	**(371)**
Income tax expense	(21,339)	**(13,029)**

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,	
	2007	2008
Earnings before income taxes and minority interest	163,182	**85,461**
Netherlands statutory income tax rate	25.5%	**25.5%**
Income tax provision at statutory rate	(41,611)	**(21,793)**
Non-deductible expenses	(10,081)	**4,050**
Foreign taxes at a rate other than the Netherlands statutory rate	17,317	**10,706**
Valuation allowance	994	**(10,604)**
Non-taxable income	17,834	**4,609**
Other	(5,792)	**3**
Income tax expense	(21,339)	**(13,029)**

Included in non-taxable income is € 2,998 regarding the Company's manufacturing operations in Singapore and other countries where income covering certain products is non-taxable under tax incentive schemes granted by the local tax authority. The majority of these tax exemption schemes have terms ending in 2010.

The government of the Netherlands has enacted income tax rate reductions at the end of 2005 to 29.6% in 2006, at the end of 2006 to 25.5 % in 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,	
	2007	2008
Deferred tax assets:		
Reserves and allowances	3,311	**4,010**
Net operating losses	91,874	**110,525**
Depreciation	-	**506**
Other	724	**1,711**
Gross deferred tax assets	95,909	**116,752**
Less: valuation allowance	(87,024)	**(108,112)**
Net deferred tax assets	8,885	**8,640**
Deferred tax liabilities:		
Convertible subordinated notes	(4,374)	**(2,680)**
Capitalized development expenses	(6,106)	**(6,991)**
Depreciation	(63)	**-**
Research and development credits	(753)	**(806)**
Deferred tax liabilities	(11,296)	**(10,477)**
Net deferred income taxes	(2,411)	**(1,837)**

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

	December 31,	
	2007	2008
Deferred tax assets—non-current	4,494	**5,693**
Deferred tax liab—non-current	(6,905)	**(7,530)**
	(2,411)	**(1,837)**

Based on tax filings, ASMI and its individual subsidiaries have net operating losses available at December 31, 2008 of € 395,290 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 € 87,024 in 2007 and € 108,112 in 2008 has been recorded.

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

Expiration year	
2009	**450**
2010	**2,350**
2011	**144,174**
2012	**44,307**
2013	**21,129**
2014	**38,670**
2016	**4,578**
2017	**89,490**
2018	**3,876**
2022	**7,143**
2023	**3,752**
2024	**405**
2025	**4,556**
2026	**2,165**
2027	**2,733**
2028	**0**
Unlimited	**25,512**
Net operating losses	**395,290**

The Company has not provided for deferred foreign withholding taxes, if any, on undistributed earnings of its foreign subsidiaries. At December 31, 2008 undistributed earnings of subsidiaries, subject to withholding taxes, were approximately € 26,005. 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 and tax deductible costs. The Company provides for these tax contingencies for the duration of the statute of limitation period, which differs per tax jurisdiction. At December 31, 2008 tax contingencies amounted to € 14,841 and are included in income taxes payable in the Consolidated Balance Sheet. 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 21 *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 52.87% 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.

(euro thousands, except for headcount)	Front-end	Back-end	Total
Year ended December 31, 2007			
Net sales to unaffiliated customers	450,899	504,340	955,239
Gross profit	145,036	216,040	361,076
Earnings from operations	30,375	131,854	162,229
Net interest income (expense)	(15,188)	2,525	(12,663)
Expense resulting from early extinguishment of debt	(2,306)	-	(2,306)
Gain on revaluation conversion option	19,211	-	19,211
Foreign currency exchange gains (losses), net	(4,171)	882	(3,289)
Income tax expense	(4,706)	(16,633)	(21.339)
Net earnings (loss) before gain on dilution of investment in subsidiary	23,215	118,628	141,843
Gain on dilution of investment in subsidiary			3,010
Net earnings to common shareholders			144,853
Net earnings (loss) allocated to:			
Shareholders of the parent	23,215	63,283	86,498
Minority interest		55,345	55,345
Gain on dilution of investment in subsidiary			3,010
Capital expenditures	17,411	29,795	47,206
Purchase and capitalization of other intangibles	17,642	442	18,084
Depreciation	14,997	18,253	33,250
Amortization of other intangible assets	1,448	304	1,752
Impairment of property, plant and equipment	788	-	788
Impairment of capitalized development expenses	2,184	-	2,184
Cash and cash equivalents	100,143	67,780	167,923
Capitalized goodwill	12,917	27,535	40,452
Other intangible assets	39,399	675	40,074
Other identifiable assets	330,178	285,525	615,703
Total assets	482,637	381,515	864,152
Total debt [1]	193,061	-	193,091
Headcount in full-time equivalents [2]	1,843	9,989	11,832

(euro thousands, except for headcount)	Front-end	Back-end	Total
Year ended December 31, 2008			
Net sales to unaffiliated customers	296,737	450,625	747,362
Gross profit	93,898	176,364	270,262
Earnings (loss) from operations	(25,767)	90,167	64,400
Net interest income (expense)	(11,953)	1,045	(10,908)
Gain resulting from early extinguishment of debt	11,254	-	11,254
Gain on revaluation conversion option	19,372	-	19,372
Foreign currency exchange gains (losses), net	(8)	1,351	1,343
Income tax expense	(2,371)	(10,658)	(13,029)
Net earnings (loss) before gain on dilution of investment in subsidiary	(9,473)	81,905	72,432
Gain on dilution of investment in subsidiary			4,088
Net earnings to common shareholders			76,520
Net earnings (loss) allocated to:			
Shareholders of the parent	(9,473)	43,607	34,134
Minority interest	-	38,298	38,298
Gain on dilution of investment in subsidiary			4,088
Capital expenditures	11,173	20,277	31,450
Purchase and capitalization of other intangibles	4,994	368	5,362
Depreciation	14,440	18,736	33,176
Amortization of other intangible assets	985	499	1,484
Impairment of goodwill	1,395	-	1,395
Impairment of property, plant and equipment	7,068	-	7,068
Impairment of capitalized development expenses	9,737	-	9,737
9			
Cash and cash equivalents	78,897	78,380	157,277
Capitalized goodwill	8,897	29,108	38,005
Other intangible assets	53,128	583	53,711
Other identifiable assets	279,710	272,274	551,984
Total assets	420,632	380,345	800,977
Total debt [1]	144,992	-	144,992
Headcount in full-time equivalents[2]	1,667	10,047	11,714

(1) Including the conversion option and including accreted interest of convertibles subordinated notes. Refer to Note 13.

(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, 2007						
Net sales to unaffiliated customers	89,306	128,002	87,162	650,769	-	955,239
Long-lived assets	11,115	12,153	21,947	101,599	2,828	149,642
Total assets	126,069	104,069	125,113	433,046	75,855	864,152
Capital expenditures	3,700	1,179	8,718	33,586	23	47,206
Purchase and capitalization of intangible assets	4,325	7,106	5,978	489	186	18,084
Year ended December 31, 2008						
Net sales to unaffiliated customers	**80,237**	**110,264**	**70,948**	**485,913**	**—**	**747,362**
Long-lived assets	**5,809**	**9,679**	**26,050**	**106,763**	**256**	**148,557**
Total assets	**81,380**	**105,115**	**130,877**	**427,289**	**56,316**	**800,977**
Capital expenditures	**5,655**	**1,909**	**2,383**	**21,400**	**103**	**31,450**
Purchase and capitalization of intangible assets	**4,860**	**8,884**	**3,215**	**386**	**4,834**	**22,179**

Long-lived assets for the years ended December 31, 2007 and 2008 consist of the Company's property, plant and equipment.

NOTE 22 *Selected Operating Expenses and Additional Information*

Personnel expenses for employees were as follows:

	Year ended December 31,	
	2007	2008
Wages and salaries	194,047	**184,371**
Social security	18,578	**18,050**
Pension expenses	11,134	**11,474**
	223,759	**213,895**

Personnel expenses exclude option expenses, reference is made to Note 15.

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

	Year ended December 31,	
	2007	2008
The Netherlands	352	**352**
Other European countries	209	**197**
United States	593	**494**
Southeast Asia	9,993	**10,687**
Japan	293	**292**
	11,440	**12,022**

NOTE 23 *Earnings per Share*

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

	Year ended December 31,	
	2007	2008
Net earnings allocated to shareholders of the parent used for purpose of computing basic earnings per share	89.508	**38,222**
After-tax equivalent of interest expense on convertible subordinated notes	13,782	**11,713**
After tax equivalent of fair value change conversion option	-26,954	**-22,670**
Net earnings allocated to shareholders of the parent used for purposes of computing diluted net earnings per share	76,336	**27,265**
Basic weighted average number of shares outstanding during the year used for purpose of computing basic earnings per share	53,968	**52,259**
Dilutive effect of stock options	94	**130**
Dilutive effect of convertible subordinated notes	11,014	**9,661**
Dilutive weighted average number of shares outstanding	65,076	**62,050**
Net earnings (loss) per share allocated to shareholders of the parent:		
Basic	1.66	**0.73**
Diluted	1.17	**0.44**

NOTE 24 *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,	
				2008	2007
	Base compensation	Bonuses [6]	Pensions	Total	Total
Management Board:					
C.D. del Prado	465	63	20	548	336
W.K. Lee[1]	312	242	19	573	562
A.J.M. van der Ven	282	54	18	354	314
J.F.M. Westendorp	332	67	24	423	351
	1,488	426	81	1,995	2,204
Supervisory Board:					
P.C. van den Hoek	54			54	54
E.A. van Amerongen	33			33	30
L.P.E.M. van den Boom[3]	131			131	33
B.C. Brix[4]	15			15	30
J.M.R. Danneels	29			29	29
H.W. Kreutzer	30			30	30
U.H.R. Schumacher[5]	15			15	—
	307			307	206

[1] All remuneration relates to the compensation Mr. W.K. Lee received in his capacity as member of the Board of Directors of ASMPT.
[2] Mr. A.H. del Prado retired March 1, 2008.
[3] The remuneration of 2008 for Mr. L.P.E.M. van den Boom includes the compensation of € 99 for additional services performed as the Supervisory Board's designee on the Company's Transaction Committee.
[4] For the period January 1, 2008 through May 21, 2008.
[5] For the period May 21, 2008 through December 31, 2008.
[6] All bonuses paid in 2008 were calculated and paid in respect of performance in 2007.

The remuneration of members of the Management Board has been determined by the Supervisory Board, with the exception of Mr. W.K. Lee. His compensation has been determined by the Board of ASM Pacific Technology. The remuneration of members of 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 2008:

	Year of grant	Outstanding January 1, 2008	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding December 31, 2008		Exercise price	Remaining term, in years
A.H. del Prado[1]	2006	100,856	—	—	—	100,856	€	14.08	2
A.H. del Prado[1]	2007	60,441		—	—	60,441	€	19.47	3
C.D. del Prado[2]	2003	20,000	—	—	—	20,000	US$	11.35	5
C.D. del Prado[1]	2006	35,680	—	—	—	35,680	€	14.08	6
C.D. del Prado[1]	2007	22,451		—	—	22,451	€	19.47	7
C.D. del Prado[1]	2008		100,000			100,000	€	12.71	8
A.J.M. van der Ven[3]	2005	30,000	—	—	—	30,000	€	11.18	5
A.J.M. van der Ven[1]	2006	20,000	—	—	—	20,000	€	14.13	6
A.J.M. van der Ven[1]	2006	15,680	—	—	—	15,680	€	14.08	6
A.J.M. van der Ven[1]	2007	21,917		—	—	21,917	€	19.47	7
J.F.M. Westendorp[4]	2006	56,000	—	—	—	56,000	€	15.40	3
J.F.M. Westendorp[1]	2006	42,816	—	—	—	42,816	€	14.08	6
J.F.M. Westendorp[1]	2007	25,659		—	—	25,659	€	19.47	7
		451,500	100,000	—	—	551,500			

The fair value per option of options granted to current and former members of the Management Board was € 8.31 in 2007 and € 5.82 in 2008. The compensation expense recorded in the Consolidated Statements of Operations related to options held by current and former members of the Management Board was € 658 in 2007 and € 868 in 2008.

No new shares have been issued for the exercise of options.

The stock option grants to members of 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. Upon the retirement of Mr. A.H. del Prado in 2008, the remaining term of his options has been shortened.

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 2008, Mr. W.K. Lee in his capacity of member of the Board of Directors of ASMPT was granted 110,000 shares in the share capital of ASMPT under the Employee Share Incentive Scheme of ASMPT. The shares were issued in December 2008. The fair value of the shares granted amounted to € 479. In February 2007, Mr. W.K. Lee in his capacity of member of the Board of Directors of ASMPT was granted 100,000 shares in the share capital of ASMPT under the Employee Share Incentive Scheme of ASMPT. The shares were issued in December 2007. The fair value of the shares granted amounted to € 430.

NOTE 25 *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, 2007		December 31, 2008	
	Shares owned	Percentage of Common shares outstanding	Shares owned	Percentage of Common shares outstanding
Management Board:				
A.H. del Prado	3,784,839	7.01%	6,684,839	12.32%
C.D. del Prado	132,945	0.25%	132,945	0.24%
J.F.M. Westendorp	6,000	0.01%	6,000	0.01%
Supervisory Board:				
P.C. van den Hoek	300,000	0.56%	300,000	0.55%
Stichting Administratiekantoor ASMI	7,692,039	14.24%	4,792,039	8.83%

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.

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 then 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 then Chief Executive Officer's interest diluted to 43.77%. In 2004 the then Chief Executive Officer purchased an additional 1.72% interest in NanoPhotonics from another shareholder. For all the shares purchased by the then Chief Executive Officer, the Company and the then 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. In September 2008, the Company finalized the sale of its interest for a total consideration of € 410. Related to this sale, the Company recorded an impairment charge of € 1,395. At December 31, 2007 the Company has provided NanoPhotonics with intercompany loans of € 300. In 2007 and 2008 the Company purchased no equipment from NanoPhotonics.

In March 2000, the Company made an interest-bearing loan to its then Chief Executive Officer in connection with the exercise of stock options at an average interest rate for 2007 of 6.24%. At December 31, 2007 the loan is fully repaid.

The Chairman of the Supervisory Board, Mr. P.C. van den Hoek, was a partner in the European law firm of Stibbe until March 2009, and is now Of Counsel to 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. van den Hoek also serves on the boards of directors of various European companies. Fees for services to Stibbe amounted to € 360 and € 1,415 in 2007 and 2008, respectively.

NOTE 26 *Subsequent Events*

On January 9, 2009 the Company announced its plans for a major restructuring of ASM Europe. This plan involves the transfer from Almere, the Netherlands, of manufacturing and operational procurement activities for the Vertical Furnace product line to the Company's Front-end manufacturing operations in Singapore and further reduction in workforce due to market circumstances. The implementation will take place in 2009. The Company expects restructuring expenses in the amount of € 25 - € 30 million related to impairment charges on property, plant and equipment, contractual obligations including operational leases, one-time termination benefits to employees and other transition costs. In the year ended December 31, 2008, the Company recorded € 7,068 in non-cash impairment charges on property, plant and equipment and expects the majority of the remaining restructuring expenses (all cash items) to incur in the year ending December 31, 2009.

NOTE 27 *Remuneration of the External Auditor*

Audit fees.

Deloitte Accountants B.V., its affiliates, and its member firms ("Deloitte") billed us an aggregate € 2,902,577 and € 2,116,740 for the audit of our Consolidated Financial Statements for the years ended December 31, 2007 and 2008, respectively, and certain agreed upon procedures regarding our quarterly financial results. These amounts accounted for 76% and 68% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

Audit-related fees.

Deloitte billed us an aggregate of € 14,327 and € 406,406 for fees for audit related services for the years ended December 31, 2007 and 2008, respectively. These amounts accounted for 1% and 13% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

Tax fees.

Deloitte billed us an aggregate of € 863,141 and € 533,144 in 2007 and 2008, respectively, for tax services relating to tax compliance, tax planning and advice. These amounts accounted for 22% and 17% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

All other fees.

Deloitte billed us an aggregate of € 54,245 and € 57,907 in 2007 and 2008, respectively, for all other services. These amounts accounted for 1% and 2% of the total fees billed to us by Deloitte in 2007 and 2008, respectively.

NOTE 28 *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 (conversion component). 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. The conversion option is measured at fair value. 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:

7. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
8. its intention to complete the intangible asset and use or sell it;
9. its ability to use or sell the intangible asset;
10. how the intangible asset will generate probable future economic benefits;
11. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
12. 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,	
	2007	2008
Net earnings in accordance with IFRS	144,853	**76,520**
Goodwill	-	**(81)**
Classification of minority interest	(55,345)	**(38,298)**
Convertible subordinated notes	(15,775)	**(16,028)**
Development expenses	(12,750)	**(3,712)**
Preferred shares	-	**10**
Options plans	(6)	**-**
Net earnings in accordance with US GAAP	60,977	**18,411**

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

	December 31,	
	2007	**2008**
Total equity in accordance with IFRS	451,926	**481,034**
Goodwill	9,569	**9,984**
Classification of minority interest	(120,624)	**(125,139)**
Convertible subordinated notes	8,471	**(7,557)**
Development expenses	(29,717)	**(38,802)**
Preferred shares	-	**220**
Pension plans	(747)	**(1,838)**
Total shareholders' equity in accordance with US GAAP	318,878	**317,902**

Almere,
April 28, 2009

Supervisory Board	Management Board
P.C. van den Hoek	C.D. del Prado
E.A. van Amerongen	W.K. Lee
J.M.R. Danneels	A.J.M. van der Ven
H.W. Kreutzer	J.F.M. Westendorp
U.H.R. Schumacher	

Balance Sheets ASM International N.V.

(After proposed appropriation of net earnings for the year)

(thousands except share data)			EUR
			December 31,
Assets	**Note**	2007	**2008**
Cash and cash equivalents		71,069	**50,002**
Amounts due from subsidiaries		174,164	**102,876**
Other current assets		1,172	**604**
Total current assets		246,405	**153,482**
Loan advances due from investments	**2**	162,392	**149,669**
Investments	**2**	66,215	**150,679**
Other intangible assets, net	**3**	5,202	**9,005**
Goodwill, net	**4**	4,260	**2,612**
Property, plant and equipment, net	**5**	2,828	**256**
Total assets		487,302	**465,703**
Liabilities and Shareholders' Equity			
Amounts due to subsidiaries		3,250	**4,562**
Accrued expenses and other		7,164	**6,977**
Taxes and social securities		438	**166**
Total current liabilities		10,852	**11,705**
Long term debt		-	**220**
Convertible subordinated debt		119,526	**94,931**
Conversion option		25,622	**2,952**
Total liabilities		156,000	**109,808**
Common shares			
Authorized 110,000,000 shares, par value € 0.04,			
issued and outstanding 54,005,214 and 54,275,131 shares		2,160	**2,171**
Capital in excess of par value		322,412	**327,462**
Treasury shares at cost		(3,985)	**(37,215)**
Accumulated deficit		(66,028)	**(30,742)**
Legal reserves		148,386	**151,066**
Accumulated other comprehensive loss		(71,643)	**(56,847)**
Total shareholders' equity	**6**	331,302	**355,895**
Total liabilities and shareholders' equity		487,302	**465,703**

Statements of Operations ASM International N.V.

(thousands)		EUR
		Year ended December 31,
	2007	**2008**
Net earnings of subsidiaries	80,165	**26,378**
Net earnings from holding activities	9,343	**11,843**
Net earnings	89,508	**38,221**

See Notes to Financial Statements ASM International N.V.

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). The same accounting principles as used in the Consolidated Financial Statements were applied in order to maintain the consistency between the Consolidated Financial Statements and the Financial Statements of ASM International N.V. 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 – The financial information relating to ASM International N.V. is presented in the consolidated statements. Accordingly, in accordance with Article 402, Part 9 of Book 2 of the Netherlands Civil Code, the company financial statements only contain an abridged statement of operations.

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, 2007	35,236	175,370	210,606
Capital investments	10,817	-	10,817
Repayment of capital	(1,232)	-	(1,232
Net result of subsidiaries	80,165	-	80,165)
Dividend received	(49,052)	-	(49,052
Issuance of loans	-	12,594	12,594)
Repayments of loans	-	(11,499)	(11,499)
Financial restructuring	-	(10,409)	(10,409)
Unrealized gains on derivative instruments	216	-	216
Foreign currency translation effect	(9,935)	(3,664)	(13,599
Balance December 31, 2007	**66,215**	**162,392**	**228,607)**
Capital investments	**99,263**	**-**	**99,263**
Repayment of capital	**(424)**	**-**	**(424)**
Net result of subsidiaries	**26,378**	**-**	**26,378**
Dividend received	**(49,225)**	**-**	**(49,225)**
Issuance of loans	**-**	**20,307**	**20,307**
Repayments of loans	**-**	**(36,273)**	**(36,273)**
Unrealized gains on derivative instruments	**64**	**-**	**64**
Foreign currency translation effect	**8,408**	**3,243**	**11,651**
Balance December 31, 2008	**150,679**	**149,669**	**300,348**

NOTE 3 *Other Intangible Assets*

	Software	Purchased technology and other intangible assets	Total
At cost:			
Balance January 1, 2007	1,560	8,241	9,801
Additions	186	-	186
Balance December 31, 2007	**1,746**	**8,241**	**9,987**
Additions	**4,834**	**-**	**4,834**
Balance December 31, 2008	**6,580**	**8,241**	**14,821**
Accumulated amortization:			
Balance January 1, 2007	89	3,714	3,803
Amortization for the year	120	862	982
Balance December 31, 2007	**209**	**4,576**	**4,785**
Amortization for the year	**169**	**862**	**1,031**
Balance December 31, 2008	**378**	**5,438**	**5,816**
Other intangible assets, net:			
December 31, 2007	1,537	3,665	5,202
December 31, 2008	**6,202**	**2,803**	**9,005**

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

2009	1,739
2010	2,068
2011	1,971
2012	1,326
2013	1,109
Years thereafter	792
	9,005

NOTE 4 *Goodwill*

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

At cost:	
Balance January 1, 2007	6,554
Acquired	-
Balance December 31, 2007	**6,554**
Impairment charge	**(1,395)**
Sold	**(413)**
Balance December 31, 2008	**4,746**
Accumulated amortization:	
Balance January 1, 2007	2,294
Amortization for the year	-
Balance December 31, 2007	**2,294**
Amortization for the year	**-**
Sold	**(160)**
Balance December 31, 2008	**2,134**
Goodwill, net:	
December 31, 2007	4,260
December 31, 2008	**2,612**

NOTE 5 *Property, Plant and Equipment*

	Land, buildings and improvements	Machinery, equipment, furniture and fixtures	Total
At cost:			
Balance January 1, 2007	4,348	467	4,815
Capital expenditures	-	23	23
Transfer from subsidiaries	902	-	902
Revaluation fixed assets held for sale	788	-	788
Balance December 31, 2007	**6,038**	**490**	**6,528**
Capital expenditures	**47**	**56**	**103**
Sold	**(4,712)**	**(241)**	**(4,953)**
Balance December 31, 2008	**1,373**	**305**	**1,678**
Accumulated depreciation:			
Balance January 1, 2007	3,126	460	3,586
Depreciation for the year	84	30	114
Balance December 31, 2007	**3,210**	**490**	**3,700**
Depreciation for the year	**124**	**11**	**135**
Sold	**(2,172**	**(241)**	**(2,413)**
Balance December 31, 2008	**1,162**	**260**	**1,422**
Property, plant and equipment, net:			
December 31, 2007	2,828	-	2,828
December 31, 2008	**211**	**45**	**256**

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

NOTE 6 *Shareholders' Equity*

The changes in shareholders' equity are as follows:

(thousands)							EUR
	Common shares	Capital in excess of par value	Treasury shares at cost	Accumulated deficit	Legal reserves	Accumulated other com-prehensive loss	Total share-holders' equity
Balance January 1, 2007	**2,153**	**319,506**	**-**	**(134,669)**	**133,279**	**(58,707)**	**261,562**
Issuance of common shares:							
For stock options	7	2,319	-	-	-	-	2,326
Compensation expense stock options	-	1,712	-	-	-	-	1,712
Purchase of common shares	-	-	(8,162)	-	-	-	(8,162)
Exercise of stock options out of treasury shares	-	(1,125	4,177	(363)	-	-	2,689
Increased retained earnings subsidiaries	-	-	-	(2,000)	2,000	-	-
Capitalized development expenses	-	-	-	(13,107)	13,107	-	-
Other comprehensive	-	-	-	-	-	(12,936)	(12,936)
Dividend	-	-	-	(5,397)	-	-	(5,397)
Net earnings	-	-	-	89,508	-	-	89,508
Balance December 31, 2007	**2,160**	**322,412**	**(3,985)**	**(66,028)**	**148,386**	**(71,643)**	**331,302**
Compensation expense stock options		2,024					2,024
Purchase of common shares			(36,453)				(36,453)
Exercise of stock options out of treasury shares		(556)	1,850	(255)			1,039
Conversion of debt into common shares out of treasury			1,373				1,373
Decreased retained earnings subsidiaries				1,032	(1,032)		-
Capitalized development expenses				(3,712)	3,712		
Other comprehensive						14,796	14,796
Dividend							
Net earnings				38,221			38,221
Balance December 31, 2008	2,171	327,462	(37,215)	(30,742)	151,066	(56,847)	355,895

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 14 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 15 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 24 and 25 to the Consolidated Financial Statements.

NOTE 8 *Commitments and Contingencies*

ASM International N.V. has guaranteed available facilities of certain subsidiaries of € 23,211. 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.

ASM International N.V. forms a tax unity together with its Dutch subsidiaries ASM Europe B.V. and ASM United Kingdom Sales B.V. for purposes of Netherlands tax laws and is as such jointly and severally liable for the tax debts of the unity.

Almere,
April 28, 2009

Supervisory Board	Management Board
P.C. van den Hoek	C.D. del Prado
E.A. van Amerongen	W.K. Lee
J.M.R. Danneels	A.J.M. van der Ven
H.W. Kreutzer	J.F.M. Westendorp
U.H.R. Schumacher	

Auditor's Report

The auditor's report is included on page 112 and 113 of the Annual Accounts 2008.

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 the reserves with priority over any dividends. If the reserves 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 the reserves. If the reserves 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 has decided with the approval of the Supervisory Board that the net earnings for the year 2008 will be added to the reserves.

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 the event that there is a tie of votes, no resolution will take effect.

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 objective of Stichting Continuïteit ASM International ("Stichting") is to serve the interests of the Company. To that objective Stichting may, amongst others, acquire, own and vote our preferred shares in order to maintain our independence and/or continuity and/or identity.

The members of the board of Stichting are:

Michiel J.C. van Galen (chairman)	Retired Managing Director, Breevast N.V.
Rinze Veenenga Kingma	President Archeus Consulting B.V.
Jan Klaassen	Emeritus Professor, Vrije Universiteit Amsterdam

On May 14, 2008, Stichting exercised its right to acquire preferred shares in the Company and acquired 21,985 preferred shares representing 21,985,000 votes, which constituted 29.9% of the total voting power of our outstanding capital stock as of May 14, 2008. Stichting paid €219,850, which constituted one-fourth of the nominal value of the preferred shares acquired, in accordance with the option agreement. This amount was paid by Stichting using an existing credit line. In a press release issued on May 14, 2008, Stichting gave the following explanation for it exercising the option to acquire preferred shares:

> "..... Stichting […] is making this move as it considers this in the best interest of the Company and its stakeholders. Current discussions between the Board and a number of shareholders are still ongoing; the replacement of the CEO and the substantial changes in the Supervisory Board, proposed as voting items by one of the shareholders for the Annual Shareholders Meeting of May 21, 2008, is seriously disruptive to the continuity of the Company as the aforementioned discussions have not come to a conclusive end."

The issuance of preferred shares to Stichting has since been the subject of litigation in the Enterprise Chamber of the Amsterdam court of appeal. This litigation was initiated by shareholders Hermes Focus Asset Management Ltd. and Fursa Alternative Investment Strategies LLC. In its judgment of May 20, 2008, the Enterprise Chamber did not order ASMI to annul the preferred shares (as requested by Hermes and Fursa) but did prohibit the general meeting of shareholders of ASMI to take certain decisions in the 2008 annual general meeting regarding the composition of the management board and the supervisory board. The litigation between ASMI, Hermes and Fursa and various other parties in the Amsterdam Enterprise Chamber is still ongoing. Currently, the 21,985 preferred shares representing 21,985,000 votes are outstanding and held by Stichting.

List of Subsidiaries and Offices

The subsidiaries and offices of the Company are listed on page 52 and 53 of the Statutory Annual Report.

To the Supervisory Board and Shareholders of
ASM International N.V.
Almere, The Netherlands

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Report on the financial statements

We have audited the accompanying financial statements 2008 of ASM International NV, Almere. 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, 2008, profit and loss account, statement of changes in 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, 2008, the company profit and loss account 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 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 NV as at December 31, 2008, 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 NV as at December 31, 2008, 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 f of the Netherlands Civil Code, we report, to the extent of our competence, that the management report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.

was signed: M.J. van der Vegte

Amsterdam, the Netherlands

April 28, 2009

ASM International

The Process of Innovation℠

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