

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

Filing Date: **2009-01-26** | Period of Report: **2008-12-31**
SEC Accession No. **0001156973-09-000036**

([HTML Version](#) on secdatabase.com)

FILER

ASML HOLDING NV

CIK: **937966** | IRS No.: **000000000** | Fiscal Year End: **1231**
Type: **20-F** | Act: **34** | File No.: **001-33463** | Film No.: **09543578**
SIC: **3559** Special industry machinery, nec

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Securities and Exchange Commission
Washington, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2008

Commission file number 025566

ASML HOLDING N.V.

(Exact Name of Registrant as Specified in Its Charter)

THE NETHERLANDS

(Jurisdiction of Incorporation or Organization)

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(Name, telephone, E-mail, and / or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares (nominal value EUR 0.09 per share)	The NASDAQ Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

432,073,534 Ordinary Shares
(nominal value EUR 0.09 per share)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes (✓) No ()

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes () No (✓)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (✓) No ()

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer (✓) Accelerated filer () Non-accelerated filer ()

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP (✓) International Financial Reporting Standards as issued by the International Accounting Standards Board () Other ()

If "Other" has been checked in response to the previous question, indicate by checkmark

which financial statement item the registrant has elected to follow.

Item 17 () Item 18 ()

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes () No (✓)

Name and address of person authorized to receive notices and communications from the Securities and Exchange Commission:

Richard A. Ely
Skadden, Arps, Slate, Meagher & Flom (UK) LLP
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Part I

Special Note Regarding Forward-Looking Statements

In addition to historical information, this annual report on Form 20-F contains statements relating to our future business and/or results. These statements include certain projections and business trends that are “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify these statements by the use of words like “may”, “will”, “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. Actual results may differ materially from projected results as a result of certain risks and uncertainties. These risks and uncertainties include, without limitation, those described under Item 3.D. “Risk Factors” and those detailed from time to time in our other filings with the United States Securities and Exchange Commission (the “Commission” or the “SEC”). These forward-looking statements are made only as of the date of this annual report on Form 20-F. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1 Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information

A. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 5 “Operating and Financial Review and Prospects” and Item 18 “Financial Statements”.

Five-Year Financial Summary

Year ended December 31 (in thousands, except per share data)	2004 ^{1, 2} EUR	2005 ¹ EUR	2006 ³ EUR	2007 ³ EUR	2008 EUR
Consolidated statements of operations data					
Net sales	2,465,377	2,528,967	3,581,776	3,768,185	2,953,678
Cost of sales	1,559,738	1,554,772	2,127,797	2,218,526	1,938,164
Gross profit on sales	905,639	974,195	1,453,979	1,549,659	1,015,514
Research and development costs	352,920	347,901	413,708	510,503	538,324
Amortization of in-process research and development costs	–	–	–	23,148	–
Research and development credits	(21,961)	(24,027)	(27,141)	(24,362)	(22,196)
Selling, general and administrative costs	201,629	201,204	204,799	225,668	212,341
Restructuring and merger and acquisition costs (credits)	(5,862)	–	–	–	–
Income from operations	378,913	449,117	862,613	814,702	287,045
Interest income (expense), net	(16,073)	(14,094)	(854)	33,451	22,599
Income from operations before income taxes	362,840	435,023	861,759	848,153	309,644
(Provision for) benefit from income taxes	(127,380)	(123,559)	(243,211)	(177,152) ⁴	12,726
Net income	235,460	311,464	618,548	671,001	322,370
Earnings per share data					
Basic net income from continuing operations per ordinary share	0.49	0.64	1.30	1.45	0.75
Basic and diluted net loss from operations per ordinary share	–	–	–	–	–
Basic net income per ordinary share	0.49	0.64	1.30	1.45	0.75
Diluted net income per ordinary share	0.49	0.64	1.26	1.41	0.74
Number of ordinary shares used in computing per share amounts (in thousands)					
Basic	483,380	484,103	474,860	462,406	431,620
Diluted	484,661	542,979	503,983	485,643	434,205

¹ The selected consolidated data for 2004 and 2005 reflect the effects of our decision in December 2002 to discontinue our Track business and divest our Thermal business which we substantially divested in October 2003.

² The calculation of the number of ordinary shares used in computing diluted net income per ordinary share in 2004 does not assume conversion of ASML's outstanding Convertible Subordinated Notes, as such conversions would have an anti-dilutive effect.

³ As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. The amounts for the years 2004 and 2005 have not been adjusted since the impact is not material. See note 1 to the consolidated financial statements.

⁴ In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

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As of December 31 (in thousands, unless otherwise indicated)	2004 ¹ EUR	2005 ¹ EUR	2006 ³ EUR	2007 ^{3, 4} EUR	2008 EUR
Consolidated balance sheets data					
Cash and cash equivalents	1,228,130	1,904,609	1,655,857	1,271,636	1,109,184
Working capital ⁵	1,868,871	1,785,836	2,236,173	1,997,988	1,964,906
Total assets	3,243,766	3,756,023	3,953,888	4,073,128	3,939,394
Long-term liabilities	1,039,023	624,203	613,167	855,367	942,282
Total shareholders' equity	1,391,602	1,711,837	2,148,003	1,891,004	1,988,769
Capital stock	9,675	9,694	10,051	39,206	38,887
Consolidated statements of cash flows data					
Purchases of property, plant and equipment	(74,979)	(72,660)	(70,619)	(179,152)	(259,770)
Depreciation, amortization and impairment	93,144	98,881	104,446	135,366	144,299
Net cash provided by continuing operating activities	257,147	713,511	492,280	701,011	280,746
Net cash used in discontinued operating activities	(5,880)	(2,018)	-	-	-
Net cash provided by total operating activities	251,267	711,493	492,280	701,011	280,746
Acquisition of subsidiary (net of cash acquired)	-	-	-	(188,011)	-
Net cash used in total investing activities	(60,398)	(60,803)	(70,629)	(362,152)	(259,805)
Net cash provided by (used in) total financing activities	18,871	2,879	(657,624) ⁶	(715,363) ⁶	(184,238)
Net increase (decrease) in cash and cash equivalents	200,324	676,479	(248,752)	(384,221)	(162,452)
Ratios and other data					
Increase (decrease) net sales (in percent)	59.8	2.6	41.6	5.2	(21.6)
Gross profit as a percentage of net sales	36.7	38.5	40.6	41.1	34.4
Income from operations as a percentage of net sales	15.4	17.8	24.1	21.6	9.7
Net income as a percentage of net sales	9.6	12.3	17.3	17.8	10.9
Shareholders' equity as a percentage of total assets	42.9	45.6	54.3	46.4	50.5
Sales of systems (in units)	282	196	266	260	151
Average selling price system sales	7.7	11.4	12.1	12.9	16.7
Backlog of systems (in units) at year end	131	95	163	89	41
Number of payroll employees in FTEs at year end from continuing operations	5,071	5,055	5,594	6,582	6,930
Number of ordinary shares outstanding (in thousands) at year end	483,676	484,670	477,099	435,626 ⁷	432,074
Share price ASML at year end ⁸	11.81	16.90	18.84	21.66	12.75
Volatility % ASML shares (260 days) ⁹	37.4	26.0	28.08	27.52	51.14
Dividend per ordinary share in Euro	-	-	-	0.25	0.20

⁵ Working capital is calculated as the difference between total current assets, including cash and cash equivalents, and total current liabilities.

Net cash used in financing activities includes, in 2006, an amount of EUR 678 million with respect to share buyback programs and, in 2007,

⁶ EUR 360 million, with respect to share buyback programs and EUR 1,012 million with respect to the return of capital to shareholders. In 2008 net cash used in financing activities mainly includes a EUR 108 million dividend payment and an amount of EUR 88 million for share buyback programs.

⁷ In 2007, as part of a capital repayment program, EUR 1,012 million of share capital was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11 percent (pursuant to a synthetic share buyback).

⁸ Closing price of ASML's ordinary shares listed on the Official Segment of the stock market of Euronext Amsterdam (source: Bloomberg Finance LP).

⁹ Volatility represents the variability in our share price on the Official Segment of the stock market of Euronext Amsterdam as measured over the last 260 business

days of each year presented (source: Bloomberg Finance LP).

Exchange Rate Information

We publish our consolidated financial statements in euro. In this Annual Report, references to “€”, “EUR” or “euro” are to euro, and references to “\$”, “dollars”, “U.S. dollars”, “U.S. dollar”, “USD” or “US\$” are to United States dollars. Solely for the convenience of the reader, certain U.S. dollar amounts have been translated into euro amounts using an exchange rate in effect on December 31, 2008 of US\$1.00 = EUR 0.70.

A portion of our net sales and expenses is, and historically has been, denominated in currencies other than the euro. For a discussion of the impact of exchange rate fluctuations on our financial condition and results of operations, see Item 5.A. “Operating Results, Foreign Exchange Management” and Note 1 to our consolidated financial statements.

The following are the Noon Buying Rates certified by the Federal Reserve Bank of New York for customs purposes (the “Noon Buying Rate”) expressed in U.S. dollars per euro.

Calendar year	2004	2005	2006	2007	2008	January 2009 (through January 21, 2009)
Period End	1.35	1.18	1.32	1.46	1.39	1.29
Average ¹	1.24	1.24	1.26	1.37	1.47	1.30
High	1.36	1.35	1.33	1.49	1.60	1.31
Low	1.18	1.17	1.19	1.29	1.24	1.28

¹ The average of the Noon Buying Rates on the last business day of each month during the period presented.

Months of	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008	January 2009 (through January 21, 2009)
High	1.59	1.56	1.47	1.41	1.30	1.44	1.31
Low	1.56	1.47	1.39	1.24	1.25	1.26	1.28

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks relate to our operational processes, while others relate to our business environment. It is important to understand the nature of these risks and the impact they may have on our business, financial condition and results of operations. Some of the more relevant risks are described below.

Risks Related to the Semiconductor Industry

The Semiconductor Industry is Highly Cyclical and We May Be Adversely Affected by Any Downturn

As a supplier to the global semiconductor industry, we are subject to the industry’s business cycles, the timing, duration and volatility of which are difficult to predict. The semiconductor industry has historically been cyclical. Sales of our photolithography systems depend in large part upon the level of capital expenditures by semiconductor manufacturers. These capital expenditures depend upon a range of competitive and market factors, including:

- the current and anticipated market demand for semiconductors and for products utilizing semiconductors;
- semiconductor prices;
- semiconductor production costs;
- general economic conditions; and
- access to capital.

Future reductions or delays in capital equipment purchases by our customers could have a material adverse effect on our business, financial condition and results of operations.

In an industry downturn, including the downturn associated with the current global financial market crisis, our ability to maintain profitability will depend substantially on whether we are able to lower our costs and break-even level, which is the level of sales

that we must reach in a year to achieve net income. If sales levels decrease significantly as a result of an industry downturn and we are unable to adjust our cost over the same period, our net income may decline significantly or we may suffer losses. As we need to keep certain levels of inventory on hand to meet anticipated product demand, we also incur increased costs related to inventory obsolescence in an industry downturn. In addition, industry downturns generally result in overcapacity, resulting in downward pressure on prices and impairment of machinery and equipment, which in the past has had, and in the future could have, a material adverse effect on our business, financial condition and results of operations. Moreover, the current financial crisis affecting the banking system and global financial markets is in many respects unprecedented in the history of our Company. There could be a number of follow-on effects from the financial crisis on our business, including declining business and consumer confidence resulting in reduced, delayed or shorter-term capital expenditures on our products; insolvency of key suppliers resulting in product delays; the inability of customers to obtain credit to finance purchases of our products, delayed payments from our customers and/or customer insolvencies; and other adverse effects that neither we, nor industry analysts generally, can currently anticipate. If global economic and market conditions remain uncertain or deteriorate further, we are likely to experience continuing material adverse impacts on our business, financial condition and results of operations.

Conversely, in anticipation of periods of increasing demand for semiconductor manufacturing equipment, we must maintain sufficient manufacturing capacity and inventory, and we must attract, hire, integrate and retain a sufficient number of qualified employees to meet customer demand. Our ability to predict the timing and magnitude of industry fluctuations is limited and our products require significant lead time to complete. Accordingly, we may not be able to effectively increase our production capacity to respond to an increase in customer demand in an industry upturn resulting in lost revenues and damage to customer relationships.

Our Business Will Suffer If We Do Not Respond Rapidly to Commercial and Technological Changes in the Semiconductor Industry

The semiconductor manufacturing industry is subject to:

- rapid change towards more complex technologies;
- frequent new product introductions and enhancements;
- evolving industry standards;
- changes in customer requirements; and
- continued shortening of product life cycles.

Our products could become obsolete sooner than anticipated because of a faster than anticipated change in one or more of the technologies related to our products or in market demand for products based on a particular technology. Our success in developing new products and in enhancing our existing products depends on a variety of factors, including the successful management of our research and development programs and timely completion of product development and design relative to competitors. If we do not develop and introduce new and enhanced systems at competitive prices and on a timely basis, our customers will not integrate our systems into the planning and design of new fabrication facilities and upgrades of existing facilities, which would have a material adverse effect on our business, financial condition and results of operations.

In addition, we are investing considerable financial and other resources to develop and introduce new products and product enhancements, such as Extreme Ultraviolet lithography (“EUV”), that our customers may not ultimately adopt. If our customers do not adopt these new technologies, products or product enhancements that we develop due to a preference for more established or alternative new technologies and products or for other reasons, we would not recoup any return on our investments in these technologies or products, which may result in charges to our consolidated statements of operations and have a materially adverse effect on the future growth of the Company.

We Face Intense Competition

The semiconductor equipment industry is highly competitive. The principal elements of competition in our market segments are:

- the technical performance characteristics of a photolithography system;
- the value of ownership of that system based on its purchase price, maintenance costs, productivity and customer service and support;
- the strength and breadth of our portfolio of patents and other intellectual property rights; and
- our customers’ desire to obtain lithography equipment from more than one supplier.

Our competitiveness increasingly depends upon our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis, as well as our ability to protect and defend our intellectual property rights. See Item 4.B. “Business Overview, Intellectual Property” and Note 18 to our consolidated financial statements.

ASML’s primary competitors are Nikon Corporation (“Nikon”) and Canon Kabushika Kaisha (“Canon”). Nikon and Canon are important suppliers in Japan, which accounts for a significant portion of worldwide semiconductor production. This region historically has been difficult for non-Japanese companies to penetrate.

Both Nikon and Canon have substantial financial resources and broad patent portfolios. Each continues to introduce new products with improved price and performance characteristics that compete directly with our products, and may cause a decline in our sales or loss of market acceptance for our photolithography systems. In addition, adverse market conditions, industry overcapacity or a further decrease in the value of the Japanese yen in relation to the euro or the U.S. dollar could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations.

Risks Related to ASML

The Number of Systems We Can Produce Is Limited by Our Dependence on a Limited Number of Suppliers of Key Components

We rely on outside vendors for the components and subassemblies used in our systems, each of which is obtained from a single supplier or a limited number of suppliers. Our reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and the risk of untimely delivery of these components and subassemblies.

The number of photolithography systems we are able to produce is limited by the production capacity of Carl Zeiss SMT AG (“Zeiss”). Zeiss is our single supplier of lenses and other critical optical components. If Zeiss were unable to maintain and increase production levels or if we are unable to maintain our business relationship with Zeiss in the future we could be unable to fulfill orders, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations. If Zeiss were to terminate its relationship with us or if Zeiss were unable to maintain production of lenses over a prolonged period, we would effectively cease to be able to conduct our business. See Item 4.B. “Business Overview, Manufacturing, Logistics and Suppliers”.

In addition to Zeiss’ current position as our single supplier of lenses, the excimer laser illumination systems that provide the ultraviolet light source, referred to as “deep UV”, used in our high resolution steppers and Step & Scan systems are available from only a limited number of suppliers. In particular, we rely both on Cymer, Inc., a United States based company, and Gigaphoton, Inc., a Japanese based company, to provide excimer laser illumination systems.

Although the timeliness, yield and quality of deliveries to date from our other subcontractors generally have been satisfactory, manufacturing of certain of these components and subassemblies that we use in our manufacturing processes is an extremely complex process and delays caused by suppliers may occur in the future. A prolonged inability to obtain adequate deliveries of components or subassemblies, or any other circumstance that requires us to seek alternative sources of supply, could significantly hinder our ability to deliver our products in a timely manner, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations.

A High Percentage of Net Sales Is Derived from a Few Customers

Historically, we have sold a substantial number of lithography systems to a limited number of customers. While the identity of our largest customers may vary from year to year, we expect sales to remain concentrated among relatively few customers in any particular year. In 2008, sales to our largest customer accounted for EUR 754 million, or 25.5 percent of net sales, compared to EUR 818 million, or 21.7 percent of net sales, in 2007. The loss of any significant customer or any significant reduction in orders by a significant customer may have a material adverse effect on our business, financial condition and results of operations.

Additionally, as a result of the limited number of our customers, credit risk on our receivables is concentrated. Our three largest customers accounted for 42.2 percent of accounts receivable at December 31, 2008, compared to 40.1 percent at December 31, 2007. As a result, business failure or insolvency of one of our main customers may have a material adverse effect on our business, financial condition and results of operations.

We Derive Most of Our Revenues from the Sale of a Relatively Small Number of Products

We derive most of our revenues from the sale of a relatively small number of lithography equipment systems (151 units in 2008; 260 units in 2007), with an average selling price (“ASP”) in 2008 of EUR 16.7 million (EUR 20.4 million for new systems and EUR 4.8 million for used systems) and an ASP in 2007 of EUR 12.9 million (EUR 13.8 million for new systems and EUR 3.9 million for used systems). As a result, the timing of recognition of revenue from a small number of product sales may have a significant impact on our net sales and operating results for a particular reporting period. Specifically, the failure to receive anticipated orders, or delays in shipments near the end of a particular reporting period, due, for example, to:

- a downturn in the highly cyclical semiconductor industry;
- unanticipated shipment rescheduling;
- cancellation or order push-back by customers;
- unexpected manufacturing difficulties; and
- delays in deliveries by suppliers,

may cause net sales in a particular reporting period to fall significantly below net sales in previous periods or our expected net sales, and may have a material adverse effect on our operating results for that period.

In particular our published quarterly earnings may vary significantly from quarter to quarter and may vary in the future for the reasons discussed above.

The Pace of Introduction of Our New Products Is Accelerating and Is Accompanied by Potential Design and Production Delays and by Significant Costs

The development and initial production, installation and enhancement of the systems we produce is often accompanied by design and production delays and related costs of a nature typically associated with the introduction and transition to full-scale manufacturing of complex capital equipment. While we expect and plan for a corresponding learning curve effect in our product development cycle, we cannot predict with precision the time and expense required to overcome these initial problems and to ensure full performance to specifications. There is a risk that we may not be able to introduce or bring to full-scale production new products as quickly as we expected in our product introduction plans, which could have a material adverse effect on our business, financial condition and results of operations.

In order for the market to accept technology enhancements, our customers, in many cases, must upgrade their existing technology capabilities. Such upgrades from established technology may not be available to our customers to enable volume production using our new technology enhancements. This could result in our customers not purchasing, or pushing back or cancelling orders for our technology enhancements, which could negatively impact our business, financial condition and results of operations.

Failure to Adequately Protect the Intellectual Property Rights Upon Which We Depend Could Harm Our Business

We rely on intellectual property rights such as patents, copyrights and trade secrets to protect our proprietary technology. However, we face the risk that such measures could prove to be inadequate because:

- intellectual property laws may not sufficiently support our proprietary rights or may change in the future in a manner adverse to us;
- patent rights may not be granted or construed as we expect;
- patents will expire which may result in key technology becoming widely available which may hurt our competitive position;
- the steps we take to prevent misappropriation or infringement of our proprietary rights may not be successful; and
- third parties may be able to develop or obtain patents for similar competing technology.

In addition, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation may result in substantial costs and diversion of resources, and, if decided unfavorably to us, could have a material adverse effect on our business, financial condition and results of operations.

Defending Against Intellectual Property Claims Brought by Others Could Harm Our Business

In the course of our business, we are subject to claims by third parties alleging that our products or processes infringe upon their intellectual property rights. If successful, such claims could limit or prohibit us from developing our technology and manufacturing our products, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, our customers may be subject to claims of infringement from third parties, alleging that our products used by such customers in the manufacture of semiconductor products and/or the processes relating to the use of our products infringe one or more patents issued to such parties. If such claims were successful, we could be required to indemnify customers for some or all of any losses incurred or damages assessed against them as a result of such infringement, which could have a material adverse effect on our business, financial condition and results of operations.

We may also incur substantial licensing or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims brought by others, which may have a material adverse effect on our business, financial condition and results of operations.

We Are Subject to Risks in Our International Operations

The majority of our sales are made to customers outside Europe. There are a number of risks inherent in doing business in some of those regions, including the following:

- potentially adverse tax consequences;
- unfavorable political or economic environments;
- unexpected legal or regulatory changes; and
- an inability to effectively protect intellectual property.

If we are unable to manage successfully the risks inherent in our international activities, our business, financial condition and results of operations could be materially and adversely affected.

In particular, approximately 12.2 percent of our 2008 revenues and approximately 21.1 percent of our 2007 revenues were derived from customers in Taiwan. Taiwan has a unique international political status. The People's Republic of China asserts sovereignty over Taiwan and does not recognize the legitimacy of the Taiwan government. Changes in relations between Taiwan and the People's Republic of China, Taiwanese government policies and other factors affecting Taiwan's political, economic or social environment could have a material adverse effect on our business, financial condition and results of operations.

We Are Dependent on the Continued Operation of a Limited Number of Manufacturing Facilities

All of our manufacturing activities, including subassembly, final assembly and system testing, take place in one clean room facility located in Veldhoven, the Netherlands, and one clean room facility in Wilton, Connecticut, the United States. These facilities are subject to disruption for a variety of reasons, including work stoppages, fire, energy shortages, flooding or other natural disasters. We cannot ensure that alternative production capacity would be available if a major disruption were to occur or that, if it were available, it could be obtained on favorable terms. Such a disruption could have a material adverse effect on our business, financial condition and results of operations.

Because of Labor Laws and Practices, Any Work force Reductions That We May Wish to Implement in Order to Reduce Costs Company-Wide May Be Delayed or Suspended

The semiconductor market is highly cyclical and as a consequence we may need to implement work force reductions in case of a downturn, in order to adapt to such market changes. In accordance with labor laws and practices applicable in the jurisdictions in which we operate, a reduction of any significance may be subject to certain formal procedures, which can delay, or may result in the modification of our planned work force reductions. For example, in the Netherlands, if our Works Council renders adverse advice in connection with a proposed work force reduction in the Netherlands, but we nonetheless determine to proceed, we must temporarily suspend any action while the Works Council determines whether to appeal to the Enterprise Chamber of the Amsterdam Court of Appeal. This appeal process can cause a delay of several months and may require us to address any procedural inadequacies identified by the Court in the way we reached our decision. Such delays could impair our ability to reduce costs company-wide to levels comparable to those of our competitors. See Item 6.D. "Employees".

Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations

We are exposed to currency risks. We are particularly exposed to fluctuations in the exchange rates between the U.S. dollar, Japanese yen and the euro as we incur manufacturing costs and price our systems predominantly in euro while a portion of our net sales and cost of sales is denominated in U.S. dollars and Japanese yen.

In addition, a substantial portion of our assets and liabilities and operating results are denominated in U.S. dollars, and a small portion of our assets, liabilities and operating results are denominated in currencies other than the euro and the U.S. dollar. Our consolidated financial statements are expressed in euro. Accordingly, our results of operations and assets and liabilities are exposed to fluctuations in various exchange rates.

Furthermore, a strengthening of the euro particularly against the Japanese yen could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations.

Also see Item 5.A. "Operating Results, Foreign Exchange Management", Item 5.F. "Tabular Disclosure of Contractual Obligations", Item 11 "Quantitative and Qualitative Disclosures About Market Risk" and Note 4 to our consolidated financial statements.

We May Be Unable to Make Desirable Acquisitions or to Integrate Successfully Any Businesses We Acquire

Our future success may depend in part on the acquisition of businesses or technologies intended to complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. Our ability to complete such transactions may be hindered by a number of factors, including potential difficulties in obtaining government approvals.

Any acquisition that we do make would pose risks related to the integration of the new business or technology with our business. We cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our staff from monitoring and improving operations in our existing business. Our business, financial condition and results of operations may be materially and adversely affected if we fail to coordinate our resources effectively to manage both our existing operations and any businesses we acquire.

Our Business and Future Success Depend on Our Ability to Attract and Retain a Sufficient Number of Adequately Educated and Skilled Employees

Our business and future success significantly depends upon our employees, including a large number of highly qualified professionals, as well as our ability to attract and retain employees. Competition for such personnel is intense, and we may not be able to continue to attract and retain such personnel, which could adversely affect our business, financial condition and results of operations.

In addition, the increasing complexity of our products results in a longer learning curve for new and existing employees leading to an inability to decrease cycle times and incurring significant additional costs, which could adversely affect our business, financial condition and results of operations.

Risks Related to Our Ordinary Shares

The Price of Our Ordinary Shares is Volatile

The current market price of our ordinary shares may not be indicative of prices that will prevail in the future. In particular, the market price of our ordinary shares has in the past experienced significant fluctuation, including fluctuation that is unrelated to our performance. This fluctuation may continue in the future.

Restrictions on Shareholder Rights May Dilute Voting Power

Our Articles of Association provide that we are subject to the provisions of Netherlands law applicable to large corporations, called “structuurregime”. These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of our Supervisory Board. As a result, holders of ordinary shares may have more difficulty in protecting their interests in the face of actions by members of our Supervisory Board than if we were incorporated in the United States or another jurisdiction.

Our authorized share capital also includes a class of cumulative preference shares and ASML has granted “Stichting Preferente Aandelen ASML”, a Netherlands foundation, an option to acquire, at their nominal value of EUR 0.02 per share, such cumulative preference shares. Exercise of the cumulative preference share option would effectively dilute the voting power of our outstanding ordinary shares by one-half, which may discourage or significantly impede a third party from acquiring a majority of our voting shares.

See further Item 6.C. “Board Practices” and Item 10.B. “Memorandum and Articles of Association”.

Item 4 Information on the Company

A. History and Development of the Company

We commenced business operations in 1984. ASM Lithography Holding N.V. was incorporated in the Netherlands on October 3, 1994 to serve as the holding company for our worldwide operations, which include operating subsidiaries in the Netherlands, the United States, Italy, France, Germany, the United Kingdom, Ireland, Belgium, Korea, Taiwan, Singapore, China (including Hong Kong), Japan, Malaysia and Israel. In 2001, we changed our name from ASM Lithography Holding N.V. to ASML Holding N.V. Our registered office is located at De Run 6501, 5504 DR Veldhoven, the Netherlands, telephone +31 40 268 3000.

In May 2001, we merged with Silicon Valley group (SVG) (now part of ASML US, Inc.), a company that was active in Lithography, as well as in the Track and Thermal businesses, which we subsequently divested or discontinued.

From time to time, ASML pursues acquisitions of smaller businesses that it believes will complement or enhance ASML’s core lithography business. Acquisitions have included the acquisition of MaskTools in July 1999 and the acquisition of Brion Technologies, Inc. (“Brion”) in March 2007. See Item 4.B. “Business Overview, Market and Technology Overview”.

Significant Effects of the Current Global Financial Market Crisis and Economic Downturn on ASML

As a result of the sharp decreases in demand in the fourth quarter of 2008 and in anticipated demand in 2009 caused by the current global financial market crisis and economic downturn, ASML has recognized impairment charges of EUR 20.8 million on property, plant and equipment and inventory obsolescence charges of EUR 94.6 million.

In order to lower its cost and break-even level, ASML announced in December 2008 a reduction in work force of approximately 1,000 employees or 12 percent of the total work force, mainly contract employees. ASML also announced the shutdown of its production facilities for two weeks in the fourth quarter of 2008 and four weeks in the first half of 2009. Furthermore, ASML announced a restructuring that resulted in the discontinuation of its training center in the United States, the downsizing of its United States headquarters and the closure of several other service locations, reflecting the continuing migration of semiconductor

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manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The restructuring resulted in the recognition of a provision for employee contract termination benefits of EUR 2.4 million, reflecting the elimination of approximately 90 jobs in the United States and approximately 15 jobs at service locations in other parts of the world. As part of this restructuring, ASML ceased the use of its training facility in Tempe, United States, incurring lease contract termination costs of EUR 20.0 million in 2008.

As a result of the actions taken to respond to the current global financial market crisis and economic downturn the following charges have been recognized in ASML's consolidated statements of operations in 2008:

(in thousands)	2008 EUR
Restructuring costs	22,397
Inventory obsolescence	94,601
Impairments of property, plant and equipment	20,839
Total	137,837

These costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR	Inventory obsolescence EUR	Impairment of property, plant and equipment EUR	Total EUR
Cost of sales	21,492	94,601	20,111	136,204
Research and development costs	–	–	728	728
Selling, general and administrative costs	905	–	–	905
Total	22,397	94,601	20,839	137,837

Notwithstanding the restructuring, ASML intends to maintain its key research and development programs for the development of next generation lithography systems. Furthermore, ASML will maintain a level of production capacity to be able to ramp up production to meet customer requirements without lengthy lead times as demand picks up in the future.

Capital Expenditures and Divestitures

Our capital expenditures for 2008, 2007 and 2006 amounted to EUR 322.0 million, EUR 232.2 million and EUR 99.4 million, respectively. The related cash outflows for 2008, 2007 and 2006 amounted to EUR 259.8 million, EUR 179.2 million and EUR 70.7 million, respectively. Our capital expenditures in these years generally related to the construction of new facilities in Veldhoven for our latest technologies such as EUV and double patterning and in Taiwan for our Asian Center of Excellence, purchases of machinery and equipment mainly from our own product portfolio (e.g. prototypes, demonstration and training systems), information technology investments, and leasehold improvements to our facilities. See Item 4.D. "Property, Plant and Equipment" for capital expenditures currently in progress.

Divestitures within continued operations, principally comprising machinery and equipment (more specifically prototypes, demonstration and training systems), amounted to EUR 32.0 million for 2008, EUR 20.4 million for 2007 and EUR 5.6 million for 2006. See Note 12 to our consolidated financial statements.

B. Business Overview

We are one of the world's leading providers of advanced technology systems for the semiconductor industry. We offer an integrated portfolio of lithography systems mainly for manufacturing complex integrated circuits ("semiconductors", "ICs" or "chips"). We supply lithography systems to IC manufacturers throughout the United States, Asia and Europe and also provide our customers with a full range of support services from advanced process and product applications knowledge to complete round-the-clock service support.

Our Business Model

Our business model is derived from our "Value of Ownership" concept which is based on the following principles:

offering ongoing improvements in productivity, imaging and overlay by introducing advanced technology based on modular platforms resulting in lower costs per product for our customers;

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providing customer services that ensure rapid, efficient installation and superior on-site support and training to optimize manufacturing processes of our customers and improve productivity;

maintaining appropriate levels of research and development to offer the most advanced technology suitable for high-throughput and low-cost volume production at the earliest possible date;

enhancing the capabilities of the installed base of our customers through ongoing field upgrades of key value drivers (productivity, imaging and overlay) based on further technology developments;

reducing the cycle time between a customer's order of a system and the use of that system in volume production on-site;

expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world-class partners, including outsourcing companies;

improving the reliability and uptime of our installed system base; and

providing re-furbishing services that effectively increase residual value by extending the life of equipment.

Market and Technology Overview

Chipmaking is all about "shrink" or reducing the size of chips designs. The worldwide electronics and computer industries have experienced significant growth since the commercialization of ICs in the 1960's, largely due to the continual reduction in the cost per function performed by ICs. Improvement in the design and manufacture of ICs with higher circuit or "packing" densities has resulted in smaller and lower cost ICs capable of performing a greater number of functions at faster speeds and with reduced power consumption. Despite the current global financial market crisis and economic downturn, we believe that these long-term trends will continue for the foreseeable future and will be accompanied by a continuing demand, subject to ongoing cyclical variation, for production equipment that can accurately produce advanced ICs in high volumes at the lowest possible cost. Photolithography is used to print complex circuit patterns onto the wafers that are the primary raw material for ICs and is one of the most critical and expensive steps in their fabrication. It is therefore a significant focus of the IC industry's demand for cost-efficient enhancements to production technology.

We primarily design, manufacture, market and service semiconductor processing equipment used in the fabrication of ICs. Our photolithography equipment includes Step & Scan systems, which combine stepper technology with a photo-scanning method.

Our TWINSCAN product platform was introduced in July 2000 and applies the production-proven elements of our PAS 5500 product family to the industry shift toward larger (300 millimeter ("mm")) wafers. In 2003, the TWINSCAN platform became the vehicle to introduce improved resolution products both for 300 mm and 200 mm wafer size factories. Our PAS 5500 product family, which supports a maximum wafer size of 200 mm in diameter, comprises advanced wafer steppers and Step & Scan systems suitable for i-line and deep UV (including 248 nanometer ("nm") and 193 nm wavelengths) processing of wafers. In the fourth quarter of 2008, we shipped our 806th TWINSCAN system, demonstrating the acceptance of the TWINSCAN platform as the semiconductor industry's standard for 300 mm lithography. In the third quarter of 2008, we shipped the first XT:1000, featuring a new 0.93 NA projection lens capable of extending imaging at the wavelength of 248 nm down to 80 nm. Further we announced plans to start shipment in 2009 of an enhanced ArF immersion system, XT:1950i, extending the performance, imaging and overlay performance of the successful XT:1900i system.

In 2005, we intensified our research and development in immersion lithography as we believed this was the most probable solution to reduce the manufacturing cost per wafer while increasing resolution. In 2008 we shipped 56 immersion systems compared to 38 in 2007 and 23 in 2006. In October 2008, we announced an enhanced version of the TWINSCAN platform called NXT which features new planar wafer stage technology and grid plate position control systems to address market requirements for increased productivity and tighter overlay control especially for Double Patterning approaches. Initial shipments of NXT are scheduled for 2009.

In 2006, we shipped the industry's first EUV Alpha Demo Tools to two research institutions, which work closely with most of the world's major IC manufacturers in developing manufacturing processes and materials. EUV combines a wavelength of 13.5 nm and a lens system with a numerical aperture ("NA") of 0.25 to provide imaging at a resolution of 27 nm. EUV will provide a large process window compared to current approaches and we expect it to be a multi-generation lithography solution. Through the end of 2008, ASML has received five orders for next generation EUV systems, the first of which is scheduled for shipment in 2010. The EUV platform is targeted for production of ICs down to 22 nm and beyond. In 2008, we continued to increase resources significantly to support the development of this product.

A mask is a flat, transparent quartz plate containing an opaque microscopic pattern: an image of the electronic circuitry for one layer of a chip. The mask is placed in a scanner where intense light passing through it projects the pattern, via a series of reducing lenses, onto part of the wafer. Before exposure, the wafer is coated with photoresist and positioned very accurately - the projected pattern must align with existing features on the chip/wafer. After exposure and developing, the pattern left on the wafer surface is used to selectively process and build up the next layer.

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The acquisition of Brion in 2007 enabled ASML to improve the implementation of optical proximity correction (“OPC”) technology and resolution enhancement techniques such as Double Patterning and Source-Mask Optimization for masks used on ASML systems and otherwise. These improvements in turn are expected to extend the practical resolution limits of ASML ArF immersion products. We also expect Brion’s computational lithography capability will enable us to offer products that further improve the set-up and control of ASML lithography systems.

In 2008, we discontinued research into optical maskless lithography due to the reduced market opportunity for this technology. This discontinuation did not result in any impairments during 2008. Research studies on alternative technologies continue for both mask-based and maskless lithography.

Products

We develop lithography systems and related products for the semiconductor industry and related patterning applications. Our product development strategy focuses on the development of product families based on a modular, upgradeable design.

Our older PAS 2500 and PAS 5000 lithography systems, which we no longer manufacture but refurbish, are used for g-line and i-line processing of wafers up to 150 mm in diameter and are employed in manufacturing environments and in special applications for which design resolutions no more precise than 0.5 microns are required.

Our PAS 5500 product family comprises advanced wafer steppers and Step & Scan systems suitable for i-line and deep Ultra Violet (“UV”) processing of wafers up to 200 mm in diameter. In mid-1997, we introduced the PAS 5500 Step & Scan systems with improved resolution and overlay. Since then, we have further developed and expanded this Step & Scan product family. This modular upgradeable design philosophy has been further refined and applied in the design of our most advanced product family, the TWINSCAN platform, which is the basis for our current and next generation Step & Scan systems, producing wafers up to 300 mm in diameter and capable of extending shrink technology down to 38 nm.

The PAS 5500 series is the most suitable product range for processing of 200 mm wafers using step-and-scan technology. We offer PAS 5500 systems based on i-line (using light with a 365 nm wavelength), KrF (using light with a 248 nm wavelength) and ArF (using light with a 193 nm wavelength) technology. For high end 200 mm applications we also offer TWINSCAN ArF tools.

Management believes that the current global financial market crisis and economic downturn will accelerate the process of the PAS systems becoming technical obsolete. Reference is made to Note 2, Note 8 and Note 12 to the consolidated financial statements.

We are the leader in the innovation of immersion technologies and we were the world’s first producer of dual-stage design (TWINSCAN) systems. Wafer measurement, including focus and alignment, is completed on the dry stage, while the imaging process, using water applied between the wafer and the lens, is completed on the wet stage. The dual-stage advantage of TWINSCAN systems enables our customers to gain the process enhancements of immersion and to continue with familiar and proven metrology technology.

For processing of 300 mm wafers, we offer TWINSCAN systems based on i-line, KrF and ArF technology. In 2003, we introduced the second generation of TWINSCAN systems based on the XT body with a reduced footprint and a 50 percent reduction in the main production area occupied by our system. In 2004, we shipped our first lithography systems based on immersion technology. These shipments marked the delivery of the industry’s first high productivity immersion scanners for mainstream production.

In the second quarter of 2006, we started volume production of the TWINSCAN XT:1700i, a 193 nm immersion scanner capable of imaging at the 45 nm node in volume production environments. This system featured an NA of 1.2, substantially higher than the XT:1400’s NA of 0.93, exceeding the non-immersion barrier of 1.0, which is enabled by a new catadioptric lens design. The XT:1700i has enabled chipmakers to improve resolution by 30 percent and has been employed in the development and manufacturing of the latest advanced generation of ICs.

In the third quarter of 2007, ASML began volume shipment of the XT:1900i, with a new industry benchmark of 1.35 NA, which is close to the practical limit for water-based immersion technology. This new optical lithography system is capable of volume production of ICs down to 40 nm and below and is used for high volume IC manufacturing at multiple customers world-wide. In 2008 we shipped 53 XT:1900i systems. In July 2008, ASML announced an enhanced version of the XT:1900i system, the XT:1950i, with improved throughput of 148 wafers per hour, resolution of 38 nm and overlay of 4 nm scheduled to start shipment in 2009. In October 2008, we also announced an improved version of the successful TWINSCAN platform called NXT featuring new stage and position control technology to enable increased productivity and overlay performance for immersion. Initial shipments of NXT are targeted for 2009 with volume production expected in 2010.

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In the third quarter of 2008, ASML commenced shipment of the XT:1000, which uses the new catadioptric lens technology developed for the XT:1700i and XT:1900i to extend the maximum NA of the previous generation of 248 nm wavelength, KrF, systems to 0.93 NA from the previous maximum available of 0.80 NA. The XT:1000's high NA of 0.93 can resolve 80 nm device features, far smaller than the 100 nm of today's KrF systems. The XT:1000 also improves value to customers, with an increased throughput of 165 300 mm wafers per hour under volume manufacturing conditions while maintaining the same industry-leading 6 nm overlay as leading-edge ArF systems.

We also continuously develop and sell a range of product options and enhancements designed to increase productivity, imaging and overlay to optimize value of ownership over the entire life of our systems. The table below sets forth our current product portfolio of Steppers and Scan & Step Systems by resolution and wavelength.

Current ASML lithography product portfolio of Steppers and Step & Scan Systems¹

	Resolution	Wavelength	Lightsource	Numerical aperture
PAS 5500 SYSTEMS				
PAS 5500/4X0	280 nm	365 nm	i-line	0.48-0.65
PAS 5500/750	130 nm	248 nm	KrF	0.50-0.70
PAS 5500/850	110 nm	248 nm	KrF	0.55-0.80
PAS 5500/1150	90 nm	193 nm	ArF	0.50-0.75
TWINSCAN SYSTEMS				
TWINSCAN XT:400	350 nm	365 nm	i-line	0.48-0.65
TWINSCAN XT:450	220 nm	365 nm	i-line	0.48-0.65
TWINSCAN XT:8X0	110 nm	248 nm	KrF	0.55-0.80
TWINSCAN XT:875	90 nm	248 nm	KrF	0.55-0.80
TWINSCAN XT:1000	80 nm	248 nm	KrF	0.50-0.93
TWINSCAN XT:1450	57 nm	193 nm	ArF	0.65-0.93
TWINSCAN XT:1700 immersion	45 nm	193 nm	ArF	0.75-1.20
TWINSCAN XT:1900 immersion	40 nm	193 nm	ArF	0.85-1.35
TWINSCAN XT:1950 immersion	38 nm	193 nm	ArF	0.85-1.35
TWINSCAN NXT:1950 immersion	38 nm	193 nm	ArF	0.85-1.35

¹ This table does not include the older (including pre-used) products sold on the PAS 2500, PAS 5000 and PAS 5500 platforms

- XT is a TWINSCAN system for 200mm and 300mm wafer sizes;
- Wavelength refers to the speed of light divided by the frequency of light going through projection lenses; the shorter the wavelength, the smaller the line width and the finer the pattern on the IC;
- 1 nanometer is equal to one billionth of a meter;
- The X in the number represents different models in the product portfolio within the same resolution. For example XT:8X0 can either represent XT:800 or XT:850;
- NXT is an improved version of the current TWINSCAN system, introducing new stages and stage position control technology, which enable higher productivity and improved overlay.

Sales and Customer Support

We market and sell our products principally through our direct sales staff.

We support our customers with a broad range of applications, services, and technical support products to maintain and maximize the performance of our systems at customer sites. We also offer refurbished and remanufactured tools, system upgrades and enhancements, and technical training.

Our field engineers and applications, service and technical support specialists are located throughout the United States, Europe and Asia.

In 2006, ASML started an initiative to establish the ASML Center of Excellence ("ACE") in Asia. The primary goal of ACE is to serve as a supplementary engine to propel ASML's long-term growth. ACE will feature customer support, training, logistics, refurbishment, technology and application development. ACE will also enable sourcing of selected equipment modules, components and services in the region. Finally, ACE will be used as a training center to develop worldwide talent for ASML's work force. In the fourth quarter of 2008, we completed construction of the building and facility that will house ACE near Taipei, Taiwan and the ACE organization moved into the new building. See Item 4.D. "Property, Plant and Equipment".

Customers and Geographic Regions

In 2008, sales to our largest customer accounted for EUR 754 million, or 25.5 percent of net sales, compared to EUR 818 million, or 21.7 percent of net sales, in 2007. We expect that sales to relatively few customers will continue to account for a high percentage of our net sales in any particular period for the foreseeable future. See Item 3.D. "Risk Factors – A High Percentage

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of Net Sales Is Derived from a Few Customers” and Note 20 to our consolidated financial statements for a breakdown of our sales by geographic location. In 2008 we derived 68.8 percent of net sales from Asia, 21.7 percent from the United States and 9.5 percent from Europe. In general, since ASML’s founding in 1984 sales derived from Asia have increased and sales derived from United States and Europe have decreased. Management believes that this trend will be accelerated by the current financial market crisis and economic downturn. Reference is made to Note 20 to the consolidated financial statements.

Manufacturing, Logistics and Suppliers

Our business model is based on outsourcing production of a significant part of the components and modules that comprise our lithography systems, working in partnership with suppliers from all over the world. Our manufacturing activities comprise the assembly, fine tuning and testing of a finished system from components and subassemblies that are manufactured to our specifications by third parties and by us, and which we test prior to assembly. All of our manufacturing activities (subassembly, final assembly and system testing) are performed in one clean room facility located in Veldhoven, the Netherlands, and one clean room facility in Wilton, Connecticut, United States. We procure stepper and scanner system components and subassemblies from a single supplier or a limited group of suppliers in order to ensure overall quality and timeliness of delivery. We jointly operate a formal strategy with suppliers known as “value sourcing” which is based on competitive performance in quality, logistics, technology and total cost. The essence of value sourcing is to maintain a supply base that is world class, globally competitive and globally present.

Our value sourcing strategy is based on the following strategic principles:

- maintaining long-term relationships with our suppliers;
- sharing risks and rewards with our suppliers;
- dual sourcing of knowledge, globally, together with our suppliers; and
- single, dual or multiple sourcing of products, where possible or required.

Value sourcing is intended to align the performance of our suppliers with our requirements on quality, logistics, technology and total costs.

Zeiss is our sole external supplier of main optical systems and one of the suppliers of other components. In 2008, approximately 32 percent of our aggregate cost of sales was purchased from Zeiss.

Zeiss is highly dependent on its manufacturing and testing facilities in Oberkochen and Wetzlar, Germany, and its suppliers. Moreover, Zeiss has a finite production capacity for production of lenses and optical components for our stepper and scanner systems. The expansion of this production capacity may require significant lead time. From time to time, the number of systems we have been able to produce has been limited by the capacity of Zeiss to provide us with lenses and optical components. During 2008, our sales were not limited by the deliveries from Zeiss.

If Zeiss is unable to maintain or increase production levels, we might not be able to respond to customer demand. As a result, our relationships with current and prospective customers could be harmed, which would have a material adverse effect on our business, financial condition and results of operations.

Our relationship with Zeiss is structured as a strategic alliance pursuant to several agreements executed in 1997 and later years. These agreements define a framework for cooperation in all areas of our joint business. The partnership between ASML and Zeiss is focused on continuous improvement of operational excellence.

Pursuant to these agreements, ASML and Zeiss will continue their strategic alliance until either party provides at least three years’ notice of its intent to terminate. Although we believe such an outcome is unlikely, if Zeiss were to terminate its relationship with us, or if Zeiss were unable to produce lenses and optical components over a prolonged period, we would effectively cease to be able to conduct our business.

In addition to Zeiss, we also rely on other outside vendors for the components and subassemblies used in our systems, each of which is obtained from a single supplier or a limited number of suppliers. Our reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and the risk of untimely delivery of these components and subassemblies.

See Item 3.D. “Risk Factors, The Number of Systems We Can Produce Is Limited by Our Dependence on a Limited Number of Suppliers of Key Components”.

Research and Development

The semiconductor manufacturing industry is subject to rapid technological changes and new product introductions and enhancements. We believe that continued and timely development and introduction of new and enhanced systems are essential

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for us to maintain our competitive position. As a result, we have historically devoted a significant portion of our financial resources to research and development programs and we expect to continue to allocate significant resources to these efforts. In addition, we have established and are currently establishing sophisticated development centers in the Netherlands, the United States and Taiwan. We also work jointly with independent research centers in nanoelectronics and nanotechnology. Those research centers focus on the next generations of chips and systems.

We apply for subsidy payments in connection with specific development projects under programs sponsored by the Netherlands government, the European Union, the United States government and the Taiwanese government. Amounts received under these programs generally are not required to be repaid. See our discussions of research and development in Item 5. "Operating and Financial Review and Prospects", and Note 1 to our consolidated financial statements.

We invested EUR 538 million in research and development in continuing operations in 2008, compared to EUR 511 million in 2007 and EUR 414 million in 2006. In addition, the research and development costs invested in 2007 include a one-off charge related to the Brion acquisition of EUR 23 million (amortization of in-process research and development). We are also involved in joint research and development programs with both public and private partnerships and consortiums, involving independent research centers, leading chip manufacturers and governmental programs. We aim to own or license our jointly developed technology and designs of critical components.

In 2008, our research and development efforts drove further development of the TWINSCAN platform along with several leading-edge technologies, including 248 nm, 193 nm, immersion and EUV. The continuous drive by our customers for cost reductions has led us to increase significantly the commonality of components of the different models of the TWINSCAN platform. Our research and development activities in 2008 have also led to productivity and performance enhancements for our other product families. We continue to develop technology to support applications of "double patterning". Double patterning is a resolution enhancement technique that involves splitting a dense circuit pattern into multiple, less-dense patterns. These simplified patterns are then printed sequentially on a target wafer. Between exposures, the wafer is removed from the exposure system for additional processing. Double patterning improves the achievable resolution and enables the printing of smaller features.

Next to the development of the TWINSCAN platform, we put more and more resources to the development of EUV technology. This technology promises a means for cost effective extendibility of our customers' roadmaps. An important milestone was that in 2008 both EUV Alpha Demo Tools (ADT) have passed site acceptance testing. Our key customers now have direct access to EUV technology, which we expect will result in the acceptance of this technology as well as driving the development of EUV infrastructure, including mask fabrication and processes.

Intellectual Property

We rely on intellectual property rights such as patents, copyrights and trade secrets to protect our proprietary technology. We aim to obtain ownership rights on technology developed by or for us or, alternatively, to have license rights in place with respect to such technology. However, we face the risk that such measures will be inadequate. Intellectual property laws may not sufficiently support our proprietary rights, our patent applications may not be granted and our patents may not be construed as we expect. Furthermore, competitors may be able to develop or protect similar technology earlier and independently.

Litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of management resources, and, if decided unfavorably to us, could have a material adverse effect on our business, financial condition and results of operations. We also may incur substantial licensing or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties.

Patent cross-license with Canon

In 2007, ASML and Zeiss signed an agreement with Canon for the global cross-license of patents in their respective fields of semiconductor lithography and optical components, used to manufacture integrated circuits. There was no transfer of technology and no payment was made among the parties.

Patent litigation with Nikon

From 2001 through late 2004, we were party to a series of civil litigations and administrative proceedings in which Nikon alleged ASML's infringement of Nikon patents relating to photolithography. ASML in turn filed claims against Nikon. Pursuant to agreements executed on December 10, 2004, ASML, Zeiss and Nikon agreed to settle all pending worldwide patent litigation between the companies. The settlement included an exchange of releases, a cross-license of patents related to lithography equipment used to manufacture semiconductor devices and payments to Nikon by ASML and Zeiss. In connection with the settlement, ASML and Zeiss made settlement payments to Nikon from 2004 to 2007. See Note 11 to our consolidated financial statements for a description of the accounting treatment.

Arbitration with Aviza Technology

On December 1, 2006, Aviza Technology (“Aviza”) initiated arbitration proceedings against ASML Holding N.V., ASML U.S., Inc. and certain of ASML Holding N.V.’s affiliates (collectively, the “ASML parties”). Aviza’s arbitration demand alleged that the ASML parties engaged in fraud and made negligent misrepresentations or omissions in connection with a 2002 License Agreement between ASML and IPS, Ltd. That agreement was assigned to Aviza in connection with the 2003 divestiture of ASML’s Thermal Division.

On March 24, 2008, the arbitrator in the Aviza case ruled in ASML’s favor holding that Aviza failed to establish a cause of action against ASML. On June 19, 2008, the arbitrator awarded ASML its legal fees and costs associated with the case.

Dividend withholding tax

In May and June 2006, ASML entered into forward purchase agreements with a broker acting as principal to effect share repurchases under its share buyback program. The aggregate number of shares bought back under these agreements through July 13, 2006 was 25,450,296.

The Netherlands tax authorities challenged ASML’s fiscal interpretation of the forward purchase agreements and sought to recast the repurchase as a dividend payment to unidentifiable shareholders. Accordingly, the Netherlands tax authorities assessed ASML for dividend withholding tax such that an (additional) amount of approximately EUR 24 million would be payable by ASML. In June 2008, as a result of objections lodged by ASML, the matter was settled. ASML paid an insignificant (additional) amount in connection with the settlement.

Competition

The semiconductor equipment industry is highly competitive. The principal elements of competition in our market segments are: the technical performance characteristics of a photolithography system; the value of ownership of that system based on its purchase price, maintenance costs, productivity and customer service and support; and a strengthening of the euro particularly against the Japanese yen which results in lower prices and margins.

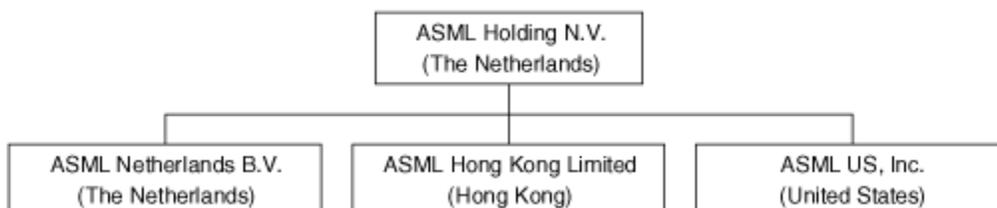
In addition, we believe that an increasingly important factor affecting our ability to compete is the strength and breadth of our portfolio of patent and other intellectual property rights. We believe that the market segment for photolithography systems and the investments required to be a significant competitor in this market segment have resulted in increased competition for market share through the aggressive prosecution of patents. Our competitiveness will increasingly depend upon our ability to protect and defend our patents, as well as our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis. See Item 3.D. “Risk Factors, We Face Intense Competition”.

Government Regulation

Our business is subject to direct and indirect regulation in each of the countries in which our customers or we do business. As a result, changes in various types of regulations could affect our business adversely. The implementation of new technological or legal requirements could impact our products, or our manufacturing or distribution processes, and could affect the timing of product introductions, the cost of our production, and products as well as their commercial success. Moreover, environmental and other regulations that adversely affect the pricing of our products could adversely affect our results of operation. The impact of these changes in regulation could adversely affect our business even where the specific regulations do not directly apply to us or to our products.

C. Organizational Structure

ASML Holding N.V. is a holding company that operates through its subsidiaries. Our major operating subsidiaries, each of which is a wholly-owned subsidiary, are as follows:



See Exhibit 8.1 for a list of our material subsidiaries.

D. Property, Plant and Equipment

We principally obtain our facilities under operating leases. However, we also own a limited number of buildings, mainly consisting of the new facilities we are building in The Netherlands and Taiwan. The book value of the buildings owned by us amounted to EUR 302 million as of December 31, 2008 compared to EUR 136 million as of December 31, 2007.

During 2008, some of our leased facilities were utilized below normal capacity. As a result of its restructuring, announced in December 2008, ASML has ceased using its training facility in Tempe, United States, for which lease contract termination costs of EUR 20.0 million were recognized in 2008. In addition, the Company recognized impairment charges related to machinery and equipment of EUR 22.3 million, mainly due to a decrease in utilization of facilities as a result of lower than expected demand and sales in 2009 and as a result of the closure of several service locations, in each case due to the current global financial market crisis and economic downturn.

Depending on market conditions, we expect that our capital expenditures in 2009 will be approximately EUR 200 million, a decrease of EUR 122 million compared to 2008. We expect that a significant part of the 2009 expenditures will be allocated to construction and upgrades of production facilities in the Netherlands as we will finalize the production facilities for our latest technologies, such as EUV and double patterning. We intend to fund the related capital expenditures primarily with cash on hand and/or cash generated through operations.

See also Item 4.A. "History and Development of the Company, Capital Expenditures and Divestitures" and Item 5.B. "Liquidity and Capital Resources" and Note 12 to our consolidated financial statements.

Facilities in Europe

Our headquarters, applications laboratory and research and development facilities are located at a single site in Veldhoven, the Netherlands. This state-of-the-art facility includes 65 thousand square meters of office space and 30 thousand square meters of buildings used for manufacturing and research and development activities. We lease the majority of these facilities through long-term operating leases that contain purchase options. Some of our office facilities at our headquarters in Veldhoven are financed through a special purpose vehicle that is a variable interest entity. See Item 5.E. "Off-Balance Sheet Arrangements" and Note 16 to our consolidated financial statements. We also lease several sales and service facilities at locations across Europe.

Facilities in the United States

Our United States headquarters is located in a nine thousand square meter office space building in Tempe, Arizona. As a result of its restructuring announced in December 2008, ASML has ceased using its training facility in Tempe, for which a provision for lease contract termination costs was recognized in 2008. We maintain lithography research, development and manufacturing operations in a 27 thousand square meter facility in Wilton, Connecticut and a six thousand square meter facility in Santa Clara, California. We also lease several sales and service facilities at locations across the United States.

Facilities in Asia

Our Asian headquarters is located in a 425 square meter office space in Hong Kong. We also lease and own several sales and service and training facilities at locations across Asia.

During the fourth quarter of 2008, we finalized the construction of our new ACE facility located in Linkou, Taiwan, for which construction commenced in 2007. This project comprises both clean room (approximately two thousand square meters) and office space (approximately six thousand square meters) in order to support customers in the Asia-Pacific region by focusing on technology and applications development, equipment support, training, logistics and refurbishment. ACE will also enable local sourcing of equipment models, components and services.

Item 4A Unresolved Staff Comments

Not applicable.

Item 5 Operating and Financial Review and Prospects

Executive Summary

Introduction

ASML is the world's leading provider of lithography equipment that are critical to the production of ICs or chips. This leading position is determined by a market share based on revenue, which was approximately 65 percent in 2008 (2007: 65 percent). Headquartered in Veldhoven, the Netherlands, ASML operates globally, with activities in Europe, the United States and Asia.

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In 2008, we generated net sales of EUR 2,954 million and income from operations of EUR 287 million or 9.7 percent of net sales. Net income in 2008 amounted to EUR 322 million or 10.9 percent of net sales, representing EUR 0.75 per share.

As of December 31, 2008 we employed approximately 6,900 payroll and approximately 1,300 temporary employees (measured in full-time employees "FTE" s"). ASML operated in 15 countries through over 60 sales and service locations.

In the executive summary below we provide an update of the semiconductor equipment industry, followed by our business strategy and a discussion of our key performance indicators.

Semiconductor equipment industry conditions

Chip making is all about shrink or reducing the size of the chip designs.

Historically the semiconductor industry has experienced significant growth largely due to the continual reduction of cost per function performed by ICs. Improvement in the design and manufacture of ICs with higher circuit densities resulted in smaller and cheaper ICs capable of performing a larger number of functions at higher speeds with lower power consumption. We believe that these long-term trends will continue for the foreseeable future and will be accompanied by a continuing demand for production equipment that is capable of accurate production of advanced ICs in high volumes at the lowest possible cost.

Lithography equipment is used to print complex circuit patterns onto silicon wafers, which are the primary raw materials for ICs. The printing process is one of the most critical and expensive steps in wafer fabrication. Lithography equipment is therefore a significant focus of the IC industry' s demand for cost efficient enhancements to production technology.

The costs to develop new lithography equipment are high. Accordingly, the lithography equipment industry is characterized by the presence of only a few primary suppliers: ASML, Nikon and Canon. ASML is one of the world' s leading providers of lithography equipment with a market share based on revenue of 65 percent in 2007 and approximately 65 percent in 2008. This is according to the latest available data up to and including November 2008 as reported by SEMI, an independent semiconductor industry organization.

Nikon and Canon are important suppliers in Japan, which accounts for a significant portion of worldwide semiconductor production. This region historically has been difficult for non-Japanese companies to penetrate. Since 2004, we have been increasing our service, sales and marketing operations in Japan to serve our growing customer base. In 2008, we further strengthened our long-term market development strategy in Japan, and our net system sales there increased to EUR 413 million from EUR 269 million in 2007.

Total lithography equipment shipped by the industry as a whole in the five years ended December 31, 2007 is set forth in the following table:

Year Ended December 31	2003	2004	2005	2006	2007
Total units shipped	456	694	536	633	604
Total value (in millions USD)	3,229	5,268	4,988	6,386	7,144

(Source: Gartner Dataquest)

The year 2008 was characterized by significant overall economic uncertainty fuelled by the worldwide financial turmoil. This has led to lower than expected overall semiconductor end-demand. Against this background, our customers started to re-assess their strategic alliances and their investments to match production capacity to end-demand, resulting in a delay of non-leading-edge production capacity additions. While lithography equipment buyers are reducing standard production capacity, their willingness to invest in leading-edge immersion technology, however has remained strong as this technology enables lithography equipment buyers to reduce their costs aggressively. For the year 2008, the latest indications of independent market analysts show a drop in total lithography equipment shipped to the market by the industry of 40 percent in unit volume and 22 percent in value.

Business strategy

Our business strategy is based on achieving and further developing a position as a technology leader in semiconductor lithography, resulting in the delivery of superior value of ownership for our customers, as well as maximizing our financial performance. We implement this strategy through customer focus, strategic investment in research and development, and operational excellence.

Customer focus

We serve different types of chipmakers by ensuring that our products provide premium value for customers in the various semiconductor market segments, including memory makers, integrated device manufacturers, and foundries or made-to-order chip contractors.

Through 2008, 17 of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. Our leadership position in the semiconductor equipment market was strengthened during 2008 by our continued growth in the Japanese market. We also have a significant share of customers outside the top 20 and we strive for continued business growth with all customers.

In 2008, we achieved a top four position in customer satisfaction rankings amongst large suppliers of semiconductor equipment, according to VLSI Research, an independent industry research firm that surveyed customers representing 95 percent of the world's total semiconductor market. Our satisfaction ratings by customers surpassed every lithography competitor for the sixth year in a row.

In 2008, we made major inroads with new technologies focusing on value. We announced a new ArF lithography system that significantly reduces operating costs for our customers. The ASML TWINSCAN XT:1950i scanner extends advanced ArF technology to even smaller resolutions and boosts the overall performance of high-end systems by 25 percent. In April 2008, ASML also shipped its 1,000th KrF system. This technology is used for 30-40 percent of the layers in high-end chips.

Strategic investment in research and development

Supported by our strong financial performance in recent years, we increased research and development expenses in 2008 by 5.4 percent compared with 2007, as we accelerated development of immersion and EUV technologies. This operating decision to continue to invest during the downturn and prepare for the future was made possible by leveraging our outsourcing strategy, which continues to enable us to rapidly and efficiently adjust our cost structure throughout the cycle while making use of leading-edge capabilities in our supply chain.

Since 2000, we have offered a dual-stage wafer imaging platform - the TWINSCAN system - which allows exposure of one wafer while simultaneously measuring the wafer which will be exposed next. Our strong leadership in this capability has allowed us to achieve the industry's highest throughput, enabling reduced cost-per-exposure per wafer. ASML is the only lithography manufacturer that has volume production based on dual stage systems.

Our innovative immersion lithography replaces air over the wafer with fluid, enhancing focus and enabling circuit line-width to shrink to even smaller dimensions. ASML has experienced strong demand for immersion-based systems, driven initially by memory chip makers that need more cost effective technology transitions that are enabled by immersion systems. With 128 immersion systems shipped to date, our immersion technology is now widely accepted as the standard for critical layer high volume chip manufacturing, solidifying our technology leadership position worldwide and supporting our significant growth in Japan.

In July 2008, we introduced our new TWINSCAN XT:1950i system, the only immersion lithography system in the world capable of imaging chip features down to 38 nm with a single exposure. Furthermore, in October 2008 we announced ASML's new TWINSCAN NXT immersion lithography platform. With new wafer stage and positioning technology, the TWINSCAN NXT offers significant improvements in overlay and productivity, enabling the semiconductor industry to continue its shrink roadmap for more advanced and affordable chips. The TWINSCAN NXT platform is also suited for emerging double patterning techniques required by manufacturers to shrink the smallest chip features by up to 42 percent over the current most advanced production systems. The first product based on the new platform, the NXT:1950i, was introduced in December 2008.

Also in 2008, we made significant progress in our EUV lithography program, completing the design of our first NXE production system. The NXE system, which will be built on an evolved TWINSCAN platform will enable our customers to extend their roadmap to chip features down to 22 nm and smaller. We have two Alpha Demo Tools at CNSE in Albany, New York (United States) and IMEC in Leuven (Belgium), both leading research and development institutions, where potential customers can conduct infrastructure development, and where the first functional devices were made using EUV lithography on full-field chips in February 2008. As a single-exposure, multi-node technology, EUV offers the greatest extendibility at the lowest cost of ownership for the future of lithography. ASML currently has orders for five of these systems, the first of which is scheduled for shipment in 2010.

From time to time, we seek to expand the scope of our business, pursuing hardware technologies and new product opportunities in fields adjacent or complementary to our core semiconductor lithography competence. Our March 2007 acquisition of Brion was an example of such an expansion. Through Brion, ASML has developed a range of new resolution enhancement techniques which our customers are implementing to reduce cost per chip, both currently and as they transition to EUV lithography.

In the fourth quarter of 2008, ASML introduced its LithoTuner™ Pattern Matcher products which enable cost and yield improvements ranging from 30 to 70 percent over current scanner matching techniques. ASML is alone in offering this capability. We refer to our efforts in this area as “holistic lithography”, the improvement of the entire chip-imaging process by optimizing wafer lithography, computational lithography and layout, thereby providing our customers with better performance and value of ownership.

Operational excellence

We strive to sustain our business success based on our technological leadership by continuing to execute our fundamental operating strategy well, including reducing lead-times while improving our cost competitiveness. Lead-time is the time from a customer’ s order to a tool’ s delivery.

Our business strategy includes outsourcing the majority of components and subassemblies that make up our products. We work in partnership with suppliers, collaborating on quality, logistics, technology and total cost. By operating our strategy of value sourcing, we strive to attain flexibility and cost efficiencies from our suppliers through mutual commitment and shared risk and reward. Value sourcing also allows the flexibility to adapt to the cyclical nature of the world market for semiconductor lithography systems.

ASML has a flexible labor model with a mix of fixed and flexible contracted labor in its manufacturing, and research and development facilities located in Veldhoven. This reinforces our ability to adapt more quickly to semiconductor market cycles, including support for potential 24-hour, seven days-a-week production activities. By maximizing the flexibility of our high-tech work force, we can shorten lead time: a key driver of added value for customers. Flexibility also reduces our working capital requirements.

In view of the current global financial market crisis and economic downturn, we continue to strive to improve efficiencies in our operations: addressing our cost structure and strengthening our capability to generate cash. We have used the flexibility in our business model to quickly reduce costs in response to the global economic downturn without impacting our key technology development roadmap. Also, we are maintaining a level of capacity at our factory to ramp up production to meet customer needs without lengthy lead-times, since the lithography market may pick up quickly once product end-demand recovers. We have been successful at progressively enhancing the value of ownership of our products while increasing margins and boosting cash generation through gains in manufacturing productivity and reductions in cycle time.

ASML operations update on key performance indicators

The following table presents the key performance indicators used by our Board of Management and senior management to measure performance in our monthly operational review meetings.

Year ended December 31 (in millions, except market share and systems)	2006 ³ EUR		2007 ^{3,4} EUR		2008 EUR	
Sales						
Market share (based on revenue) ¹	63%		65%		65%	
Net sales	3,582		3,768		2,954	
Increase / (decrease) in net sales	41.6%		5.2%		(21.6)%	
Systems shipped (value)	3,214		3,351		2,517	
Systems shipped (number)	266		260		151	
Average selling price	12.1		12.9		16.7	
Systems backlog (value)	2,146		1,697		755	
Systems backlog (number)	163		89		41	
Average selling price	13.2		19.1		18.4	
Immersion systems shipped	23		38		56	
Profitability						
Gross profit	1,454	40.6%	1,550	41.1%	1,016	34.4%
Income from operations	863	24.1%	815 ²	21.6%	287	9.7%
Net income	619	17.3%	671 ²	17.8%	322	10.9%
Liquidity						
Cash and cash equivalents	1,656		1,272		1,109	
Operating cash flow	492		701		281	

¹ According to the latest available data up to and including November 2008 as reported by SEMI, an independent semiconductor industry organization.

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2 The 2007 figures for income from operations and net income include a one-off charge of EUR 23 million relating to the Brion acquisition for amortization of in-process research and development.

3 As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

4 In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Sales

For the longer term, and based on industry analysts IC growth forecasts, we expect our sales level to grow. Based on these forecasts and our current market share, our general strategy is to seek to grow net sales to a EUR 5 billion level. The timing of such level depends on three growth drivers: market growth, market share growth and a broadening of our product and services scope. See also Item 4.A. "History and Development of the Company."

In 2008, net sales decreased by 21.6 percent to EUR 2,954 million from EUR 3,768 million in 2007. The decrease in net sales mainly resulted from a lower demand for lithography equipment partly offset by higher ASPs in 2008. The lower overall semiconductor end-demand was caused by a significant economic uncertainty resulting from the current global financial market crisis and economic downturn. Against this background our customers started to re-assess their strategic alliances and their investments to match the industry's production capacity to end-demand. This situation created a wait-and-see attitude resulting in delay of non leading-edge production capacity additions. While customers reduced standard production capacity, their willingness to invest in leading-edge immersion technology, however, remained strong as this technology enables lithography equipment buyers to reduce their costs.

ASML is one of the world's leading providers of lithography equipment with a market share based on revenue of 65 percent in 2007 and approximately 65 percent in 2008. This is according to the latest available data up to and including November 2008 as reported by SEMI, an independent semiconductor industry organization.

The ASP of our systems increased by 29.5 percent from EUR 12.9 million in 2007 to EUR 16.7 million in 2008. This increase was mainly driven by a change in the product mix reflecting the continued shift in market demand to our leading-edge technology systems with higher ASPs driven by the shrink roadmaps of our customers. In 2008, this general trend was accentuated by our customers delaying non-leading-edge capacity additions in view of the rationalization of the industry's production capacity to match end-demand.

As of December 31, 2008, our order backlog was valued at EUR 755 million and included 41 systems with an ASP of EUR 18.4 million. As of December 31, 2007, the order backlog was valued at EUR 1,697 million and included 89 systems with an ASP of EUR 19.1 million. The continued high ASP reflected a high number of leading-edge immersion systems in the backlog of 2007 and 2008 pursuant to the continued ramp-up of volume manufacturing with our leading-edge immersion systems in 2008 and 2009. The decrease in the total value of the backlog was primarily the result of increased uncertainty about future global economic market conditions and the impact on the overall semiconductor end-demand. As a result we currently see a trend in customer order behavior toward ordering on a system by system basis when needed rather than ordering systems on a 12-month rolling capacity planning basis.

Profitability

Our general strategy is to seek to achieve average income from operations to net sales of 10-15 percent at the downturn point and 20-25 percent at the upturn point over the industry's business cycle. However in periods of serious recessionary pressure, as evidenced by the current global financial market crisis and economic downturn, we could see periods with income from operations that are substantially below our minimum target level.

Operating income decreased from EUR 815 million or 21.6 percent of sales in 2007 to 287 million or 9.7 percent of sales in 2008. This EUR 528 million decrease was substantially the result of a decrease in gross profit of EUR 534 million or 34.5 percent which was partially offset by a decrease in operating expenses of EUR 6 million or 0.9 percent.

Gross profit on sales decreased from EUR 1,550 million or 41.1 percent of net sales in 2007 to 1,016 million or 34.4 percent of net sales in 2008. The lower gross profit was principally attributable to a decrease in net sales (see above) and to an increase in the cost of sales as a percentage of net sales. The increase in cost of sales as a percentage of sales was principally attributable to lower coverage of our fixed manufacturing costs consistent with the lower production levels in 2008 compared with 2007. Furthermore, we recorded restructuring and impairment charges of EUR 138 million in the fourth quarter of 2008, anticipating a sharp decrease in demand resulting from the current global financial market crisis and economic downturn. See Item 5. A. Operational Results, for the impact of the current global financial market crisis and economic downturn.

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Net research and development costs in 2007 included a one-off charge of EUR 23 million relating to amortization of in-process research and development in connection with the Brion acquisition. Excluding this one-off charge research and development costs net of credits increased by EUR 30 million or 6.2 percent mainly as a result of the decision to continue strategic investments in technology leadership. Although we strived to be as efficient as possible in research and development spending we did not want to impact any of the strategic programs, in particular immersion, double patterning and EUV, in order to further develop our position as a technology leader. For further details regarding research and development see Item 4.B. "Business Overview" and Item 5 "Operating and Financial Review and Prospects, Business Strategy".

Operating expenses were EUR 6 million lower in 2008 compared to 2007 due to a decrease of selling, general and administrative costs by 13 million, or 5.9 percent partially offset by an increase in net research and development costs by EUR 7 million, or 1.3 percent. The selling, general and administrative costs were reduced in anticipation of the lower sales level.

ASML has a flexible labor model with a mix of payroll and temporary employees, which enables the company to quickly adapt its costs to the semiconductor market cycles.

Net income in 2008 amounted to EUR 322 million or 10.9 percent of sales, representing EUR 0.75 per share compared with net income of EUR 671 million or 17.8 percent of sales, representing EUR 1.45 per share in 2007.

Liquidity

Our general strategy is to seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 billion and EUR 1.5 billion. To the extent that our cash and cash equivalents exceeds this target and there are no investment opportunities that we wish to pursue, we will consider returning excess cash to our shareholders. As of December 31, 2008 our cash and cash equivalents amounted to EUR 1.1 billion.

At December 31, 2008, the Company has an available credit facility for a total of EUR 500 million, which will expire in May 2012.

Our cash and cash equivalents decreased from EUR 1,272 million as of December 31, 2007 to EUR 1,109 million as of December 31, 2008. We generated cash from operations of EUR 281 million in 2008, which was offset by a cash outflow of EUR 184 million from financing activities, mainly as a result of our 2008 dividend payment (EUR 108 million) and share buyback programs (EUR 88 million), and EUR 260 million cash used in investing activities mainly related to the production facilities in Veldhoven and Taipei and, to a lesser extent, equipment and information technology.

ASML repurchased 5 million shares (EUR 88 million) in February 2008. The cumulative amount returned to shareholders in the form of share buybacks and capital repayment between May 2006 and February 2008 was EUR 2,137 million. In May 2008 the Company paid a dividend of EUR 0.25 per ordinary share of EUR 0.09, or EUR 108 million in total. A proposal will be submitted to the Annual General Meeting of Shareholders on March 26, 2009 to declare a dividend for 2008 of EUR 0.20 per ordinary share of EUR 0.09.

A. Operating Results

Significant Effects of the Current Global Financial Market Crisis and Economic Downturn on ASML

As a result of the sharp decreases in demand in the fourth quarter of 2008 and in anticipated demand in 2009 caused by the current global financial market crisis and economic downturn, ASML has recognized impairment charges of EUR 20.8 million on property, plant and equipment and inventory obsolescence charges of EUR 94.6 million.

In order to lower its cost and break-even level, ASML announced in December 2008 a reduction in work force of approximately 1,000 employees or 12 percent of the total work force, mainly contract employees. ASML also announced the shutdown of its production facilities for two weeks in the fourth quarter of 2008 and four weeks in the first half of 2009. Furthermore, ASML announced a restructuring that resulted in the discontinuation of its training center in the United States, the downsizing of its United States headquarters and the closure of several other service locations, reflecting the continuing migration of semiconductor manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The restructuring resulted in the recognition of a provision for employee contract termination benefits of EUR 2.4 million, reflecting the elimination of approximately 90 jobs in the United States and approximately 15 jobs at service locations in other parts of the world. As part of this restructuring, ASML ceased the use of its training facility in Tempe, United States, incurring lease contract termination costs of EUR 20.0 million in 2008.

As a result of the actions taken to respond to the current global financial market crisis and economic downturn the following charges have been recognized in ASML's consolidated statements of operations in 2008:

(in thousands)	2008 EUR
Restructuring costs	22,397
Inventory obsolescence	94,601
Impairments of property, plant and equipment	20,839
Total	137,837

These costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR	Inventory obsolescence EUR	Impairment of property, plant and equipment EUR	Total EUR
Cost of sales	21,492	94,601	20,111	136,204
Research and development costs	-	-	728	728
Selling, general and administrative costs	905	-	-	905
Total	22,397	94,601	20,839	137,837

Notwithstanding the restructuring, ASML intends to maintain its key research and development programs for the development of next generation lithography systems. Furthermore, ASML will maintain a level of production capacity to be able to ramp up production to meet customer requirements without lengthy lead times as demand picks up in the future.

Critical accounting policies using significant estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, warranty, business combinations, long-lived assets, inventories, accounts receivable, provisions, contingencies and litigation, share-based compensation expenses and income tax. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. While we regularly evaluate our estimates and assumptions, actual results may differ from these estimates if these assumptions prove incorrect. To the extent there are material differences between actual results and these estimates, our future results of operations could be materially and adversely affected. We believe that the accounting policies described below require us to make significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue recognition

ASML recognizes revenue when all four revenue recognition criteria are 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 collectability is reasonably assured. At ASML, this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer site. Each system undergoes, prior to shipment, a "Factory Acceptance Test" in ASML's clean room facilities, effectively replicating the operating conditions that will be present on the customer's site, in order to verify whether the system will meet its standard specifications and any additional technical and performance criteria agreed with the customer. A system is shipped, and revenue is recognized, only after all specifications are met and customer sign-off is received or waived. Although each system's performance is re-tested upon installation at the customer's site, ASML has never failed to successfully complete installation of a system at a customer's premises.

We anticipate that, in connection with future introductions of new technology, we will initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until we are able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML's results of operations for the

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fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2008 and 2007, we had no deferred revenue from shipments of new technology. During the three years ended December 31, 2008, no revenue from new technology was recorded that had been previously deferred. As our systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely “new” technology occurs infrequently, and has occurred on only one occasion since 1999.

ASML has no significant repurchase commitments in its general sales terms and conditions. From time to time the Company repurchases systems that it has manufactured and sold and, following refurbishment, resells those systems to other customers. This repurchase decision is driven by market demand expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The Company considers reasonable offers from any vendor, including customers, to repurchase used systems so that it can refurbish, resell and install these systems as part of its normal business operations. Once repurchased, the repurchase price of the used system is recorded in work-in-process inventory during the period it is being refurbished, following which the refurbished system is reflected in finished products inventory until it is sold to the customer. As of December 31, 2008 ASML has no repurchase commitments.

A portion of our revenue is derived from contractual arrangements with our customers that have multiple deliverables, such as installation and training services, prepaid service contracts and prepaid extended optic warranty contracts. The revenue relating to the undelivered elements of the arrangements is deferred at fair value until delivery of these elements. The fair value is determined by vendor specific objective evidence (“VSOE”) except the fair value of the prepaid extended optic warranty which is based on the list price. VSOE is determined based upon the prices that we charge for installation and comparable services (such as relocating a system to another customer site) on a stand-alone basis, which are subject to normal price negotiations. Revenue from installation and training services is recognized when the services are completed. Revenue from prepaid service contracts and prepaid extended optic warranty contracts is recognized over the term of the contract.

The deferred revenue balance from installation and training services amounted to approximately EUR 3 million and EUR 15 million, respectively, as of December 31, 2008.

The deferred revenue balance from prepaid service contracts and prepaid extended optic warranty contracts amounted to approximately EUR 118 million and EUR 55 million, respectively, as of December 31, 2008.

We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment of revenue recognition. From time to time, we offer volume discounts to a limited number of customers. In some instances these volume discounts can be used to purchase field options (system enhancements). The related amount is recorded as a reduction in revenue at time of shipment. From time to time, we offer free or discounted products or services (award credits) to our customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer. Generally, there are no other credits or adjustments recognized at shipment.

Revenues are recognized excluding the taxes levied on revenues (net basis).

Warranty

We provide standard warranty coverage on our systems for 12 months and on certain optic parts for 60 months, providing labor and parts necessary to repair systems and optic parts during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge. We update these estimated charges periodically. The actual product performance and/or field expense profiles may differ, and in those cases we adjust our warranty reserves accordingly. Future warranty expenses may exceed our estimates, which could lead to an increase in our cost of sales.

Business combinations

Acquisitions of subsidiaries are accounted for using the ‘purchase accounting’ method. The costs of an acquired subsidiary are assigned to the assets and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when market value is not readily available. The excess of the costs of an acquired subsidiary over the net of the amounts assigned to assets acquired and liabilities assumed is capitalized as goodwill.

In 2008, we completed the purchase price allocation of Brion. No adjustments were made to the initial allocation of the purchase price.

Evaluation of long-lived assets for impairment and costs associated with exit or disposal activities

Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is tested for impairment based on a two-step approach for each reporting unit. First, the recoverability is tested by comparing the carrying amount of the reporting unit including goodwill with the fair value of the reporting unit, being the sum of the discounted future cash flows.

If the carrying amount of the reporting unit is higher than the fair value of the reporting unit, the second step should be performed. The goodwill impairment is measured as the excess of the carrying amount of the goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination.

Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Other intangible assets and property, plant and equipment are tested for impairment based on a two-step approach. First the recoverability is tested by comparing the carrying amount of the other intangible assets and property, plant and equipment with the fair value being the sum of the undiscounted future cash flows. If the carrying amount of the other intangible assets and property, plant and equipment is lower than the fair value the assets are considered to be impaired. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the asset.

In determining the fair value of a reporting unit or an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of the semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that we use to manage our business. We also make estimates and assumptions concerning Weighted Average Cost of Capital (WACC) and future inflation rates. It is possible that the outcome of the plans, estimates and assumptions used may differ from our estimates, which may require impairment of certain long-lived assets. Future adverse changes in market conditions may also require impairment of certain long-lived assets.

During 2008, we recorded impairment charges of EUR 24.6 million in property, plant and equipment and EUR 0.6 million in other intangible assets of which we recorded EUR 21.4 million in cost of sales, EUR 2.2 million in research and development costs and EUR 1.6 million in selling, general and administrative costs. The impairment charges mainly relate to machinery and equipment of EUR 22.3 million mainly relating to a decrease in utilization as a result of lower expected demand and sales in 2009 and as a result of the closure of several locations due to the current global financial market crisis and economic downturn. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 5.4 million) and their carrying amount. In determining the fair value of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of the semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that we use to manage our business. See Notes 11 and 12 to our consolidated financial statements.

Inventories

Inventories, including spare parts and lenses, 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 customs duties, production labor cost and factory overhead. Allowances are made for slow moving, obsolete or unsaleable inventory and are reviewed on a quarterly basis. Our methodology involves matching our on-hand and on-order inventory with our manufacturing forecast. In determining inventory allowances, we evaluate inventory in excess of our forecasted needs on both technological and economical criteria and make appropriate provisions to reflect the risk of obsolescence. This methodology is significantly affected by our forecasted needs for inventory. If actual demand or usage were to be lower than estimated, additional inventory allowances for excess or obsolete inventory may be required, which could have a material adverse effect on our business, financial condition and results of operations. See Note 8 to our consolidated financial statements.

As of December 31, 2008, the allowance for inventory obsolescence amounts to EUR 189.9 million (2007: EUR 129.0 million). The increase in the allowance for inventory obsolescence mainly reflects the higher obsolescence due to lower expected demand and sales in 2009 as a result of the current global financial market crisis and economic downturn.

Accounts receivable

A majority of our accounts receivable are derived from sales to a limited number of large multinational semiconductor manufacturers throughout the world. In order to monitor potential credit losses, we perform ongoing credit evaluations of our customers' financial condition. An allowance for doubtful accounts is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. The allowance for doubtful accounts is reviewed periodically to assess the adequacy of the allowance. In making this assessment, we take into consideration (i) any

circumstances of which we are aware regarding a customer's inability to meet its financial obligations; and (ii) our judgments as to potential prevailing economic conditions in the industry and their potential impact on the Company's customers. Where we deem it prudent to do so, we may require some form of credit enhancement, such as letters of credit, down payments and retention of ownership, before shipping systems to certain customers. We have not incurred any material accounts receivable credit losses during the past three years. Our three largest customers accounted for 42.2 percent of accounts receivable at December 31, 2008, compared to 40.1 percent at December 31, 2007. A business failure of one of our main customers could result in a substantial credit loss in respect to amounts owed to the Company by that customer, which could adversely affect our results of operations and financial condition.

On January 23, 2009, Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. Qimonda has amounts outstanding to ASML of approximately EUR 37 million in respect of two systems delivered, of which EUR 21 million is reflected in accounts receivable and EUR 16 million is reflected in finance receivables. ASML believes that the outstanding amounts receivable from Qimonda are collectible or the value of the receivables can be realized through the retention of title of the two systems. In case the trustee in bankruptcy will not honour the contracts with ASML, we will execute our right to retrieve these systems, in order to substantially cover the financial risk for ASML. The timing of such potential retrieval of the systems is uncertain.

Provisions

Employee contract termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. ASML recognizes employee contract termination benefits when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where there is no possibility of withdrawal, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. The timing of recognition and measurement of the provision for employee contract termination benefits depends on whether employees are required to render service until they are terminated in order to receive the termination benefits. If this period of continued employment extends beyond the minimum retention period, the provision shall be determined at the communication date based on the fair value as of the termination date and is recognized ratably over the future service period.

Provisions for lease contract termination costs are recognized when costs will continue to be incurred under a contract for its remaining term without economic benefit to the Company and the Company ceases using the rights conveyed by the contract. The provisions are measured at fair value which is determined based on the remaining lease payments reduced by the estimated sublease payment that could be reasonably obtained for the building.

Provision for employee contract termination benefits relates mainly to the restructuring that was initiated in 2008 to achieve further reduction in costs. The provision for employee contract termination benefits comprises only personnel costs.

Provision for lease contract termination costs relates to an operating lease contract for a building for which no economic benefits are expected.

Contingencies and litigation

We are party to various legal proceedings generally incidental to our business, as disclosed in Note 18 to the consolidated financial statements. In connection with these proceedings and claims, our management evaluated, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case, management determined that either a loss was not probable or was not reasonably estimable. As a result, no estimated losses were recorded as a charge to our consolidated statements of operations in 2006, 2007 and 2008. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, even where we believe that we would ultimately prevail, we may agree to settle or to terminate a claim or proceeding where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in expensive and protracted litigation, the outcome of which is uncertain.

We accrue legal costs related to litigation in our consolidated statements of operations at the time when the related legal services are actually provided to us.

Share-based compensation expenses

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant-date fair value of stock options and stock. The grant-date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk-free interest rate used in the model is determined, based on a Euro government bond with a life equal to the expected life of the equity-settled share-based payments. The fair value of stock is determined based on the closing price of the Company's ordinary shares on the Euronext Amsterdam on the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of operations in the period in which the revision is determined, with a corresponding adjustment to equity.

We make quarterly assessments of the adequacy of the (hypothetical) tax pool to determine whether there are tax deficiencies that require recognition in the consolidated statements of operations. We have selected the alternative transition method (under FSP FAS 123(R)-3) in order to calculate the tax pool.

Our current share-based payment plans do not provide for cash settlement of options.

Income tax

We operate in various tax jurisdictions in Europe, Asia and the United States and must comply with the tax laws and regulations of each of these jurisdictions.

We use the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for tax consequences attributable to differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. Furthermore tax assets are recognized for the tax effect of incurred net operating losses. If it is more likely than not that the carrying amounts of deferred tax assets will not be realized, a valuation allowance is recorded to reduce the carrying amounts of those assets.

We continuously assess our ability to realize our deferred tax assets resulting from net operating loss carry-forwards. The total amount of tax effect of the loss carry-forwards as of December 31, 2008 was EUR 57.8 million, which resides completely with ASML US, Inc. and US based subsidiaries of ASML US Inc. We believe that all losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable income from operations, possible tax planning alternatives available to us, and a realignment of group assets that we effectuated during the period 2001 through 2003 that included the transfer of certain tangible and intangible assets of ASML US, Inc. to ASML Netherlands B.V. The value of the assets transferred has resulted and will result in income recognized and to be recognized by ASML US, Inc., which we believe, together with projected future taxable income from operations will be sufficient to absorb the net operating losses that ASML US, Inc. has incurred, prior to the expiry of those losses. In order to determine with certainty the tax consequences and value of the asset transfer and the remuneration of ASML US, Inc. for intercompany services rendered, in 2002 we requested a bilateral advance pricing agreement ("APA") from the United States and Netherlands tax authorities which resulted in September 2007 in two duly signed APAs between certain ASML subsidiaries and the tax authorities of the United States and the Netherlands. The APAs will be valid through 2009 with the possibility of extension (see also Note 19 to our consolidated financial statements).

On January 1, 2007, we adopted the provisions of FIN 48 "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet, before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure regarding income taxes.

Consistent with the provisions of FIN 48, as of December 31, 2008 we classified the liability for unrecognized tax benefits amounting to EUR 124.2 million as non-current liabilities because payment of cash was not anticipated within one year of the balance sheet date, which compares to EUR 110.3 million as at December 31, 2007. These non-current income tax liabilities are recorded in deferred tax and other tax liabilities in the consolidated balance sheets. The total liability for unrecognized tax benefits, if recognized, would have a favorable effect on the Company's effective tax rate.

Expected interest and penalties related to income tax liabilities have been accrued for and are included in the liability for unrecognized tax benefits and in the provision for income taxes. The balance of accrued interest and penalties recorded in the

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consolidated balance sheets of December 31, 2007 amounted to EUR 21.5 million and as of December 31, 2008 amounted to EUR 23.6 million; these amounts were also classified as non-current liabilities consistent with the provisions of FIN 48.

A reconciliation of the beginning and ending balance of the liability for unrecognized tax benefits is as follows:

(in millions)	2007 EUR	2008 EUR
Balance, January 1	138.3	110.3
Gross increases - tax positions in prior period	17.7	13.0
Gross decreases - tax positions in prior period	(30.3)	(6.5)
Gross increases - tax positions in current period	26.6	15.2
Settlements	(35.5)	(5.0)
Lapse of statute of limitations	(6.5)	(2.8)
Balance, December 31	110.3	124.2

For the year ended December 31, 2008, there were no material changes compared to 2007 related to the liability for unrecognized tax benefits that impacted the Company's effective tax rate.

The Company estimates that the total liability of unrecognized tax benefits will change with EUR 5.2 million within the next 12 months. The estimated changes to the liability for unrecognized tax benefits within the next 12 months are mainly due to expected settlements and expiration of statute of limitations which are expected to have a favorable effect on the Company's effective tax rate.

There were three main topics on which we reached agreement with the fiscal authorities in 2008 that have affected our effective tax rate. For these three main topics and their related tax positions the more-likely-than-not recognition threshold of FIN 48 was not met as of December 31, 2007.

In the course of 2008, we reached agreement with the Netherlands tax authorities on determination of the tax benefits resulting from application of the so-called "Royalty Box", a Netherlands tax measure intended to stimulate innovation. The Royalty Box mechanism partly exempts income attributable to research efforts and protected by patents from taxation, resulting in taxation of so called patent income at an effective corporate income tax rate of 10.0 percent instead of 25.5 percent. This agreement covered the Royalty Box for the years 2007, 2008 and the years thereafter.

We also reached agreement with the Netherlands tax authorities on the valuation of intellectual property rights acquired in the United States against a fixed historical U.S. dollar exchange rate.

Finally, we reached agreement with the Netherlands tax authorities on the balance of the temporarily depreciated investment in ASML's United States subsidiary. This depreciated amount has to be added back to taxable income in the period 2006-2010 in five equal installments.

The benefit of the Royalty Box for both 2007 and 2008, the benefit of the recognized deferred tax asset for intellectual property rights and the benefit of the temporarily depreciated investment have all been recorded in the provision for income taxes for 2008. As a result, ASML booked a tax income of approximately EUR 70 million.

Results of Operations

The following discussion and analysis of results of operations should be viewed in the context of the risks affecting our business strategy, described in Item 3.D. "Risk Factors".

Set forth below our consolidated statements of operations data for the three years ended December 31, 2008:

Year ended December 31 (in millions)	2006¹ EUR	2007^{1,2} EUR	2008 EUR
Total net sales	3,581.8	3,768.2	2,953.7
Cost of sales	2,127.8	2,218.5	1,938.2
Gross profit on sales	1,454.0	1,549.7	1,015.5
Research and development costs	413.7	510.5	538.3
Amortization of in-process research and development costs	-	23.2	-
Research and development credits	(27.1)	(24.4)	(22.2)
Selling, general and administrative costs	204.8	225.7	212.3
Income from operations	862.6	814.7	287.1
Interest income (expense), net	(0.9)	33.5	22.6
Income from operations before income taxes	861.7	848.2	309.7
(Provision for) benefit from income taxes	(243.2)	(177.2)	12.7
Net income	618.5	671.0	322.4

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Set forth below are our consolidated statements of operations from operations data for the three years ended December 31, 2008, expressed as a percentage of our total net sales:

Year ended December 31 (as percentage of net sales)	2006¹	2007^{1,2}	2008
Total net sales	100.0	100.0	100.0
Cost of sales	59.4	58.9	65.6
Gross profit on sales	40.6	41.1	34.4
Research and development costs	11.6	13.5	18.2
Amortization of in-process research and development costs	-	0.6	-
Research and development credits	(0.8)	(0.6)	(0.7)
Selling, general and administrative costs	5.7	6.0	7.2
Income from operations	24.1	21.6	9.7
Interest income, net	-	0.9	0.8
Income from operations before income taxes	24.1	22.5	10.5
(Provision for) benefit from income taxes	(6.8)	(4.7)	0.4
Net income	17.3	17.8	10.9

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Results of operations 2008 compared with 2007

Consolidated sales and gross profit

The following table shows a summary of sales (revenue and units sold), gross profit on sales and ASP data on an annual and semi-annual basis for the years ended December 31, 2007 and 2008.

	First half year	2007 ¹ Second half year	Full year	First half year	2008 Second half year	Full year
Net sales (EUR million)	1,879	1,889	3,768	1,763	1,191	2,954
Net system sales (EUR million)	1,673	1,678	3,351	1,546	971	2,517
Net service and field option sales (EUR million)	206	211	417	217	220	437
Total systems recognized	146	114	260	89	62	151
Total new systems recognized	131	104	235	74	41	115
Total used systems recognized	15	10	25	15	21	36
Gross profit on sales (% of sales)	41.3	41.0	41.1	40.3	25.6	34.4
ASP for systems (EUR million)	11.5	14.7	12.9	17.4	15.7	16.7
ASP for new systems (EUR million)	12.5	15.6	13.8	20.0	21.2	20.4
ASP for used systems (EUR million)	2.8	5.5	3.9	4.6	4.9	4.8

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

Net sales decreased by EUR 814 million or 21.6 percent from EUR 3,768 million in 2007 to EUR 2,954 million in 2008. The decrease in net sales mainly relates to a decrease in net system sales of EUR 834 million, from EUR 3,351 million in 2007 to EUR 2,517 million in 2008 mainly attributable to a lower number of systems shipped (-41.9 percent), partly offset by an increased ASP (+29.5 percent). Net service and field option sales increased from EUR 417 million in 2007 to EUR 437 million in 2008.

The number of systems shipped decreased by 41.9 percent from 260 systems in 2007 to 151 systems in 2008. The year 2008 was characterized by significant overall economic uncertainty fuelled by the current global financial market crisis and economic downturn. This led to lower overall semiconductor end-demand. Against this background our customers started to re-assess their strategic alliances and their investments to match production capacity to end-demand, resulting in a delay of non leading-edge production capacity additions. While lithography equipment buyers are reducing standard production capacity, their willingness to invest in leading-edge immersion technology, however, remained strong as this technology enables lithography equipment buyers to reduce their cost aggressively.

The ASP of our systems increased by 29.5 percent from EUR 12.9 million in 2007 to EUR 16.7 million in 2008. This increase was mainly driven by a change in product mix reflecting the continued shift in market demand to our leading-edge technology systems (as customers continued their ramp-up of volume manufacturing with our leading-edge immersion systems for 45 nm Flash and 55 nm DRAM) with higher ASPs driven by the shrink roadmaps of our customers.

From time to time, ASML repurchases systems that it has manufactured and sold and, following factory-rebuild or refurbishment, resells those systems to other customers. This repurchase decision is mainly driven by market demand for capacity expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The number of used systems sold in 2008 increased to 36 from 25 in 2007, reflecting increased demand for older systems to produce less complex ICs following the lower overall semiconductor end-demand than anticipated. The ASP for used systems increased from EUR 3.9 million in 2007 to EUR 4.8 million in 2008, reflecting a further shift from our older PAS 2500 towards our newer PAS 5500 family and TWINSCAN family.

Through 2008, 17 of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. In 2008, sales to the largest customer accounted for EUR 754 million, or 25.5 percent of our net sales. In 2007, sales to the largest customer accounted for EUR 818 million, or 21.7 percent of our net sales.

Gross profit decreased from EUR 1,550 million or 41.1 percent of net sales in 2007 to 1,016 million or 34.4 percent of net sales in 2008. Gross margin was negatively impacted by restructuring and impairment charges (-4.6 percent), by capacity losses consistent with lower production levels (-4.3 percent) and by a changed product mix (-0.8 percent) partly offset by increased ASPs (1.7 percent) and decreased cost of goods (1.9 percent) reflecting the results of our continuous cost of goods reduction programs.

We started 2008 with an order backlog of 89 systems. In 2008, we booked orders for 115 systems, received order cancellations or push-outs beyond 12 months of 12 systems and recognized sales for 151 systems. This resulted in an order backlog of 41 systems as of December 31, 2008. The total value of our backlog as of December 31, 2008 amounted to EUR 755 million with an ASP of EUR 18.4 million, compared with a backlog of EUR 1,697 million with an ASP of EUR 19.1 million as of December 31, 2007. See also Item 5.D. "Trend Information".

Research and development

Research and development costs increased by EUR 27 million or 5.4 percent from EUR 511 million in 2007 to EUR 538 million in 2008. This increase reflects continued investment in technology in 2008 through investments in the development of enhancements of the next generation TWINSCAN systems based on immersion, double patterning and EUV.

Amortization of in-process research and development costs of EUR 23 million in 2007 relates to a one-off charge related to the Brion acquisition.

Research and development credits are EUR 22 million in 2008 compared to EUR 24 million in 2007.

Selling, general and administrative costs

Selling, general and administrative costs decreased by 5.9 percent from EUR 226 million in 2007 to EUR 212 million in 2008. In anticipation to the lower sales level we reduced selling, general and administration costs

Net interest income

Net interest income decreased from EUR 33 million in 2007 to EUR 23 million in 2008. Our interest income relates to interest earned on our cash and cash equivalents. In 2008 interest income decreased mainly as a result of a lower average cash balance and slightly lower interest rates. While operating cash flows remained positive, the average cash balance decreased mainly as a result of the share buyback programs implemented in the fourth quarter of 2007 and in the first quarter of 2008, the dividend paid in 2008 and cash used for capital expenditures.

Income taxes

Income taxes represented -4.1 percent of income before taxes in 2008, compared to 20.9 percent in 2007. The decrease in income taxes in 2008 is mainly related to three main items on which we reached agreement with the Netherlands tax authorities. These items are the treatment of taxable income related to ASML's patent portfolio, the valuation of intellectual property rights acquired in the past against historical exchange rates, and the treatment of taxable income related to a temporarily depreciated investment in ASML's United States subsidiary, all of which had a favorable impact on the Company's effective tax rate. As a result of these three items, ASML recognized exceptional tax income of approximately EUR 70 million in 2008.

Results of operations 2007 compared with 2006

Consolidated sales and gross profit

The following table shows a summary of sales (revenue and units sold), gross profit on sales and ASP data on an annual and semi-annual basis for the years ended December 31, 2006 and 2007.

	First half year	2006 ¹ Second half year	Full year	First half year	2007 ¹ Second half year	Full year
Net sales (EUR million)	1,565	2,017	3,582	1,879	1,889	3,768
Net system sales (EUR million)	1,388	1,826	3,214	1,673	1,678	3,351
Net service and field option sales (EUR million)	177	191	368	206	211	417
Total systems recognized	123	143	266	146	114	260
Total new systems recognized	97	123	220	131	104	235
Total used systems recognized	26	20	46	15	10	25
Gross profit on sales (% of sales)	40.3	40.8	40.6	41.3	41.0	41.1
ASP for systems (EUR million)	11.3	12.8	12.1	11.5	14.7	12.9
ASP for new systems (EUR million)	13.6	14.2	13.9	12.5	15.6	13.8
ASP for used systems (EUR million)	2.8	3.7	3.2	2.8	5.5	3.9

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

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We achieved growth in net sales of EUR 186 million or 5.2 percent from EUR 3,582 million in 2006 to EUR 3,768 million in 2007. The increase in net sales mainly relates to an increase in net system sales of EUR 137 million or 4.3 percent, from EUR 3,214 million in 2006 to EUR 3,351 million in 2007 mainly attributable to increased ASPs partly offset by a lower number of systems shipped and to an increase in net service and field option sales of EUR 49 million or 13.3 percent from EUR 368 million in 2006 to EUR 417 million in 2007. The increase in service sales was mainly driven by the growth of our installed system base at customers. The growth of field option sales is positively impacted by the customer demand for system upgrade packages that further enhance system performance.

The number of systems shipped decreased by 2.3 percent from 266 systems in 2006 to 260 systems in 2007, following a year of significant growth of systems shipped (35.7 percent) in 2006. The continued high market demand for lithography equipment was driven by a continuing increased market demand for semiconductor revenue by 11 percent in 2007 following two years of semiconductor unit growth by 9 percent in 2005 and 2006. Furthermore the 2007 strong market demand was related to the continued drive from our customers to follow or accelerate their technology shrink roadmaps.

The ASP of our systems increased by 6.6 percent from EUR 12.1 million in 2006 to EUR 12.9 million in 2007. This increase was mainly driven by a change in product mix reflecting the continued shift in market demand to our leading-edge technology systems (as customers commenced their ramp-up of volume manufacturing with our leading-edge immersion systems for 45 nm Flash and 55 nm DRAM) with higher ASPs driven by the shrink roadmaps of our customers. This increase was partly offset by a growing number of i-line systems sold, with relatively low ASPs, in 2007 reflecting our market share gains in this segment of the market.

From time to time, ASML repurchases systems that it has manufactured and sold and, following factory-rebuild or refurbishment, resells those systems to other customers. This repurchase decision is mainly driven by market demand for capacity expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The number of used systems sold in 2007 decreased to 25 from 46 in 2006, reflecting decreased demand for older systems to produce less complex ICs following two years of significant capacity growth. The ASP for used systems increased from EUR 3.2 million in 2006 to EUR 3.9 million in 2007, reflecting a further shift from our older PAS 2500 towards our newer PAS 5500 family and TWINSCAN family.

Of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditures, 18 were customers of ASML in 2007. In 2007, sales to the largest customer accounted for EUR 818 million, or 21.7 percent of our net sales. In 2006, sales to the largest customer accounted for EUR 722 million, or 20.1 percent of our net sales.

Gross profit increased 6.6 percent from EUR 1,454 million or 40.6 percent of net sales in 2006 to 1,550 million or 41.1 percent of net sales in 2007. The gross margin was positively impacted by a changed product mix (0.2 percent) and, more important, by decreased cost of sales (2.4 percent) reflecting the results of our continuous cost of goods reduction programs. Gross margin was negatively impacted by decreased ASPs of mature technology (-2.4 percent). In addition gross margin was positively impacted by currency effects (0.4 percent) partly offset by various other items including lower service gross margin as a result of investments in spare parts related to the introduction of immersion systems for volume manufacturing as well as investments in our ASML Center of Excellence (ACE) in Asia.

We started 2007 with an order backlog of 163 systems. In 2007, we booked orders for 203 systems, received order cancellations or push-outs beyond 12 months of 17 systems and recognized sales for 260 systems. This resulted in an order backlog of 89 systems as of December 31, 2007. The total value of our backlog as of December 31, 2007 amounted to EUR 1,697 million with an ASP of EUR 19.1 million, compared with a backlog of EUR 2,146 million with an ASP of EUR 13.2 million as of December 31, 2006. See also Item 5.D. "Trend Information".

Research and development

Research and development costs increased by EUR 97 million or 23.4 percent from EUR 414 million in 2006 to EUR 511 million in 2007. The increase reflected further investment in technology in 2007 through investments in the development of the newest versions of our high resolution TWINSCAN systems and enhancements of the next generation TWINSCAN systems based on immersion, double patterning and EUV. In the third quarter of 2007 we shipped the first XT:1900i, capable of imaging features down to 40 nm.

Amortization of in-process research and development costs of EUR 23 million in 2007 relates to a one-off charge related to the Brion acquisition.

Research and development credits are EUR 24 million in 2007 compared to EUR 27 million in 2006.

Selling, general and administrative costs

Selling, general and administrative costs increased by 10.2 percent from EUR 205 million in 2006 to EUR 226 million in 2007 reflecting the increased activity level to support sales growth. Over the past two years selling, general and administrative costs increased by 12.2 percent, while net sales grew by 49.0 percent. Continuing cost reduction and efficiency programs contributed to maintaining a relatively low increase in the level of selling, general and administrative costs compared to the increase in net sales and related activity over the two year period ended December 31, 2007.

Net interest expense

Net interest changed from EUR 1 million net interest expense in 2006 to EUR 33 million net interest income in 2007. Our interest income relates to interest earned on our cash and cash equivalents. In 2007 interest income increased mainly as a result of higher short-term interest rates and a higher average cash balance. The average cash balance was higher as a result of the cash provided by operating activities and the issuance of a EUR 600 million Eurobond. Interest expense in 2007 was lower due to the conversion of substantially all the U.S. dollar 575 million 5.75 percent Convertible Subordinated Notes in October 2006 (with the unconverted notes redeemed) and the conversion of substantially all the EUR 380 million 5.50 percent Convertible Subordinated Notes, in October 2007 (with the unconverted notes redeemed). This was partly offset by the issuance of a EUR 600 million Eurobond in June 2007.

Income taxes

Income taxes represented 20.9 percent of income before taxes in 2007, compared to 28.2 percent in 2006. The decrease in income taxes in 2007 is mainly related to a favorable settlement of unrecognized tax benefits. In addition a corporate tax rate reduction in the Netherlands also contributed to a decrease in income taxes. As of January 1, 2007, we implemented FIN 48 "Accounting for uncertainty in income taxes". The cumulative effect of implementing FIN 48 was an increase in the tax liability for uncertain tax positions against retained earnings of EUR 7.6 million at January 1, 2007.

Foreign Exchange Management

See Item 3.D. "Risk Factors, Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations", Item 11 "Quantitative and Qualitative Disclosures About Market Risk" and Note 4 to our consolidated financial statements.

New U.S. GAAP Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This statement replaces FASB Statement No. 141 "Business Combinations". SFAS 141(R) improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This FASB statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the impact that SFAS 141(R) may have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). This FASB Staff Position (FSP) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently assessing the impact that FSP SFAS 142-3 may have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). The Statement defines fair value, provides guidance on how to measure assets and liabilities using fair value and expands disclosures about fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively (with a limited form of retrospective application) as of the beginning of the fiscal year in which this Statement is initially applied.

In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS 157 for certain non-recurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 157 as delayed by FSP FAS 157-2 may have on our consolidated financial statements. ASML has only partially adopted SFAS 157. We have not applied SFAS 157 for impairment assessments of non-financial long-lived assets and goodwill.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair value of a Financial Asset in a Market That Is Not Active" ("FSP FAS 157-3"), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP FAS 157-3 clarifies how (1) management's internal assumptions should be considered in measuring

fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and

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unobservable data to measure fair value. The guidance in FSP FAS 157-3 is effective immediately and will apply to ASML upon adoption of SFAS 157. We believe that the adoption of FSP FAS 157-3 for the items currently deferred by FSP FAS 157-2 will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). This statement is intended to enhance required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash-flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently assessing the impact that SFAS 161 may have on our consolidated financial statements.

B. Liquidity and Capital Resources

We generated cash from operating activities of EUR 701 million and EUR 281 million in 2007 and 2008, respectively. The primary components of cash provided by operating activities in 2008 were net income (EUR 322 million), depreciation (EUR 118 million) and inventory obsolescence (EUR 140 million) partially offset by a cash outflow of EUR 309 million due to changes to assets and liabilities. The changes in assets and liabilities mainly relate to lower income taxes payable of EUR 158 million, lower accounts payable of EUR 94 million, higher other receivables of EUR 76 million, higher inventories of EUR 88 million, partly offset by lower accounts receivable of EUR 132 million.

We used EUR 362 million for investing activities in 2007 and EUR 260 million in 2008. The 2007 expenditures included EUR 188 million for the Brion acquisition. The majority of the 2008 expenditures was spent on the finalization of the construction of production facilities in Veldhoven and Taiwan and, to a lesser extent, machinery and equipment and information technology investments.

Net cash used in financing activities was EUR 715 million in 2007 compared to EUR 184 million in 2008. Net cash used in financing activities mainly included EUR 108 million as a result of our 2008 dividend payment, 88 million for share buyback programs and 11 million cash inflow from the issuance of shares in connection with the exercise and purchase of employee stock options. In 2007, cash provided by financing activities mainly included EUR 594 million net proceeds from the issuance in June 2007 of a Eurobond, EUR 80 million from the issuance of shares in connection with the exercises of employee stock options. In 2007, cash used by financing activities mainly included EUR 1,372 million for share buyback programs (including the synthetic share buyback) and EUR 10 million for the redemption of debt. See also Item 16.E. "Purchases of Equity Securities by the Issuer and Affiliated Purchasers".

Our principal sources of liquidity consist of EUR 1,109 million of cash and cash equivalents as of December 31, 2008, EUR 500 million of available credit facilities as of December 31, 2008 and cash-flows from operations. The credit facility contains a restrictive covenant that the Company maintains a minimum financial condition ratio, calculated with a contractually agreed formula. ASML was in compliance with this covenant as of December 31, 2008 and 2007. ASML does not currently anticipate any difficulty in continuing to meet this covenant requirement. For further details of our credit facilities, see Note 15 to our consolidated financial statements. In addition to cash and available credit facilities, from time to time we may raise additional capital in debt and equity markets. Our liquidity needs are affected by many factors, some of which are based on the normal ongoing operations of the business, and others that relate to the uncertainties of the global economy and the semiconductor industry. Although our cash requirements fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash balances, are sufficient to satisfy our requirements in the foreseeable future.

We expect a reduction of cash outflow from investing activities in 2009 as we will finalize the production facilities (for our latest technologies such as EUV and double patterning). We expect that our capital expenditures in 2009 could be approximately EUR 200 million, a decrease of EUR 122 million compared to 2008. We expect that a significant part of the 2009 expenditures will be allocated to the finalization of the construction and upgrades of production facilities in the Netherlands. See also Item 4.D. "Property, Plant and Equipment". We expect to finance 2009 capital expenditures out of our cash flow from operations and available cash and cash equivalents.

As general strategy we seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 and 1.5 billion. To the extent that our cash and cash equivalents exceed this target and there are no investment opportunities that we wish to pursue, we will consider returning excess cash to our shareholders, including through share buybacks, dividends and capital repayment. Implementation of additional share buy back programs will depend on the recovery of the industry and economy.

We have repayment obligations in 2017, amounting to EUR 600 million, on our 5.75 percent senior notes due 2017. We currently intend to fund any future repayment obligations primarily with cash on hand and cash generated through operations. A description of our senior bond and lines of credit is provided in Note 15 to our consolidated financial statements.

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Our contractual obligations and commercial commitments are disclosed in further detail in Item 5.F. “Tabular Disclosure of Contractual Obligations” and Note 16 to our consolidated financial statements.

See Notes 5 and 15 to our consolidated financial statements for discussion of our funding, treasury policies and our long-term debt.

C. Research and Development, Patents and Licenses, etc.

Research and Development

See Item 4.B. “Business Overview, Research and Development” and Item 5.A. “Operating Results”.

Intellectual Property Matters

See Item 3.D. “Risk Factors, Defending Against Intellectual Property Claims by Others Could Harm Our Business” and Item 4.B. “Business Overview, Intellectual Property”.

D. Trend Information

The severity of the global economic downturn has caused semiconductor manufacturers to delay their investment plans. Independent market researchers are lowering their estimates for the 2008 and 2009 integrated circuit unit forecasts as a result of the weakening economy. The uncertainty as to the timing of a semiconductor product end-demand pick up and the time needed to complete the current consolidation and restructuring activities in the memory sector, makes a recovery prediction impossible. We have therefore taken decisive actions to adjust its cost structure to cope with these exceptional economic circumstances so we can generate cash at a low level of sales, without impacting our current key technology development roadmap. In addition, ASML plans to maintain a level of manufacturing capacity to be able to ramp up production to meet customer needs without lengthy lead times, as the lithography market may pick up quickly once product end-demand recovers.

In December 2008, ASML received approval to participate in the Labor Time Reduction Program, a Netherlands government program that helps companies to reduce working hours for employees without impacting their salaries. Employees receive part of their wages and salaries from the national unemployment fund on the condition they will spend non-working hours on training and education. The plan is designed to protect employment in viable industries during an exceptionally severe downturn such as the current one. It is a temporary measure consisting of an initial period of six weeks that can be renewed up to three times, pending government approval for each period. Extension for a further six weeks will be requested early 2009. The effect of this measure is that the labor time of 1,100 of our payroll employees in the Netherlands will be reduced by 50 percent for six weeks as of January 5, 2009. This measure will decrease our salary expenses by 35 percent for this group of employees in the applicable period, amounting to EUR 1.5 million per applicable period in 2009.

ASML has reduced costs through a comprehensive company-wide efficiency program, without impacting key research and development projects. The Company has been able to react quickly by using the flexibility of our business model, including significant use of flexible contract labor. ASML still has an extensive pool of flexible contract labor and the Company intends to avoid forced redundancies. By the first quarter of 2009 we expect to have cut our operational expenses by EUR 50 million per quarter. We expect that these savings, in combination with reduced components purchasing and the assembly of components already in inventory, will help us generate positive operating cash flow during the first quarter of 2009. Also, about half of our quarterly cost savings will be sustainable when the economy recovers, making ASML a more profitable company.

The trends discussed in this Item 5.D. “Trend information” are subject to risks and uncertainties. See “Part I – Special Note Regarding Forward Looking Statements”.

The following table sets forth our backlog of systems as of December 31, 2007 and 2008.

Year Ended December 31	2007	2008
Backlog sales of new systems (number)	79	33
Backlog sales of used systems (number)	10	8
Backlog sales of total systems (number)	89	41
Value of backlog new systems (EUR million)	1,650	719
Value of backlog used systems (EUR million)	47	36
Value of backlog of total systems (EUR million)	1,697	755
ASP for new systems (EUR million)	20.9	21.8
ASP for used systems (EUR million)	4.7	4.5
ASP for total systems (EUR million)	19.1	18.4

Our backlog includes only system orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. Historically, orders have been subject to cancellation or delay by the customer. Due to possible customer changes in delivery schedules and to cancellation of orders, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

The decrease in the total value of the backlog was primarily the result of increased uncertainty about future global economic market conditions and the impact on the overall semiconductor end-demand. As a result, we currently see a trend in customer order behavior toward ordering on a system by system basis when needed rather than ordering systems on a 12-month rolling capacity planning basis.

ASML expects first quarter 2009 net sales between EUR 180 million to EUR 200 million, and gross margin in the first quarter of 2009 about 8 percent. Research and development expenditures are expected to be at EUR 117 million net of credits and selling, general and administrative costs are expected at EUR 44 million.

E. Off-Balance Sheet Arrangements

We have various contractual obligations, some of which are required to be recorded as liabilities in our consolidated financial statements, including long- and short-term debt. Other contractual arrangements, namely operating lease commitments and purchase obligations, are not generally required to be recognized as liabilities on our consolidated balance sheets but are required to be disclosed.

Variable Interest Entities

In December 2003, the FASB issued FIN 46(R) "Consolidation of Variable Interest Entities". Under FIN 46(R), an enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or combination of variable interests) that will either absorb a majority of the entity's expected losses if they occur, or receive a majority of the entity's expected residual returns if they occur.

In 2003, ASML moved to its current Veldhoven headquarters. We lease these headquarters for a period of 15 years from an entity (the "lessor") that was incorporated by a syndicate of three banks ("shareholders") solely for the purpose of leasing this building. The lessor's shareholders equity amounts to EUR 1.9 million. The shareholders each granted a loan of EUR 11.6 million and a fourth bank granted a loan of EUR 12.3 million to the lessor. ASML provided the lessor with a subordinated loan of EUR 5.4 million and has a purchase option that is exercisable either at the end of the lease in 2018, at a pre-determined price of EUR 24.5 million, or during the lease at the book value of the assets. The total assets of the lessor entity amounted to approximately EUR 54 million at inception of the lease.

ASML believes that it holds a variable interest in this entity and that the entity is a variable interest entity ("VIE") because it is subject to consolidation in accordance with the provisions of paragraph 5 of FIN 46(R). The total equity investment at risk is approximately 3.6 percent of the lessor's total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders.

ASML has determined that it is not appropriate to consolidate the VIE as it is not the primary beneficiary. To make this determination, the expected losses and expected residual returns of the lessor were allocated to each variable interest holder based on their contractual right to absorb expected losses and residual returns. The analysis of expected losses and expected residual returns involved determining the expected negative and positive variability in the fair value of the lessor's net assets exclusive of variable interests through various cash-flow scenarios based upon the expected market value of the lessor's net assets. Based on this analysis, ASML determined that other variable interest holders will absorb the majority of the lessor's expected losses, and as a result, ASML is not the primary beneficiary.

ASML's maximum exposure to the lessor's expected losses is estimated to be approximately EUR 5.4 million.

Purchase Obligations

We enter into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations include medium to long-term purchase agreements mainly regarding goods. These contracts differ and may include certain restrictive clauses. Any identified losses that result from purchase commitments that are forfeited are provided for in our financial statements. As of December 31, 2008, we had purchase commitments for a total amount of approximately EUR 978 million, compared to EUR 1,405 million as of December 31, 2007. The current commitment level has decreased compared to 2007, which is mainly due to lower market demand. In our negotiations with suppliers we

continuously seek to align our purchase commitments with our business objectives. We are able to delay the main part of our purchase commitments with one or two years. See also Item 5.F. "Tabular Disclosure of Contractual Obligations".

Other Off-Balance Sheet Arrangements

We have certain additional commitments and contingencies that are not recorded on our balance sheet but may result in future cash requirements.

We provide guarantees to third parties in connection with transactions entered into in the ordinary course of business from time to time.

F. Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 31, 2008 can be summarized as follows:

Payments due by period (In thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Long Term Debt Obligations, including interest expenses ¹	957,550	34,500	69,000	69,000	785,050
Operating Lease Obligations	152,454	36,865	50,982	31,553	33,054
Purchase Obligations	978,250	919,586	34,532	7,341	16,791
Unrecognized tax benefits	124,202	5,247	34,900	14,324	69,731
Other Liabilities ²	1,131	1,131	–	–	–
Total Contractual Obligations	2,213,587	997,329	189,414	122,218	904,626

1 We refer to Note 15 to the consolidated financial statements for the amounts excluding interest expenses.

2 Other liabilities relate to a finance lease agreement regarding software.

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Long term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. Reference is made to note 15 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 42 million, EUR 46 million and EUR 43 million for the years ended December 31, 2006, 2007 and 2008 respectively.

Several operating leases for our buildings contain purchase options, exercisable at the option of the Company at the end of the lease, and in some cases, during the term of the lease. The amounts to be paid if ASML should exercise these purchase options at the end of the lease can be summarized as of December 31, 2008 as follows:

Purchase options due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Purchase options	58,004	2,269	-	8,250	47,485

Purchase obligations include purchase commitments with vendors in the ordinary course of business. We are able to delay the main part of our purchase commitments for one or two years.

Unrecognized tax benefits relate to a liability for uncertain tax positions. Reference is made to Note 19 to the consolidated financial statements.

G. Safe Harbor

See Part I “Special Note Regarding Forward Looking Statements”.

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

The members of our Supervisory Board and our Board of Management are as follows:

Name	Title	Year of Birth	Term Expires
Arthur P.M. van der Poel ^{1, 3, 4}	Chairman of the Supervisory Board	1948	2012
Jan A. Dekker ^{1, 4}	Member of the Supervisory Board	1939	2009
Jos W.B. Westerburgen ^{2, 3}	Member of the Supervisory Board	1942	2009
Fritz W. Fröhlich ¹	Member of the Supervisory Board	1942	2012
Ieke C.J. van den Burg ²	Member of the Supervisory Board	1952	2009
OB Bilous ^{3, 4}	Member of the Supervisory Board	1938	2009
William T. Siegle ⁴	Member of the Supervisory Board	1939	2011
Eric Meurice	President, Chief Executive Officer and Chairman of the Board of Management	1956	2012
Peter T.F.M. Wennink	Executive Vice President, Chief Financial Officer and Member of the Board of Management	1957	N/A ⁵
Martin A. van den Brink	Executive Vice President Marketing & Technology and Member of the Board of Management	1957	N/A ⁵
Klaus P. Fuchs ⁶	Executive Vice President Operations and Member of the Board of Management	1958	2010
Frits J. van Hout ⁷	Executive Vice President and Member of the Board of Management	1960	2013

¹ Member of the Audit Committee.

² Member of the Remuneration Committee.

³ Member of the Selection and Nomination Committee.

⁴ Member of the Technology and Strategy Committee.

⁵ There are no specified terms for members of the Board of Management appointed prior to March 2004.

⁶ Mr. Fuchs resigned from his position on the Board of Management, effective January 1, 2009.

⁷ Mr. Van Hout's appointment to ASML's Board of Management is subject to notification of the General Meeting of Shareholders, scheduled on March 26, 2009.

⁸ ASML's Supervisory Board will nominate two new members for appointment of the Supervisory Board: Mrs. Pauline F.M. van der Meer Mohr and Mr. Wolfgang

⁸ Ziebart. These appointments will be on the agenda for the Annual General Meeting of Shareholders to be held on March 26, 2009.

Effective April 3, 2008, Mr. Van der Poel and Mr. Fröhlich retired by rotation from the Supervisory Board and were both reappointed as members of the Supervisory Board. Effective June 4, 2008, Mr. Deusinger resigned from his position in the Supervisory Board. Ms. Van den Burg, Mr. Bilous, Mr. Dekker and Mr. Westerburgen will retire by rotation from the Supervisory

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Board on March 26, 2009. As Mr. Dekker will have been a member of the Supervisory Board for a period of twelve years in 2009, he is not eligible for reappointment. The other members of the Supervisory Board are eligible for reappointment.

There are no family relationships among the members of our Supervisory Board and Board of Management.

Since 2005, the Works Council of ASML Netherlands B.V. has an enhanced right to make recommendations (which recommendation may be rejected by the Supervisory Board in limited circumstances) for nomination of at least one-third of the members of the Supervisory Board. See Item 6.C. "Board Practices, Supervisory Board". At the 2005 General Meeting of Shareholders, Ms. Van den Burg was appointed pursuant to this recommendation right. At the General Meeting of Shareholders to be held on March 26, 2009, Mrs. Pauline F.M. van der Meer Mohr will be due for appointment pursuant to this enhanced right of recommendation. In accordance with our Articles of Association, the Works Council will have an enhanced recommendation right at the 2009 General Meeting of Shareholders with respect to the re-appointment of Ms. Van den Burg and the appointment of Mrs. Van der Meer Mohr as an additional Supervisory Board member.

Director and Officer Biographies

Arthur P.M. van der Poel

Mr. Van der Poel was appointed to our Supervisory Board in March 2004 and was appointed as Chairman in 2007. Until 2001 he was the Chief Executive Officer of Philips Semiconductors. Mr. Van der Poel is a former member of the Board of Management (until April 2003) and a former member of the Group Management Committee of Royal Philips Electronics. Mr. Van der Poel is a member of the Board of Directors of Gemalto Holding N.V. and serves as a member of the Supervisory Boards of PSV N.V. and DHV Holding B.V.

Jan A. Dekker

Mr. Dekker has served on our Supervisory Board since 1997. Mr. Dekker is the former Chief Executive Officer of TNO from which he retired in November 2003. He currently serves on the Supervisory Boards of Koninklijke BAM Group N.V. and Syntens and he is also President of the Royal Institute of Engineers (KIVI NIRIA).

Jos W.B. Westerburgen

Mr. Westerburgen was appointed to our Supervisory Board in March 2002. Mr. Westerburgen has extensive experience in the field of corporate law and tax. Mr. Westerburgen is former Company Secretary and Head of Tax of Unilever N.V. and Plc. Mr. Westerburgen currently serves as a member of the Supervisory Board of Unibail-Rodamco S.A. and is also Vice-Chairman of the Board of the Association Aegon.

Fritz W. Fröhlich

Mr. Fröhlich was appointed to our Supervisory Board in March 2004. He is the former Deputy Chairman and Chief Financial Officer of Akzo Nobel N.V. Mr. Fröhlich is the Chairman of the Supervisory Boards of Randstad Holding N.V., Draka Holding N.V. and Altana A.G. and serves as a member of the Supervisory Boards of Allianz Nederland N.V. and Rexel S.A.

Ieke C.J. van den Burg

Ms. Van den Burg was appointed to our Supervisory Board in March 2005. She is a former member of the Dutch Social and Economic Council and of the EU Economic and Social Committee. Ms. Van den Burg also held various positions in Dutch and international trade union and labor organizations. Ms. Van den Burg is a member of the European Parliament ("EP") and serves on the EP's Committee on Economic and Monetary Affairs and on the Committee on Budget Control. Ms. Van den Burg is a member of the Supervisory Board of APG Group N.V.

OB Bilous

Mr. Bilous was appointed to our Supervisory Board in March 2005. From 1960 until 2000 Mr. Bilous held various management positions at IBM, including General Manager and VP Worldwide Manufacturing of IBM's Microelectronics Division. He also served on the Boards of SMST, ALTIS Semiconductor and Dominion Semiconductor. Mr. Bilous currently serves as Chairman of the Board of Directors of Sematech and as Board member of Nantero, Inc.

William T. Siegle

Mr. Siegle was appointed to our Supervisory Board in March 2007. From 1964 until 1990 Mr. Siegle held various technical, management and executive positions at IBM, including Director of the Advanced Technology Center. From 1990 until 2005 Mr. Siegle served as SVP and Chief Scientist at AMD, responsible for the development of technology platforms and manufacturing operations worldwide. He was also chairman of the Board of Directors of SRC, member of the Board of Directors

of Sematech and Director of Etec, Inc. and DuPont Photomask, Inc. Currently, Mr. Siegle is a member of the Advisory Board of Acorn Technologies, Inc.

Eric Meurice

Mr. Meurice joined ASML on October 1, 2004 as President, Chief Executive Officer and Chairman of the Board of Management. Prior to joining ASML, and since March 2001, he was Executive Vice President – Thomson Television Worldwide. Between 1995 and 2001, Mr. Meurice served as Vice President for Dell Computer, where he ran the Western, Eastern Europe and Dell's Emerging Markets business within EMEA. Before 1995, he gained extensive technology experience in the semiconductor industry at ITT Semiconductors Group and Intel Corporation, in the micro-controller group. Mr. Meurice is currently a member of the Board of Directors of Verigy Inc.

Peter T.F.M. Wennink

Mr. Wennink joined ASML on January 1, 1999 and was appointed as Executive Vice President, Chief Financial Officer of ASML and member of our Board of Management on July 1, 1999. Mr. Wennink has an extensive background in finance and accounting. Prior to his employment with ASML, Mr. Wennink worked as a partner at Deloitte Accountants, specializing in the high technology industry with an emphasis on the semiconductor equipment industry. Mr. Wennink is a member of the Netherlands Institute of Registered Accountants. Mr. Wennink is currently a member of the Supervisory Board of Bank Insinger de Beaufort N.V.

Martin A. van den Brink

Mr. Van den Brink was appointed as Executive Vice President Marketing & Technology in 1999. Before that, he served as Vice President Technology since 1995. Mr. Van den Brink was appointed as a member of our Board of Management in 1999.

Klaus P. Fuchs

Mr. Fuchs was appointed as Executive Vice President Operations and member of the Board of Management in 2006 and resigned effective January 1, 2009. Between 2003 and 2005, Mr. Fuchs served as Vice President of Linde AG in Wiesbaden, Germany where he was responsible for strategic direction and operations of its industrial sector. Before that he was technical director and member of the executive board at TRW Aerospace and he also gained experience at Daimler Benz Aerospace as Vice President of electronic systems.

Frits J. van Hout

Mr. Van Hout's appointment to our Board of Management will be effective as per the notification of the General Meeting of Shareholders, scheduled on March 26, 2009. In 2008, Mr. Van Hout was appointed Executive Vice President Integral Efficiency. After rejoining ASML in 2001, he served as Senior Vice President Customer Support and two Business Units. Mr. Van Hout was previously an ASML employee from its founding in 1984 to 1992, in various roles in engineering and sales. From 1998 to 2001, Mr. Van Hout served as Chief Executive Officer of the Beyeler Group, based in the Netherlands and Germany.

B. Compensation

For details on Board of Management and Supervisory Board remuneration as well as benefits upon termination, see Note 21 to our consolidated financial statements.

ASML has not established in the past and does not intend to establish in the future any stock option or purchase plans or other equity compensation arrangements for members of our Supervisory Board.

Bonus and Profit-sharing plans

For details of employee bonus and profit sharing plans, see Note 17 to our consolidated financial statements.

Pension plans

For details of our pension plans for our employees, see Note 17 to our consolidated financial statements.

C. Board Practices

Board Practices

General

We endorse the importance of good corporate governance, in which independent oversight, accountability and transparency are the most significant elements. Within the framework of corporate governance, it is important that a relationship of trust exists between the Board of Management, the Supervisory Board, our employees and our shareholders.

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In addition to the exchange of ideas at the General Meeting of Shareholders, other important forms of communication include the publication of our annual and quarterly financial results as well as press releases and publications posted on our website. In addition, we pursue a policy of active communication with our shareholders. Our corporate governance structure is intended to:

- provide shareholders with regular, reliable and relevant transparent information regarding our activities, structure, financial condition, performance and other information, including information on our social, ethical and environmental records and policies;
- apply high quality standards for disclosure, accounting and auditing; and
- apply stringent rules with regard to insider securities trading.

Two-tier structure

ASML is incorporated under Netherlands law and has a two-tier board structure. Responsibility for the management of ASML lies with the Board of Management. Independent, non-executive members serve on the Supervisory Board, which supervises and advises the members of the Board of Management in performing their management tasks. The Board of Management has the duty to keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit certain important decisions to the Supervisory Board for its approval. The supervision of the Board of Management by the Supervisory Board includes (i) achievement of ASML's objectives, (ii) corporate strategy and management of risks inherent to ASML's business activities, (iii) the structure and operation of internal risk management and control systems, (iv) the financial reporting process and (v) compliance with applicable legislation and regulations.

Supervisory Board members are prohibited from serving as officers or employees of ASML, and members of the Board of Management cannot serve on the Supervisory Board.

Board of Management

The Board of Management consists of at least two members or such larger number of members as determined by the Supervisory Board. Members of the Board of Management are appointed by the Supervisory Board. The Supervisory Board must notify the General Meeting of Shareholders of the intended appointment of a member of the Board of Management. As a result of our compliance with the Netherlands Corporate Governance Code, members of the Board of Management that are appointed in 2004 or later shall be appointed for a maximum period of four years, but may be re-appointed. Members of the Board of Management serve until the end of the term of their appointment, voluntary retirement, or suspension or dismissal by the Supervisory Board. In the case of dismissal, the Supervisory Board must first inform the General Meeting of Shareholders of the intended removal.

The Supervisory Board determines the remuneration of the individual members of the Board of Management, in line with the remuneration policy adopted by the General Meeting of Shareholders, upon a proposal of the Supervisory Board. ASML's remuneration policy is posted on its website.

Supervisory Board

The Supervisory Board consists of at least three members or such larger number as determined by the Supervisory Board. The Supervisory Board prepares a profile in relation to its size and composition; ASML's Supervisory Board profile is posted on ASML's website.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders from nominations of the Supervisory Board. Nominations must be reasoned and must be made available to the General Meeting of Shareholders and the Works Council simultaneously. Before the Supervisory Board presents its nominations, both the General Meeting of Shareholders and the Works Council may make recommendations (which the Supervisory Board may reject). In addition, the Works Council has an enhanced right to make recommendations for nomination of at least one-third of the members of the Supervisory Board, which recommendation may only be rejected by the Supervisory Board: (i) if the relevant person is unsuitable or (ii) if the Supervisory Board would not be duly composed if the recommended person were appointed as a Supervisory Board member. If no agreement can be reached between the Supervisory Board and the Works Council on these recommendations, the Supervisory Board may request the Enterprise Chamber of the Amsterdam Court to declare its objection legitimate. Any decision of the Enterprise Chamber on this matter is non-appealable.

Nominations of the Supervisory Board may be overruled by the General Meeting of Shareholders by an absolute majority of the votes representing at least one third of the total outstanding capital. If the votes cast in favor of such resolution do not represent at least one third of the total outstanding capital, a new meeting can be convened at which the nomination can be overruled by an absolute majority. If a nomination is overruled, the Supervisory Board must make a new nomination. If a nomination is not overruled and the General Meeting of Shareholders does not appoint the nominated person, the Supervisory Board will appoint the nominated person.

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Members of the Supervisory Board serve for a maximum term of four years from the date of their appointment, or a shorter period as set forth in the rotation schedule as adopted by the Supervisory Board, and may be re-appointed, provided that their entire term of office does not exceed twelve years. The General Meeting of Shareholders may, by an absolute majority of the votes representing at least one-third of the total outstanding capital, dismiss the Supervisory Board in its entirety for lack of confidence. In such event, the Enterprise Chamber of the Amsterdam Court shall appoint one or more members of the Supervisory Board at the request of the Board of Management.

Upon the proposal of the Supervisory Board, the General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. A member of the Supervisory Board shall not be granted any shares or option rights by way of remuneration.

Approval of Board of Management Decisions

The Board of Management requires prior approval of the General Meeting of Shareholders for resolutions concerning an important change in the identity or character of ASML or its business, including in any case:

- a transfer of all or substantially all of the business of ASML to a third party;
- entering into or the termination of a long-term joint venture between ASML and a third party, if this joint venture is material to ASML; and
- an acquisition or divestment by ASML of an interest in the capital of a company with a value of at least one third of ASML's assets (determined by reference to ASML's most recently adopted annual accounts).

Rules of Procedure

The Board of Management and the Supervisory Board have adopted Rules of Procedure for each of the Board of Management, Supervisory Board and the four Committees of the Supervisory Board. These Rules of Procedure are posted on ASML's website.

Directors and Officers Insurance and Indemnification

Members of the Board of Management and Supervisory Board, as well as certain senior management members, are insured under the ASML's Directors and Officers Insurance Policy. Although the insurance policy provides for a wide coverage, our directors and officers may incur uninsured liabilities. ASML has agreed to indemnify its Board of Management and Supervisory Board against any claims arising in connection with their position as director and officer of the Company, provided that such claim is not attributable to willful misconduct or intentional recklessness of such officer or director.

Corporate Governance Developments

ASML continuously monitors and assesses applicable corporate governance rules, including recommendations and initiatives regarding principles of corporate governance. These include rules that have been promulgated in the United States both by the NASDAQ Stock Market LLC ("NASDAQ") and by the SEC pursuant to the Sarbanes-Oxley Act of 2002.

The Netherlands Corporate Governance Code (the "Code") came into effect on January 1, 2004. A full report on ASML's compliance with the Code is required to be included in the Company's statutory annual report. Netherlands listed companies are required to either comply with the principles and the best practice provisions of the Code, or to explain on which points they deviate from these best practice provisions and why. On December 10, 2008 the Dutch Corporate Governance Code Monitoring Committee presented an amended Code to the groups that have requested the changes and to the Ministers of Finance, Justice and Economic Affairs. The amended Code will be effective from the financial year starting on January 1, 2009 and ASML will report on its compliance with the amended Code in its statutory annual report for the year ended December 31, 2009.

Pursuant to the Code's recommendations, ASML has included a separate chapter on corporate governance in its statutory annual report.

Committees of ASML's Supervisory Board

While retaining overall responsibility, the Supervisory Board assigns certain of its tasks to its four committees: the Audit Committee, the Remuneration Committee, the Selection and Nomination Committee and the Technology and Strategy Committee. Members of these committees are appointed from among the Supervisory Board members.

The chairman of each committee reports to the Supervisory Board verbally and when deemed necessary in writing, the issues and items discussed in each meeting. In addition, the minutes of each committee are distributed to all members of the Supervisory Board.

Audit Committee

ASML' s Audit Committee is composed of three members of the Supervisory Board. The current members of our Audit Committee are Fritz Fröhlich (chairman), Arthur van der Poel and Jan Dekker, each of whom is an independent, non-executive member of the Supervisory Board. The Supervisory Board has determined that Fritz Fröhlich qualifies as the Audit Committee financial

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expert pursuant to Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. Our external auditor, our Chief Executive Officer, our Chief Financial Officer, our Corporate Controller, our Director Internal Audit, as well as other ASML employees invited by the chairman of the Audit Committee may also attend the meetings of the Audit Committee.

The Audit Committee assists the Supervisory Board in:

- overseeing the integrity of our financial statements and related non-financial disclosure;
- overseeing the qualifications, independence and performance of the external auditor; and
- overseeing the integrity of our systems of disclosure controls and procedures and the system of internal controls over financial reporting.

In 2008, the Audit Committee met four times and held five conference calls. At these meetings the Audit Committee reviewed our quarterly earnings announcements and our audited annual consolidated financial statements, discussed the financing policy as well as the system of internal controls over financial reporting and related audit findings, approved the internal and external audit plan and related audit fees and pre-approved any audit and non-audit services to be rendered by our external auditor.

Remuneration Committee

ASML's Remuneration Committee is currently composed of two members of the Supervisory Board (one vacancy). The current members of our Remuneration Committee are Jos Westerburgen (chairman) and Ieke van den Burg. The Remuneration Committee is responsible for the preparation of the remuneration policy for the Board of Management.

The Remuneration Committee prepares and the Supervisory Board establishes ASML's general compensation philosophy for members of the Board of Management, and oversees the development and implementation of compensation programs for members of the Board of Management. The Remuneration Committee reviews and proposes to the Supervisory Board corporate goals and objectives relevant to the compensation of members of the Board of Management. The Committee further evaluates the performance of members of the Board of Management in view of those goals and objectives, and makes recommendations to the Supervisory Board on the compensation levels of the members of the Board of Management based on this evaluation.

In proposing to the Supervisory Board the actual remuneration elements and levels applicable to the members of the Board of Management, the Remuneration Committee considers, among other factors, the remuneration policy, the desired levels of and emphasis on particular aspects of ASML's short and long-term performance, as well as current compensation and benefits structures and levels benchmarked against relevant peers. External compensation survey data and, where necessary, external consultants are used to benchmark ASML's remuneration levels and structures.

In 2008, the Remuneration Committee held four meetings and its members also discussed certain topics by conference calls various times. During 2008, the main subjects of the meetings of the Remuneration Committee were the revised 2008 remuneration policy for the Board of Management, the remuneration of the members of ASML's Board of Management, including the benchmarking of ASML's peer group to determine the 2008 remuneration of the individual members of the Board of Management, and discussions on ASML's stock-based Equity Plans for 2008.

Selection and Nomination Committee

ASML's Selection and Nomination Committee is composed of three members of the Supervisory Board. The current members of our Selection and Nomination Committee are Jos Westerburgen (chairman), Arthur van der Poel and OB Bilous.

The Selection and Nomination Committee assists the Supervisory Board in:

- preparing the selection criteria and appointment procedures for members of the Company's Supervisory Board and Board of Management;
- periodically evaluating the scope and composition of the Board of Management and the Supervisory Board, and proposing the profile of the Supervisory Board in relation thereto;
- periodically evaluating the functioning of the Board of Management and the Supervisory Board and the individual members of those boards and reporting the results thereof to the Supervisory Board; and
- proposing (re-)appointments of members of the Board of Management and the Supervisory Board, and supervising the policy of the Board of Management in relation to the selection and appointment criteria for senior management.

The Selection and Nomination Committee held three scheduled meetings and several ad hoc meetings in 2008.

Technology and Strategy Committee

ASML's Technology and Strategy Committee is composed of four members of the Supervisory Board. The current members of our Technology and Strategy Committee are Jan Dekker (chairman), Arthur van der Poel, OB Bilous and William Siegle. In addition, the Technology and Strategy Committee may appoint one or more advisors from within the Company and/or from

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outside the Company. The advisors to the Technology and Strategy Committee may be invited as guests to (parts of) the meetings of the Committee, but are not entitled to vote in the meetings.

The Technology and Strategy Committee advises the Supervisory Board in relation to the following responsibilities and may prepare resolutions of the Supervisory Board related thereto:

- familiarization with and risk assessment and study of potential strategies, required technical resources, technology roadmaps and product roadmaps; and
- providing advice to the Supervisory Board with respect to matters related thereto.

The Technology and Strategy Committee held three meetings in 2008. The main subjects of the meetings of the Technology and Strategy Committee in 2008 were the Company's technology roadmap, including EUV lithography, immersion technology, double patterning, and holistic lithography. The Committee also reviewed the proposed Technology Leadership Index, being one of the targets for the Board of Management, and provided the Remuneration Committee with its advice on this topic.

Disclosure Committee

ASML has a Disclosure Committee to ensure compliance with applicable disclosure requirements arising under US and Netherlands law and applicable stock exchange rules. The Disclosure Committee comprises various members of senior management, and reports to the Chief Executive Officer and Chief Financial Officer. The Disclosure Committee informs the Audit Committee about the outcome of the Disclosure Committee meetings. Furthermore, members of the Disclosure Committee are in close contact with our external legal counsel and our external auditor.

The Disclosure Committee gathers all relevant financial and non-financial information and assesses materiality, timeliness and necessity for disclosure of such information. In addition the Disclosure Committee assists the Chief Executive Officer and Chief Financial Officer in the maintenance and evaluation of disclosure controls and procedures as well as internal control over financial reporting.

During 2008, the Disclosure Committee reviewed the quarterly earnings announcements and our audited annual consolidated financial statements and other public announcements containing financial information. The Internal Control Committee, comprising three members of the Disclosure Committee, assists the Disclosure Committee in preparing its advice to the Chief Executive Officer and Chief Financial Officer on the assessment of ASML's disclosure controls and procedures and internal control over financial reporting.

Variations from Certain NASDAQ Corporate Governance Rules

NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of the NASDAQ corporate governance standards subject to certain exceptions and except to the extent that such exemptions would be contrary to US federal securities laws. The practices followed by ASML in lieu of NASDAQ rules are described below:

ASML does not follow NASDAQ's quorum requirements applicable to meetings of ordinary shareholders. In accordance with Netherlands law and Netherlands generally accepted business practice, ASML's Articles of Association provide that there are no quorum requirements generally applicable to General Meetings of Shareholders.

ASML does not follow NASDAQ's requirements regarding the provision of proxy statements for General Meetings of Shareholders. Netherlands law does not have a regulatory regime for the solicitation of proxies: the solicitation of proxies is not a generally accepted business practice in the Netherlands. ASML does provide shareholders with an agenda and other relevant documents for the General Meeting of Shareholders.

ASML does not follow NASDAQ's requirement regarding distribution to shareholders of copies of an annual report containing audited financial statements prior to the Company's Annual General Meeting of Shareholders. The distribution of annual reports to shareholders is not required under Netherlands corporate law or Netherlands securities laws, or by Euronext Amsterdam. Furthermore, it is generally accepted business practice for Netherlands companies not to distribute annual reports. In part, this is because the Netherlands system of bearer shares has made it impractical to keep a current list of holders of the bearer shares in order to distribute the annual reports. Instead, we make our annual report available at our corporate head office in the Netherlands (and at the offices of our Netherlands listing agent as stated in the convening notice for the meeting) as from the day of convocation of the Annual General Meeting of Shareholders. In addition, we post a copy of our annual report on our website prior to the Annual General Meeting of Shareholders.

NASDAQ rules require shareholder approval of stock option plans available to officers, directors or employees. However, NASDAQ has granted ASML an exemption from this requirement (foreign private issuers are no longer required to obtain an exemption, but may follow home country practice in lieu of NASDAQ corporate governance rules, subject to exceptions).

D. Employees

As of December 31, 2008, we employed 6,930 payroll employees in FTEs primarily in manufacturing, product development and customer support activities. As of December 31, 2006 and 2007, the total number of payroll employees in FTEs was 5,594 and

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6,582 respectively. In addition, as of December 31, 2008, the total number of temporary employees in FTEs was 1,329. As of December 31, 2006 and 2007, the total number of temporary employees in FTEs was 1,725 and 1,486 respectively. For a more detailed description of payroll employee information, including a breakdown of our employees in FTEs by sector, see Notes 17 and 22 to our consolidated financial statements, which are incorporated herein by reference. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products.

Our future success will depend on our ability to attract, train, retain and motivate highly qualified, skilled and educated employees, who are in great demand. We are particularly reliant for our continued success on the services of several key employees, including a number of systems development specialists with advanced university qualifications in engineering, optics and computing.

ASML Netherlands B.V., our operating subsidiary in the Netherlands, has a Works Council, as required by Netherlands law. A Works Council is a representative body of the employees of a Netherlands company elected by the employees. The Board of Management of any Netherlands company that runs an enterprise with a Works Council must seek the non-binding advice of the Works Council before taking certain decisions with respect to the company, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a member of the Board of Management. Other decisions directly involving employment matters that apply either to all employees, or certain groups of employees, may only be taken with the Works Council's approval. Such a decision may be taken without the prior approval of the Works Council only with the approval of the District Court.

E. Share Ownership

Information with respect to share ownership of members of our Supervisory Board and Board of Management is included in Item 7 "Major Shareholders and Related Party Transactions" and Note 21 to our consolidated financial statements, which are incorporated herein by reference. Information with respect to the grant of shares and stock options to employees is included in Note 17 to our consolidated financial statements which are incorporated herein by reference.

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth the total number of ordinary shares owned by each shareholder whose beneficial ownership of ordinary shares exceeds 5 percent of the ordinary shares issued and outstanding, as well as the ordinary shares (including options) owned by the members of the Supervisory Board and members of the Board of Management (which includes those persons specified in Item 6 "Directors, Senior Management and Employees"), as a group, as of December 31, 2008. The information set forth below is solely based on public filings with the SEC and AFM (Autoriteit Financiële Markten) on December 31, 2008.

Identity of Person or Group	Shares Owned	Percent of Class
FMR LLC ¹	56,750,236	13.1%
Capital World Investors ²	25,882,170	5.9%
PRIMECAP Management Company ³	23,383,824	5.4%
Artisan Investment Corporation ⁴	0	5.1%
Members of ASML's Supervisory Board and Board of Management, as a group (4 persons) ⁵	1,561,328	*

* Less than 1 percent.

¹ Based solely on the Schedule 13-G filed by FMR LLC with the Commission on November 10, 2008.

² Based solely on the Schedule 13-G/A filed by Capital World Investors with the Commission on February 11, 2008. Capital Research and Management Company filed a notification with the AFM on December 5, 2007 disclosing a holding of 205,964,487 votes (representing 5.19% of the voting rights in ASML). On February 13, 2008, Capital Research and Management Company filed a Schedule 13G/A with the Commission stating that it did not beneficially own any ASML shares and that its investment divisions, including Capital World Investors would file separate ownership reports reflecting their December 31, 2007 holdings.

³ Based solely on the Schedule 13-G/A filed by PRIMECAP Management Company with the Commission on February 14, 2008.

⁴ Based solely on the notification filed by Artisan Investment Corporation with the AFM on March 14, 2008. According to the notification, Artisan Investment Corporation holds 205,792,353 votes which in turn represent 5.14 percent of the voting rights in ASML. Artisan Investment Corporation's notification did not disclose the number of ordinary shares it held or the percent of the class that number represents.

⁵ Four members of our Board of Management own a total of 885,856 unconditional options to purchase ASML shares. These members of our Board of Management together are also entitled to 119,720 conditional performance stock options and 210,001, 187,803 and 157,948 conditional performance stock, for 2006, 2007 and 2008 respectively. The number of performance stock that are ultimately awarded will be determined in the financial year 2009, 2010 and 2011 respectively, and is conditional upon the achievement of performance targets. See Note 21 to our consolidated financial statements for information on options held by and conditional

performance stock conditionally awarded to members of our Board of Management on an individual basis. None of the members of the Supervisory Board holds any of our outstanding shares or options on shares.

According to SEC filings, (i) FMR LLC decreased its shareholding from 70,721,194 shares as of February 2006 to 57,681,794 as of February 2007 to 28,506,903 as of October 2007 and to 6,429,585 as of February 2008 and increased its shareholding to 56,750,236 as of November 2008, (ii) Capital World Investors acquired a shareholding of 25,882,170 as of December 2008 and (iii) PRIMECAP Management Company decreased its shareholding from 24,218,000 shares as of September 2006 to 23,825,400

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as of October 2006, increased its shareholding to 26,144,100 as of March 2007 and decreased its shareholding to 23,383,824 as of December 2008.

Our major shareholders do not have voting rights different from other shareholders. We do not issue share certificates, except for registered New York Shares. For more information see Item 10.B. “Memorandum and Articles of Association”.

As of December 31, 2008, 136.8 million ordinary shares were held by 364 registered holders with a registered address in the United States. Since certain of our ordinary shares were held by brokers and nominees, the number of record holders in the United States may not be representative of the number of beneficial holders or of where the beneficial holders are resident.

Obligations of Shareholders to Disclose Holdings under Netherlands Law

Holders of our shares may be subject to reporting obligations under the Act on the supervision of financial markets (*Wet op het financieel toezicht*, the “Act”).

The disclosure obligations under the Act apply to any person or entity that acquires or disposes of an interest in the voting rights and/or the capital of a public limited company incorporated under the laws of the Netherlands whose shares are admitted to trading on a regulated market within the European Union. Disclosure is required when, as a result of an acquisition or disposal, the percentage of voting rights or capital interest acquired or disposed of by a person or an entity reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 or 95 percent. With respect to ASML, the Act would require any person or entity whose interest in the voting rights and/or capital of ASML reached, exceeded or fell below those percentage interests to notify the Netherlands Authority for the Financial Markets (AFM) immediately.

ASML is required to notify the AFM immediately if the Company’s voting rights and/or capital have changed by one percent or more since its previous notification on outstanding voting rights and capital. In addition, ASML must notify the AFM of changes of less than one percent in ASML’s outstanding voting rights and capital at least once per calendar quarter, within eight days after the end of the quarter. Any person whose direct or indirect voting rights and/or capital interest meets or passes the thresholds referred to in the previous paragraph as a result of a change in the outstanding voting rights or capital must notify the AFM no later than the fourth trading day after the AFM has published such a change.

Once every calendar year, within four weeks after the end of the calendar year, holders of an interest of five percent or more in ASML’s voting rights or capital must notify the AFM of a change in the composition of their interest resulting from certain acts (including, but not limited to, the exchange of shares for depositary receipts and vice versa, and the exercise of rights to acquire shares).

Subsidiaries, as defined in the Act, do not have independent reporting obligations under the Act, as interests held by them are attributed to their (ultimate) parents. Any person may qualify as a parent for purposes of the Act, including an individual. A person who disposes of an interest of five percent or more in ASML’s voting rights or capital and who ceases to be a subsidiary must immediately notify the AFM. As of that moment, all notification obligations under the Act will become applicable to the former subsidiary.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must, among other arrangements, be taken into account: shares and votes (i) directly held by any person, (ii) held by such person’s subsidiaries, (iii) held by a third party for such person’s account, (iv) held by a third party with whom such person has concluded an oral or written voting agreement (including on the basis of an unrestricted power of attorney) and (v) held by a third party with whom such person has agreed to temporarily transfer voting rights against payment. Interests held jointly by multiple persons are attributed to those persons in accordance with their entitlement. A holder of a pledge or right of usufruct in respect of shares can also be subject to these reporting obligations if such person has, or can acquire, the right to vote on the shares or, in case of depositary receipts, the underlying shares. The managers of certain investment funds are deemed to hold the capital interests and voting rights in the funds managed by them.

For the same purpose, the following instruments qualify as “shares”: (i) shares, (ii) depositary receipts for shares (or negotiable instruments similar to such receipts), (iii) negotiable instruments for acquiring the instruments under (i) or (ii) (such as convertible bonds), and (iv) options for acquiring the instruments under (i) or (ii).

The AFM keeps a public registry of and publishes all notifications made pursuant to the Act.

Non-compliance with the reporting obligations under the Act could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with the reporting obligations under the Act may lead to civil sanctions, including (i) suspension of the voting rights relating to the shares held by the offender, for a period of not more than three years, (ii) nullification of any resolution of the General Meeting of Shareholders of the Company to the extent that such resolution would

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not have been approved if the votes at the disposal of the person or entity in violation of a duty under the Act had not been exercised and (iii) a prohibition on the acquisition by the offender of our shares or the voting on our ordinary shares for a period of not more than five years.

B. Related Party Transactions

There have been no transactions during our most recent fiscal year, nor are there presently any proposed transactions, which are material to ASML or any transactions that are unusual in their nature or conditions, involving goods, services, or tangible or intangible assets between ASML or any of its subsidiaries and any significant shareholder and any director or officer or any relative or spouse thereof. During our most recent fiscal year, there has been no, and at present there is no, outstanding indebtedness to ASML owed or owing by any director or officer of ASML or any associate thereof, other than the virtual financing arrangement with respect to stock options described under Note 17 to our consolidated financial statements.

C. Interests of Experts & Counsel

Not applicable.

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

Consolidated Statements

See Item 18 "Financial Statements".

Export Sales

See Note 20 to our consolidated financial statements included in Item 18 "Financial Statements", which is incorporated herein by reference.

Legal Proceedings

See Item 4.B. "Business Overview, Intellectual Property" and Note 18 to our consolidated financial statements, which are incorporated herein by reference.

Dividend Policy

In 2008, the Company revised its reserves and dividend policy, resulting in dividend payments for 2007, starting with a pay out of EUR 0.25 per ordinary share of EUR 0.09. A proposal will be submitted to the Annual General Meeting of Shareholders on March 26, 2009 to declare a dividend for 2008 of EUR 0.20 per ordinary share of EUR 0.09. Annually, the Board of Management will assess the amount of dividend that will be proposed to the Annual General Meeting of Shareholders.

For more information see Item 10.B. "Memorandum and Articles of Association" and Item 10.D. "Exchange Controls" and note 24 to our consolidated financial statements.

B. Significant Changes

No significant changes have occurred since the date of our consolidated financial statements. See Item 5.D. "Trend Information".

Item 9 The Offer and Listing

A. Offer and Listing Details

Our ordinary shares are listed for trading in the form of registered shares on NASDAQ (“New York shares”) and in the form of registered shares on Euronext Amsterdam (“Amsterdam Shares”). The principal trading market of our ordinary shares is Euronext Amsterdam. For more information see Item 10.B. “Memorandum and Articles of Association”.

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The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares on NASDAQ, as well as on Euronext Amsterdam.

	NASDAQ USD		Euronext Amsterdam EUR	
	High	Low	High	Low
Annual Information				
2004	22.32	12.41	17.50	10.26
2005	20.13	14.44	17.12	11.11
2006	25.83	18.46	19.90	14.49
2007	35.79	22.89	24.99	17.15
2008	30.47	12.66	20.97	10.68
Quarterly Information				
1st quarter 2007	26.29	22.89	20.39	17.15
2nd quarter 2007	27.91	24.69	20.83	18.34
3rd quarter 2007	33.03	26.64	23.40	19.73
4th quarter 2007	35.79	30.70	24.99	21.62
1st quarter 2008	30.47	22.23	20.97	13.92
2nd quarter 2008	30.30	23.98	19.59	15.19
3rd quarter 2008	25.20	16.29	16.81	11.72
4th quarter 2008	18.84	12.66	14.60	10.68
Monthly Information				
July 2008	24.46	22.32	15.37	14.20
August 2008	25.20	22.45	16.81	14.42
September 2008	23.99	16.29	16.80	11.72
October 2008	17.85	14.58	13.60	10.88
November 2008	18.84	12.66	14.60	10.68
December 2008	18.07	13.75	12.75	10.80
January (through Jan. 21) 2009	16.63	15.92	13.05	12.34

(Source: Bloomberg Finance LP)

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. "Offer and Listing Details".

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10 Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information required by Item 10.B. is incorporated by reference to ASML's Report on Form 6-K, filed with the Commission on November 2, 2007.

Current Authorizations to Issue and Repurchase Ordinary Shares

Our Board of Management has the power to issue ordinary shares and cumulative preference shares insofar as the Board of Management has been authorized to do so by the General Meeting of Shareholders (either by means of a resolution or by an

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amendment to our Articles of Association). The Board of Management requires approval of the Supervisory Board for such an issue.

At our annual General Meeting of Shareholders, held on April 3, 2008, the Board of Management was authorized for a period of 18 months, to issue shares and/or rights thereto representing up to a maximum of 5 percent of our issued share capital as of the date of authorization, plus an additional 5 percent of our issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 26, 2010.

Holders of our ordinary shares have a preemptive right of subscription in proportion to the aggregate nominal amount of the ordinary shares held by them to any issuance of ordinary shares for cash, which right may be restricted or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association), the Board of Management has the power, with the approval of the Supervisory Board, to restrict or exclude the preemptive rights of holders of ordinary shares. A designation may be renewed. At our annual General Meeting of Shareholders held on April 3, 2008, the Board of Management was authorized, subject to the aforementioned approval, to restrict or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to grant this authority through September 26, 2010. At this annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares or options separately. These authorizations will each be requested to be granted for a period of 18 months.

We may repurchase our issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and our Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, our current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (whether by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through October 3, 2009 up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) at a price between the nominal value of the ordinary shares purchased and 110 percent of the market price of these securities on Euronext Amsterdam or NASDAQ. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to extend this authority through September 26, 2010.

C. Material Contracts

Not applicable.

D. Exchange Controls

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of ASML, to the rights of non-residents to hold or vote ordinary shares. Cash distributions, if any, payable in euro on Amsterdam Shares may be officially transferred from the Netherlands and converted into any other currency without being subject to any Netherlands legal restrictions. However, for statistical purposes, such payments and transactions must be reported by ASML to the Netherlands Central Bank. Furthermore, no payments, including dividend payments, may be made to jurisdictions subject to certain sanctions, adopted by the government of the Netherlands, implementing resolutions of the Security Council of the United Nations. Cash distributions, if any, on New York Shares shall be paid in U.S. dollars, converted at the rate of exchange on Euronext Amsterdam at the close of business on the date fixed for that purpose by the Board of Management in accordance with the Articles of Association. See also Item 8.A. "Consolidated Statements and Other Financial Information, Dividend Policy".

E. Taxation

Netherlands Taxation

The statements below represent a summary of current Netherlands tax laws, regulations and judicial interpretations thereof. The description is limited to the material tax implications for a holder of ordinary shares who is not, or is not deemed to be, a resident of the Netherlands for Netherlands tax purposes (a "Non-resident Holder"). This description does not address special rules that may apply to special classes of holders of ordinary shares and should not be read as extending by implication to matters not

specifically referred to herein. As to individual tax consequences, each investor in ordinary shares should consult his or her tax counsel.

General

The acquisition of ordinary shares by a non-resident of the Netherlands should not be treated as a taxable event for Netherlands tax purposes. The income consequences in connection with owning and disposing of our ordinary shares are discussed below.

Substantial Interest

A person that, directly or indirectly, owns five percent or more of our share capital, or who is entitled to five percent of the voting power in the shareholders meeting, or holds options to purchase five percent or more of our share capital, is deemed to have a substantial interest in our shares, respectively, our options, as applicable. A deemed substantial interest also exists if (part of) a substantial interest has been disposed of, or is deemed to be disposed of, in a transaction where no taxable gain has been recognized. Special attribution rules exist in determining the presence of a substantial interest.

Income Tax Consequences for Individual Non-resident Holders on Owning and Disposing of the Ordinary Shares

An individual who is a Non-resident Holder will not be subject to Netherlands income tax on received income in respect of our ordinary shares or capital gains derived from the sale, exchange or other disposition of our ordinary shares, provided that such holder:

- does not carry on and has not carried on a business in the Netherlands through a permanent establishment or a permanent representative to which the ordinary shares are attributable;
- does not hold and has not held a (deemed) substantial interest in our share capital or, in the event the Non-resident Holder holds or has held a (deemed) substantial interest in our share capital, such interest is, respectively was, a business asset in the hands of the holder;
- does not share and has not shared directly (through the beneficial ownership of ordinary shares or similar securities) in the profits of an enterprise managed and controlled in the Netherlands which (is deemed to) own(s), respectively (is deemed to have) has owned, our ordinary shares;
- does not carry out and has not carried out any activities which generate taxable profit or taxable wages to which the holding of our ordinary shares was connected;
- does not carry out and has not carried out employment activities in the Netherlands, does not serve and has not served as a director or board member of any entity resident in the Netherlands, and does not serve and has not served as a civil servant of a Netherlands public entity with which the holding of our ordinary shares is or was connected; and
- is not an individual that has elected to be taxed as a resident of the Netherlands.

Corporate Income Tax Consequences for Corporate Non-resident Holders

Income derived from ordinary shares or capital gains derived from the sale, exchange or disposition of ordinary shares by a corporate Non-resident Holder is taxable if:

- the holder carries on a business in the Netherlands through a permanent establishment or a permanent agent in the Netherlands (Netherlands enterprise) and the ordinary shares are attributable to this permanent establishment or permanent agent, unless the participation exemption (discussed below) applies; or
- the holder has a substantial interest in our share capital, which is not attributable to his enterprise; or
- certain assets of the holder are deemed to be treated as a Netherlands enterprise under Netherlands tax law and the ordinary shares are attributable to this Netherlands enterprise.

To qualify for the Netherlands participation exemption, the holder must generally hold at least five percent of our nominal paid-in capital and meet certain other requirements.

Dividend Withholding Tax

In general, a dividend distributed by us in respect of our ordinary shares will be subject to a withholding tax imposed by the Netherlands at the statutory rate of 15 percent.

Dividends include:

- dividends in cash and in kind;
- deemed and constructive dividends;
- consideration for the repurchase or redemption of ordinary shares (including a purchase by a direct or indirect ASML subsidiary) in excess of qualifying average paid-in capital unless such repurchase is made for temporary investment purposes or is exempt by law;
- stock dividends up to their nominal value (unless distributed out of qualifying paid-in capital);
- any (partial) repayment of paid-in capital not qualifying as capital for Netherlands dividend withholding tax purposes; and
- liquidation proceeds in excess of qualifying average paid-in capital for Netherlands dividend withholding tax purposes.

A reduction of Netherlands dividend withholding tax can be obtained if:

- the participation exemption applies and the ordinary shares are attributable to a business carried out in the Netherlands;

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the dividends are distributed to a qualifying EU corporate holder satisfying the conditions of the EU Parent-Subsidiary Directive;
or
the rate is reduced by a Tax Treaty.

A Non-resident Holder of ordinary shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a Tax Treaty that is in effect between the Netherlands and the Non-resident Holder's country of residence. The Netherlands has concluded such treaties with the United States, Canada, Switzerland, Japan, most European Union member states, as well as many other countries. Under the Treaty between the United States and the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "Tax Treaty"), dividends paid by us to a Non-resident Holder that is a resident of the United States as defined in the Tax Treaty (other than an exempt organization or exempt pension trust, as discussed below) are generally liable to 15 percent Netherlands withholding tax or, in the case of certain United States corporate shareholders owning at least 10 percent of our voting power, a reduction to five percent, provided that it does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which the dividends are attributable. The Tax Treaty provides for a complete exemption from tax on dividends received by exempt pension trusts and exempt organizations, as defined therein. Except in the case of exempt organizations, the reduced dividend withholding tax rate (or exemption from withholding) can be applied at the source upon payment of the dividends, provided that the proper forms have been filed in advance of the payment. Exempt organizations remain subject to the statutory withholding rate of 15 percent and are required to file for a refund of such withholding.

A Non-resident Holder of ordinary shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a Tax Treaty that is in effect between the Netherlands and the Non-resident Holder's country of residence. The Netherlands has concluded such treaties with the United States, Canada, Switzerland, Japan, most European Union member states, as well as many other countries. Under the Treaty between the United States and the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "Tax Treaty"), dividends paid by us to a Non-resident Holder that is a resident of the United States as defined in the Tax Treaty (other than an exempt organization or exempt pension trust, as discussed below) are generally liable to 15 percent Netherlands withholding tax or, in the case of certain United States corporate shareholders owning at least ten percent of our voting power, a reduction to five percent, provided that it does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which the dividends are attributable. The Tax Treaty provides for a complete exemption from tax on dividends received by exempt pension trusts and exempt organizations, as defined therein. Except in the case of exempt organizations, the reduced dividend withholding tax rate (or exemption from withholding) can be applied at the source upon payment of the dividends, provided that the proper forms have been filed in advance of the payment. Exempt organizations remain subject to the statutory withholding rate of 15 percent and are required to file for a refund of such withholding.

A Non-resident Holder may not claim the benefits of the Tax Treaty unless (i) it is a resident of the United States as defined therein, or (ii) it is deemed to be a resident on the basis of the provisions of article 24(4) of the Tax Treaty, and (iii) its entitlement to those benefits is not limited by the provisions of article 26 (limitation on benefits) of the Tax Treaty.

In this respect it is noted that the United States and the Netherlands have agreed on a protocol to the Tax Treaty. It provides for (among others) a 0 percent dividend withholding tax rate on dividends, provided certain requirements are met. One of these requirements is that the shareholder is a company which owns directly shares representing 80 percent of the voting power in our company. In addition, abovementioned article 26 (limitation on benefits) has been adjusted. Some requirements to the various tests mentioned in article 26 will become more severe and others will be moderated.

Dividend Stripping Rules

Under Netherlands tax legislation regarding anti-dividend stripping, no exemption from, or refund of, Netherlands dividend withholding tax is granted if the recipient of dividends paid by us is not considered the beneficial owner of such dividends.

Gift or Inheritance Taxes

Netherlands gift or inheritance taxes will not be levied on the transfer of ordinary shares by way of gift, or upon the death of a Non-resident Holder, unless:

- (1) the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of the gift or death, is deemed to be, resident of the Netherlands; or
- (2) the ordinary shares are attributable to an enterprise or part thereof that is carried on through a permanent establishment or a permanent representative in the Netherlands.

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For purposes of Netherlands gift and inheritance tax, an individual of Netherlands nationality is deemed to be a resident of the Netherlands if he has been a resident thereof at any time during the ten years preceding the time of the gift or death. For purposes of Netherlands gift tax, a person not possessing Netherlands nationality is deemed to be a resident of the Netherlands if he has resided therein at any time in the twelve months preceding the gift.

Value Added Tax

No Netherlands value added tax is imposed on dividends in respect of our ordinary shares or on the transfer of our shares.

Residence

A Non-resident Holder will not become resident, or be deemed to be resident, in the Netherlands solely as a result of holding our ordinary shares or of the execution, performance, delivery and/or enforcement of rights in respect of our ordinary shares.

United States Taxation

The following is a discussion of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of ordinary shares by a United States Holder acting in the capacity of a beneficial owner (as defined below). This discussion deals only with ordinary shares held as capital assets and does not deal with the tax consequences applicable to all categories of investors, some of which (such as tax-exempt entities, financial institutions, dealers in securities/traders in securities that elect a mark-to-market method of accounting for securities holdings, insurance companies, investors owning directly, indirectly or constructively 10 percent or more of our outstanding voting shares, investors who hold ordinary shares as part of hedging or conversion transactions and investors whose functional currency is not the U.S. dollar) may be subject to special rules. In addition, the discussion does not address any alternative minimum tax or any state, local, FIRPTA related United States federal income tax consequences, or non-United States tax consequences.

This discussion is based on the U.S.-Netherlands Income Tax Treaty ("Treaty") and the Internal Revenue Code of 1986, as amended to the date hereof, final, temporary and proposed Treasury Department regulations promulgated, and administrative and judicial interpretations thereof, changes to any of which subsequent to the date hereof, possibly with retroactive effect, may affect the tax consequences described herein. In addition, there can be no assurance that the Internal Revenue Service ("IRS") will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the Internal Revenue Service or an opinion of counsel with respect to the United States federal income tax consequences of acquiring or holding shares. Prospective purchasers of ordinary shares are advised to consult their tax advisers with respect to their particular circumstances and with respect to the effects of United States federal, state, local or non-United States tax laws to which they may be subject.

As used herein, the term "United States Holder" means a beneficial owner of ordinary shares that for United States federal income tax purposes whose holding of ordinary shares does not form part of the business property or assets of a permanent establishment or fixed base in the Netherlands; who is fully entitled to the benefits of the Treaty in respect of such ordinary shares; and is:

- an individual citizen or resident of the United States;
- a corporation or other entity treated as a corporation for United States federal income tax purposes created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate of which the income is subject to United States federal income taxation regardless of its source; or
- a trust whose administration is subject to the primary supervision of a court within the United States and which has one or more United States persons who have the authority to control all of its substantial decisions.

If an entity treated as a partnership for United States federal income tax purposes owns ordinary shares, the United States federal income tax treatment of a partner in such partnership will generally depend upon the status and tax residency of the partner and the activities of the partnership. A partnership that owns ordinary shares and the partners in such partnership should consult their tax advisors about the United States federal income tax consequences of holding and disposing of the ordinary shares.

Taxation of Dividends

United States Holders will include in gross income as foreign-source dividend income the gross amount of any distribution (before reduction for Netherlands withholding taxes) ASML makes out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) when the distribution is actually or constructively received by the United States Holder. Distributions will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution includible in income of a United States Holder should be the U.S. dollar value of the foreign currency (e.g. euro) paid, determined by the spot rate of exchange on the date of the distribution, regardless of whether the payment is in fact converted into U.S. dollars. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be

treated as a non-taxable return of capital to the extent of the United States Holder's basis in the ordinary shares and thereafter as

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taxable capital gain. ASML does not maintain calculations of its earnings and profits under United States federal income tax principles.

Subject to limitations provided in the United States Internal Revenue Code, a United States Holder may generally deduct from its United States federal taxable income, or credit against its United States federal income tax liability, the amount of qualified Netherlands withholding taxes. However, Netherlands withholding tax may be credited only if the United States Holder does not claim a deduction for any Netherlands or other non-United States taxes paid or accrued in that year. In addition, Netherlands dividend withholding taxes will likely not be creditable against the United States Holder's United States tax liability to the extent ASML is not required to pay over the amount withheld to the Netherlands Tax Administration. Currently, a Netherlands corporation that receives dividends from qualifying non-Netherlands subsidiaries may credit source country tax withheld from those dividends against Netherlands withholding tax imposed on a dividend paid by a Netherlands corporation, up to a maximum of three percent of the dividend paid by the Netherlands corporation. The credit reduces the amount of dividend withholding that ASML is required to pay to the Netherlands Tax Administration but does not reduce the amount of tax ASML is required to withhold from dividends.

Dividends received by a United States Holder will generally be taxed at ordinary income tax rates. However, the Jobs and Growth Tax Reconciliation Act of 2003, (the "2003 Tax Act") and subsequently the Tax Increase and Prevention Act of 2006 reduces to 15 percent the maximum tax rate for certain dividends received by individuals through taxable years beginning on or before December 31, 2010, so long as the stock has been held for more than 60 days during the 120 day period beginning 60 days before the ex-dividend date. The rules governing foreign tax credit are complex and we suggest each United States Holder to consult its own tax advisor to determine whether, and to what extent, a foreign tax credit will be available. Dividends received from "qualified foreign corporations" generally qualify for the reduced rate. A non-United States corporation (other than a foreign personal holding company, foreign investment company, or passive foreign investment company) generally will be considered to be a qualified foreign corporation if (i) the shares of the non-United States corporation are readily tradable on an established securities market in the United States or (ii) the non-United States corporation is eligible with respect to substantially all of its income for the benefits of a comprehensive income tax treaty with the United States which contains an exchange of information program and the Tax Treaty has been identified as a qualifying treaty. Individual United States Holders should consult their tax advisors regarding the impact of the provisions of the 2003 Tax Act on their particular situations.

Taxation on Sale or Other Disposition of Ordinary Shares

Upon a sale or other disposition of ordinary shares, a United States Holder will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount realized, if paid in U.S. dollars, or the U.S. dollar value of the amount realized (determined at the spot rate on the settlement date of the sale) if proceeds are paid in currency other than the U.S. dollar, as the case may be, and the United States Holder's tax basis (determined in U.S. dollars) in such ordinary shares. Generally, the capital gain or loss will be long-term capital gain or loss if the holding period of the United States Holder in the ordinary shares exceeds one year at the time of the sale or other disposition. The deductibility of capital losses is subject to limitations for United States federal income tax purposes. Gain or loss from the sale or other disposition of ordinary shares generally will be treated as United States source income or loss for United States foreign tax credit purposes. Generally, any gain or loss resulting from currency fluctuations during the period between the date of the sale of the ordinary shares and the date the sale proceeds are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States. Each United States Holder should consult its tax advisor with regard to the translation rules of its adjusted basis and the amount realized upon a sale or other disposition of its ordinary shares if purchased in, or sold or disposed of for, a currency other than U.S. dollar.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the ordinary shares or proceeds from a sale, redemption or other disposition of the ordinary shares. A "backup withholding" tax may apply to these payments if the beneficial owner fails to provide a correct taxpayer identification number to the paying agent and to comply with certain certification procedures or otherwise establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules might be refunded (or credited against the beneficial owner's United States federal income tax liability, if any) depending on the facts and provided that the required information is furnished to the IRS.

The discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of shares including the tax consequences under state, local and other tax laws and the possible effects of changes in United States federal and other tax laws.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the US Securities Exchange Act of 1934 (the "Exchange Act"). As a "foreign private issuer", we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of shares. In addition, we are not required to file reports and financial statements with the Commission as frequently or as promptly as companies that are not foreign private issuers whose securities are registered under the Exchange Act. However, we are required to file with the Commission, within six months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We publish unaudited interim financial information after the end of each quarter. We furnish this quarterly financial information to the Commission under cover of a Form 6-K.

Documents we file with the Commission are publicly available at its public reference facilities at 450 Fifth Street, N.W., Washington, DC 20549, Woolworth Building, 233 Broadway, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of the documents are available at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington DC 20549. The Commission also maintains a website that contains reports and other information regarding registrants that are required to file electronically with the Commission. The address of this website is <http://www.sec.gov>. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

I. Subsidiary Information

See Item 4.C. "Organizational Structure".

Item 11 Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to a variety of financial risks: market risks (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on the Company's financial performance. The Company uses derivative instruments to hedge certain risk exposures. None of the transactions are entered into for trading or speculative purposes.

While the financial markets have shown an increased volatility, we continue to believe that market information is the most reliable and transparent means of measurement for our derivative instruments that are measured at fair value.

Foreign currency risk management

The Company uses the euro as its invoicing currency in order to limit the exposure to foreign currency movements. Exceptions may occur on a customer by customer basis. To the extent that invoicing is done in a currency other than the euro, the Company is exposed to foreign currency risk.

It is the Company's policy to hedge material transaction exposures, such as sales transactions, forecasted purchase transactions and accounts receivable/accounts payable. The Company hedges these exposures through the use of foreign exchange options and forward contracts. The use of a mix of foreign exchange options and forward contracts is aimed at reflecting the likelihood of the transactions occurring. In 2008, we identified four ineffective cash-flow hedges related to forecasted sales transactions. During the 12 months ended December 31, 2008, EUR 18.0 million loss was recognized in sales relating to ineffective hedges (2007: EUR 0.2 million gain was recognized in cost of sales relating to ineffective hedges). The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

As of December 31, 2008 other comprehensive income, net of taxes, includes EUR 43.6 million loss (2007: EUR 3.7 million loss) representing the total anticipated loss to be released to sales, and EUR 1.9 million gain (2007: EUR 3.1 million loss) representing the total anticipated gain to be charged to cost of sales over the next twelve months as the forecasted revenue and purchase transactions occur.

It is the Company' s policy to hedge material remeasurement exposures. These net exposures from certain monetary assets and liabilities in non-functional currencies are hedged with forward contracts.

It is the Company' s policy to manage material currency translation exposures resulting predominantly from ASML' s U.S. dollar net investments by hedging these partly with forward contracts. The related foreign currency translation amounts (gross of taxes)

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included in cumulative translation adjustment for the years ended December 31, 2007 and 2008 were EUR 23.3 million gain and EUR 12.7 million gain, respectively.

Interest rate risk management

The Company has both assets and liabilities that bear interest, which expose the Company to fluctuations in the prevailing market rate of interest. The Company uses interest rate swaps to align the interest typical terms of interest bearing assets with the interest typical terms of interest bearing liabilities. The Company still retains residual financial statements exposure risk to the extent that the asset and liability positions do not fully offset.

It is the Company's policy to enter into interest rate swaps to hedge this residual exposure. For this purpose the Company uses interest rate swaps to hedge changes in market value of fixed loan coupons payable on our Eurobond due to changes in market interest rates and to hedge the variability of future interest receipts as a result of changes in market interest rates on part of our cash and cash equivalents.

Financial instruments

The Company uses foreign exchange derivatives to manage its currency risk and interest rate swaps to manage its interest rate risk. Most derivatives will mature in one year or less after the balance sheet date. The following table summarizes the notional amounts and estimated fair values of the Company's financial instruments:

As of December 31 (in thousands)	2007 Notional Amount EUR	Fair Value EUR	2008 Notional Amount EUR	Fair Value EUR
Currency forward contracts ^{1,2}	283,881	528	896,642	(38,521)
Currency options ²	90,000	4,887	–	–
Interest rate swaps ³	1,029,900	16,553	641,500	63,172

(Source: Bloomberg Finance LP)

1 Mainly includes forward contracts on U.S. dollar and Japanese yen.

2 Net amount of forward and option contracts assigned as a hedge to sales and purchase transactions, to monetary assets and liabilities and to net investments in foreign operations.

3 The 2007 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond and of EUR 380 million relating to cash and cash equivalents. The 2008 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond. The fair value of interest rate swaps includes accrued interest and mainly consists of the fair value of interest rate swaps relating to a EUR 600 million Eurobond.

The fair value of forward contracts (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the forward contracts at the reporting date, taking into account current interest rates and current exchange rates.

The fair value of currency options (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the option agreements at the reporting date, taking into account current interest rates, current exchange rates and volatility.

The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates.

Credit risk management

Financial instruments that potentially subject ASML to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative financial instruments used in hedging activities.

Cash and cash equivalents and derivative instruments contain an element of risk of the counterparties being unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML's counterparties to a sufficient number of major financial institutions. Also, in response to the increased volatility of the financial markets, a material part of the cash and cash equivalents has been invested in government related securities. ASML does not expect the counterparties to default given their high credit quality.

ASML's customers consist of IC manufacturers located throughout the world. ASML performs ongoing credit evaluations of its customers' financial condition. ASML regularly reviews if an allowance for doubtful debts is needed by considering factors such as historical payment experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In response to the increased volatility of the financial markets, ASML has taken additional

measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership. Retention of ownership enables ASML to recover the systems in the event a customer defaults on payment.

Capital risk management

Our general strategy is to seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 and 1.5 billion. The Company regularly reviews the efficiency of its capital structure. To the extent that our cash and cash equivalents exceeds this target and there are no investment opportunities that we wish to pursue, we will consider to return excess cash to our shareholders, including through share buybacks, dividends and capital repayment.

Sensitivity analysis financial instruments

Foreign currency sensitivity

ASML is mainly exposed to the U.S. dollar and Japanese yen. The following table details the Company's sensitivity to a 10 percent strengthening of foreign currencies against the euro. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent strengthening in foreign currency rates. A positive amount indicates an increase in income from operations before income taxes and equity.

(in thousands)	2007 Impact on income from operations before income taxes EUR	Impact on equity EUR	2008 Impact on income from operations before income taxes EUR	Impact on equity EUR
U.S. dollar	(709)	18,523	(2,915)	14,118
Japanese yen	(502)	(3,977)	(14,501)	(38,886)
Other currencies	(1,296)	11,236	(1,285)	8,482
Total	(2,507)	25,782	(18,701)	(16,286)

The revaluation effects of investments in foreign entities, which are partly hedged, are recognized in other comprehensive income, within equity. The movements of currency rates therefore show a relatively large effect on other comprehensive income. The effect on other comprehensive income for other currencies mainly relates to investments in foreign entities in Singapore dollar and Taiwan dollar.

Fair value movements of cash-flow hedges are recognized in other comprehensive income. The main reason for the decreased effect in other comprehensive income in 2008 compared to 2007 is a high volume of cash-flow hedges (EUR 341 million), mainly sales hedges (2007: mainly purchase hedges).

It is the Company's policy to limit the currency effects through the consolidated statements of operations. The effect on income from operations before income taxes as presented in 2008 and 2007 is mainly attributable to unavoidable timing differences between the arising of exposures and the hedging thereof. Furthermore, in the fourth quarter of 2008, we identified four system sales hedges that became ineffective. During the 12 months ended December 31, 2008, EUR 18.0 million loss was recognized in sales relating to ineffective hedges (2007: EUR 0.2 million gain was recognized in cost of sales relating to ineffective hedges).

For a 10 percent weakening of the foreign currencies against the euro, there would be approximately an equal and opposite effect on the income from operations before income taxes and other comprehensive income. Only for the sensitivity for a 10 percent weakening of the Japanese yen against the euro, there would be a lower opposite effect than presented in the table shown above of EUR 10 million (2007: EUR 2.9 million higher) on other comprehensive income.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The table below shows the effect of a one percent increase in interest rates on the Company's income from operations before income taxes and other comprehensive income. For a one percent decrease in interest rates there would approximately be an equal and opposite effect on the income from operations before income taxes and other comprehensive income. A positive amount indicates an increase in income from operations before income taxes and other comprehensive income.

	2007		2008	
	Impact on	Impact on	Impact on	Impact on
	income before	equity	income before	equity
	income taxes	EUR	income taxes	EUR
(in thousands)	EUR	EUR	EUR	EUR
	2,602	(7,578)	6,018	2,465

The positive effect on other comprehensive income, within equity, is mainly attributable to the fair value movements of the interest rate swaps (EUR 41.5 million) designated as cash-flow hedges. The effect on the other comprehensive income and income from operations before income taxes has increased, due to the lower notional amounts in the outstanding interest rate swaps in 2008.

Item 12 Description of Securities Other Than Equity Securities

Not applicable.

Part II

Item 13 Defaults, Dividend Arrearages and Delinquencies

None.

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15 Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, the management of ASML conducted an evaluation, under the supervision and with the participation of ASML's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of ASML's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on such evaluation, ASML's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2008, ASML's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by ASML in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by ASML in the reports that it files or submits under the Exchange Act is accumulated and communicated to ASML's management, including ASML's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

ASML's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, for ASML. Under the supervision and with the participation of ASML's Chief Executive Officer and Chief Financial Officer, ASML's management conducted an evaluation of the effectiveness of ASML's internal control over financial reporting based upon the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission as of the end of the period covered by this report. Based on that evaluation, management has concluded that ASML's internal control over financial reporting was effective as of December 31, 2008 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Deloitte Accountants B.V., an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of ASML's internal control over financial reporting.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2008 there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Procedures in Internal Control over Financial Reporting

It should be noted that any system of controls, however well-designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Item 16

A. Audit Committee Financial Expert

Our Supervisory Board has determined that effective March 18, 2004, Mr. Fritz Fröhlich, an independent member of the Supervisory Board, qualifies as the Audit Committee Financial Expert.

B. Code of Ethics

ASML has adopted its “Principles of Ethical Business Conduct”, which contain ASML’s ethical principles in relation to various subjects. These Principles have been developed into day-to-day guidelines (the “Internal Guidelines on Ethical Business Conduct”). The Internal Guidelines on Ethical Business Conduct apply to ASML employees worldwide, including ASML’s Supervisory Board and Board of Management. Our Principles of Ethical Business Conduct and Internal Guidelines on Ethical Business Conduct are posted on our website (www.asml.com).

The Internal Guidelines on Ethical Business Conduct contain, among others, written standards that are reasonably designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that ASML files with, or submits to, the SEC and in other public communications made by ASML;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the Internal Guidelines on Ethical Business Conduct to an appropriate person or persons identified in these guidelines; and
- accountability for adherence to the guidelines.

In 2008, ASML introduced mandatory Code of Conduct training for all its employees.

C. Principal Accountant Fees and Services

Deloitte Accountants B.V. has served as our independent registered public accounting firm for each of the three years in the period ended December 31, 2008. The following table sets forth the aggregate fees for professional audit services and other services rendered by Deloitte Accountants B.V. in 2007 and 2008.

Year ended December 31 (in thousands)	2007 EUR	2008 EUR
Audit fees	1,297	1,377
Audit-related fees	188	52
Tax fees	237	536
Total	1,722	1,965

Audit fees

Audit fees primarily relate to the audit of our annual consolidated financial statements set forth in our Annual Report on Form 20-F, agreed upon procedures work on our quarterly financial results, services related to statutory and regulatory filings of ASML Holding N.V. and its subsidiaries and services in connection with accounting consultations on U.S. GAAP.

Audit-related fees

Audit-related fees mainly related to various audit services not related to the Company’s consolidated financial statements.

Tax fees

Tax fees can be detailed as follows:

Year ended December 31 (in thousands)	2007 EUR	2008 EUR
Corporate Income Tax compliance services	146	160
Tax assistance for expatriate employees	62	152
Other tax advisory and compliance	29	224
Total	237	536

The Audit Committee has approved the external audit plan and related audit fees for the year 2008. The Audit Committee has adopted a policy regarding audit and non-audit services, in consultation with Deloitte Accountants B.V. This policy ensures the independence of our auditors by expressly setting forth all services that the auditors may not perform and reinforcing the principle of independence regardless of the type of work performed. Certain non-audit services, such as certain tax-related services and acquisition advisory services, are permitted. The Audit Committee pre-approves all audit and non-audit services not specifically prohibited under this policy and reviews the annual external audit plan and any subsequent engagements.

D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides a summary of shares repurchased by the Company between 2006 and 2008:

Program	Period	Total Number of Shares purchased	Average Price Paid per Share (EUR)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Programs	Total value of Shares Purchased as Part of Publicly Announced Plans or Programs (in EUR million)
2006-2007 Share program	May 17-26, 2006	6,412,920	15.59	6,412,920	19,037,376	100
2006-2007 Share program	June 7-30, 2006	13,517,078	15.81	19,929,998	5,520,298	314
2006-2007 Share program	July 3-13, 2006	5,520,298	15.62	25,450,296	-	400
2006-2007 Share program	October 12, 2006	14,934,843	18.55	14,934,843	-	277
2006-2007 Share program	February 14-23, 2007	8,000,000	19.53	8,000,000	-	156
Capital repayment program 2007	September - October 2007	55,093,409	18.36	55,093,409	-	1,012
2007-2008 Share program	November 14-26, 2007	9,000,000	22.62	9,000,000	5,000,000	204
2007-2008 Share program	January 17-22, 2008	5,000,000	17.52	14,000,000	-	292

2006-2007 Share program

On March 23, 2006, the General Meeting of Shareholders authorized the repurchase of up to a maximum of 10 percent of our issued shares through September 23, 2007. The number of shares bought back in the initial phase of this Repurchase Program was 25,450,296 shares, representing 100 percent of the announced objective for the initial phase of the Repurchase Program of maximum EUR 400 million and 5.25 percent of outstanding shares. This 2006 Repurchase Program was completed in the third quarter of 2006. Shares repurchased were recorded at cost and classified within shareholders' equity. ASML cancelled these repurchased shares in 2007.

In the second phase of the Repurchase Program, ASML repurchased 14,934,843 additional shares pursuant to a call option transaction announced on October 9, 2006. These repurchased shares represented 100% of the announced objective of the second phase of the Repurchase Program. In order to mitigate the dilution due to the issuance of shares upon conversion of its convertible bond due October 2006, these shares were subsequently used to satisfy the conversion rights of holders of ASML's 5.75 percent Convertible Subordinated Notes. The Company paid an aggregate of EUR 277 million in cash for these shares. This repurchase program was completed in the fourth quarter of 2006. These shares were purchased from a third party who issued the call option.

In February 2007, ASML repurchased the final phase of shares under the Repurchase Program of the remaining 1.7 percent of outstanding share, being 8,000,000 shares. The share program was announced on February 14, 2007 and was completed in the first quarter of 2007. Shares repurchased have been used to cover outstanding stock options and to satisfy partly the conversion rights of holders of ASML's 5.50 percent Convertible Subordinated Notes.

Capital repayment program 2007

On July 17, 2007 the Extraordinary General Meeting of Shareholders approved three proposals to amend the Company's Articles of Association. The first amendment involved an increase of share capital by an increase in the nominal value per ordinary share from EUR 0.02 to EUR 2.12 and a corresponding reduction in share premium. The second amendment was a reduction of the nominal value per ordinary share from EUR 2.12 to EUR 0.08 resulting in the payment to shareholders of EUR 2.04 per ordinary share. The third amendment involved a reduction in stock, whereby 9 ordinary shares with a nominal value of EUR 0.08 each were consolidated into 8 ordinary shares with a nominal value of EUR 0.09 each. As a result of these amendments, which in substance constitute a synthetic share buyback, EUR 1,012 million has been repaid to our shareholders and the outstanding number of ordinary shares was reduced by 55,093,409 shares or 11 percent. The capital repayment program was completed in October 2007.

2007-2008 Share program

On March 28, 2007, the General Meeting of Shareholders authorized the repurchase of up to a maximum of three times 10 percent of our issued shares through September 28, 2008.

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In 2007, the aggregate number of shares bought back under the 2007-2008 share program was 9,000,000, representing 64.3 percent of the announced objective of 14,000,000 shares to be repurchased during a period ending on September 28, 2008. The share program was announced on October 17, 2007. Shares repurchased will be used to cover outstanding stock options.

In January 2008, ASML bought back 5,000,000 shares. The aggregate number of shares bought back up to and including January 2008, represents 100 percent of the announced objective of 14,000,000 shares.

Authorization of share repurchases

On April 3, 2008, the General Meeting of Shareholders authorized the repurchase of up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) through October 3, 2009. However, implementation of additional share buy back programs will depend on the recovery of the industry and economy.

G. Corporate governance

See Item 6.B. "Variations from Certain NASDAQ Corporate Governance Rules".

Part III

Item 17 Financial Statements

Not applicable.

Item 18 Financial Statements

In response to this item, the Company incorporates herein by reference the consolidated financial statements of the Company set forth on pages F-2 through F-48 hereto.

Item 19 Exhibits

Exhibit No.	Description
1	Articles of Association of ASML Holding N.V. (English translation) (Incorporated by reference to Amendment No. 11 to the Registrant's Registration Statement on Form 8-A/A, filed with the Commission on November 2, 2007)
2.1	Fiscal Agency Agreement between ASML Holding N.V., Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. relating to the Registrant's 5.75 percent Notes due 2017
4.1	Agreement between ASML Lithography B.V. and Carl Zeiss, dated March 17, 2000 (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2000) #
4.2	Agreement between ASML Holding N.V. and Carl Zeiss, dated October 24, 2003 (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003) #
4.3	Form of Indemnity Agreement between ASML Holding N.V. and members of its Board of Management (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
4.4	Form of Indemnity Agreement between ASML Holding N.V. and members of its Supervisory Board (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
4.5	Form of Employment Agreement for members of the Board of Management (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003)
4.6	Nikon-ASML Patent Cross License Agreement, dated December 10, 2004, between ASML Holding N.V. and Nikon Corporation (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.7	ASML/Zeiss Sublicense Agreement, 2004, dated December 10, 2004, between Carl Zeiss SMT AG and ASML Holding N.V. (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.8	ASML New Hires and Incentive Stock Option Plan For Management (Version 2003) (Incorporated by reference to the Registrant's Statement on Form S-8, filed with the Commission on September 2, 2003 (File No. 333-109154))
4.9	ASML Incentive and New Hire Option Plan for Board of Management (Incorporated by reference to the Registrant's Registration Statement on Form S-8, filed with the Commission on June 9, 2004 (File No. 333-116337))
4.10	ASML Option Plan for Management of ASML Holding Group Companies (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on June 30, 2005 (file No. 333-126340))
4.11	ASML Stock Option Plan for New Hire Options granted to Members of the Board of Management (Version April 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.12	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.13	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.14	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.15	ASML Restricted Stock Plan (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on March 7, 2007 (file No. 333-141125))
4.16	Brion Technologies, Inc., 2002 Stock Option Plan (as amended on March 25, 2005; March 24, 2006; and November 17, 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on April 20, 2007 (file No. 333-142254))
4.17	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version January 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.18	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))

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Exhibit No.	Description
4.19	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2007) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.20	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2007) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.21	ASML Performance Stock Plan for Members of the Board of Management (Version 1) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.22	ASML Performance Stock Option Plan for Members of the Board of Management (Version 2) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.23	ASML Stock Option Plan from Base Salary for Senior & Executive Management (Version October 2007) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on November 2, 2007 (file No. 333-147128))
4.24	ASML Performance Stock Option Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.25	ASML Performance Share Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.26	ASML Restricted Stock Plan (version 2) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
8.1	List of Material Subsidiaries*
12.1	Certification of CEO and CFO Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
13.1	Certification of CEO and CFO Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Deloitte Accountants B.V.*

* Filed at the Commission herewith

Certain information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

ASML Holding N.V. hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ASML Holding N.V.
(Registrant)

/s/ Eric Meurice

Eric Meurice

President, Chief Executive Officer and Chairman of the Board of Management

Dated: January 23, 2009

/s/ Peter T.F.M. Wennink

Peter T.F.M. Wennink

Executive Vice President, Chief Financial Officer and Member of the Board of Management

Dated: January 23, 2009



Financial Statements

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F-2	Consolidated Statements of Comprehensive Income for the years ended December 31, 2006, 2007 and 2008
F-3	Consolidated Balance Sheets as of December 31, 2007 and 2008
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Consolidated Statements of Operations

Notes	Year ended December 31 (in thousands, except per share data)	2006 ¹ EUR	2007 ^{1,2} EUR	2008 EUR
20	Net system sales	3,213,736	3,351,281	2,516,762
	Net service and field option sales	368,040	416,904	436,916
20	Total net sales	3,581,776	3,768,185	2,953,678
	Cost of system sales	1,904,073	1,943,779	1,631,069
	Cost of service and field option sales	223,724	274,747	307,095
22	Total cost of sales	2,127,797	2,218,526	1,938,164
	Gross profit on sales	1,453,979	1,549,659	1,015,514
22	Research and development costs	413,708	510,503	538,324
3, 11	Amortization of in-process research and development costs	–	23,148	–
	Research and development credits	(27,141)	(24,362)	(22,196)
22	Selling, general and administrative costs	204,799	225,668	212,341
	Income from operations	862,613	814,702	287,045
	Interest income	49,634	78,165	72,497
	Interest expense	(50,488)	(44,714)	(49,898)
	Income from operations before income taxes	861,759	848,153	309,644
19	(Provision for) benefit from income taxes	(243,211)	(177,152)	12,726
	Net income	618,548	671,001	322,370
	Basic net income per ordinary share	1.30	1.45	0.75
	Diluted net income per ordinary share	1.26	1.41	0.74
	Number of ordinary shares used in computing per share amounts (in thousands)			
	Basic	474,860	462,406	431,620
	Diluted	503,983	485,643	434,205

Consolidated Statements of Comprehensive Income

Year ended December 31 (in thousands)	2006 ¹ EUR	2007 ^{1,2} EUR	2008 EUR
Net income	618,548	671,001	322,370
Gain (loss) on foreign currency translation, net of taxes	(20,104)	(23,294)	(12,734)
Gain (loss) on derivative instruments, net of taxes	11,240	(3,450)	(43,579)
Comprehensive income	609,684	644,257	266,057

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Balance Sheets

Notes	As of December 31 (in thousands, except share and per share data)	2007 ^{1,2} EUR	2008 EUR
	Assets		
5	Cash and cash equivalents	1,271,636	1,109,184
6	Accounts receivable, net	637,975	463,273
7	Finance receivables, net	–	6,225
19	Current tax assets	–	87,560
8	Inventories, net	1,102,210	999,150
19	Deferred tax assets	78,395	71,780
9	Other assets	234,529	236,077
	Total current assets	3,324,745	2,973,249
7	Finance receivables, net	–	31,030
19	Deferred tax assets	141,032	148,133
9	Other assets	59,991	88,197
10	Goodwill	128,271	131,453
11	Other intangible assets, net	38,195	26,692
12	Property, plant and equipment, net	380,894	540,640
	Total non-current assets	748,383	966,145
	Total assets	4,073,128	3,939,394
	Liabilities and shareholders' equity		
	Accounts payable	282,953	193,690
13	Accrued liabilities and other liabilities	939,122	789,788
19	Current tax liabilities	104,632	20,039
14	Provisions	–	4,678
19	Deferred tax	50	148
	Total current liabilities	1,326,757	1,008,343
15	Long-term debt	602,016	647,050
19	Deferred and other tax liabilities	245,415	209,699
14	Provisions	–	15,495
13	Accrued liabilities and other liabilities	7,936	70,038
	Total non-current liabilities	855,367	942,282
	Total liabilities	2,182,124	1,950,625
16, 18	Commitments and contingencies	–	–
	Cumulative Preference Shares; EUR 0.02 nominal value; 3,150,005,000 shares authorized; none issued and outstanding at December 31, 2007 and 2008	–	–
	Ordinary Shares; EUR 0.09 and EUR 0.01 nominal value; respectively 700,000,000 and 10,000 shares authorized; respectively 435,625,934 and none issued and outstanding at December 31, 2007; respectively 432,073,534 and none issued and outstanding at December 31, 2008	39,206	38,887
	Share premium	463,846	474,765
	Treasury shares at cost	(198,893)	(253,436)
	Retained earnings	1,500,908	1,698,929
	Accumulated other comprehensive income	85,937	29,624
24	Total shareholders' equity	1,891,004	1,988,769
	Total liabilities and shareholders' equity	4,073,128	3,939,394

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of 2 deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands)	Issued and outstanding Shares		Share Premium EUR	Retained Earnings ^{5,6} EUR	Treasury Shares at cost EUR	Accumulated Other Comprehensive Income ⁶ EUR	Total EUR
	Number ¹	Amount EUR					
Balance at January 1, 2006	484,670	9,694	917,564	660,723	-	121,545	1,709,526
Components of comprehensive income:							
Net income	-	-	-	618,548	-	-	618,548
Foreign Currency Translation, net of taxes	-	-	-	-	-	(20,104)	(20,104)
Gain (loss) on derivative instruments, net of taxes	-	-	-	-	-	11,240	11,240
Share-based payments	-	-	9,667	-	-	-	9,667
Purchase of treasury shares	(25,450)	-	-	-	(401,000)	-	(401,000)
Purchase of shares in conjunction with conversion rights of bond holders	(14,935)	(299)	-	-	(277,235)	-	(277,534)
Issuance of shares in conjunction with convertible bonds	30,811	616	238,862	(48,034)	277,235	-	468,679
Tax benefit from stock options	-	-	2,906	-	-	-	2,906
Issuance of shares and stock options	2,003	40	26,035	-	-	-	26,075
Balance at December 31, 2006	477,099	10,051	1,195,034	1,231,237	(401,000)	112,681	2,148,003
Components of comprehensive income:							
Net income	-	-	-	671,001	-	-	671,001
Foreign Currency Translation, net of taxes	-	-	-	-	-	(23,294)	(23,294)
Gain (loss) on derivative instruments, net of taxes	-	-	-	-	-	(3,450)	(3,450)
Share-based payments	-	-	16,506	-	-	-	16,506
Cumulative effect of applying the provisions of FIN 48	-	-	-	(7,648)	-	-	(7,648)
Purchase of shares in conjunction with conversion rights of bond holders and share-based payment plans ²	(17,000)	(970)	-	-	(358,886)	-	(359,856)
Issuance of shares in conjunction with convertible bonds	26,232	718	288,360	(35,366)	130,317	-	384,029
Capital repayment ³	(55,093)	29,748	(1,041,605)	-	-	-	(1,011,857)
Cancellation of treasury shares	-	(509)	(48,563)	(351,928)	401,000	-	-
Tax benefit from stock options	-	-	9,006	-	-	-	9,006
Issuance of shares and stock options	4,388	168	45,108	(6,388)	29,676	-	68,564
Balance at December 31, 2007	435,626	39,206	463,846	1,500,908	(198,893)	85,937	1,891,004
Components of comprehensive income:							
Net income	-	-	-	322,370	-	-	322,370
Foreign Currency Translation, net of taxes	-	-	-	-	-	(12,734)	(12,734)
Gain (loss) on derivative instruments, net of taxes	-	-	-	-	-	(43,579)	(43,579)
Share-based payments	-	-	13,535	-	-	-	13,535
Purchase of shares in conjunction with share-based payment plans	(5,000)	(450)	-	-	(87,155)	-	(87,605)
Dividend payment ⁴	-	-	-	(107,841)	-	-	(107,841)
Tax benefit from stock options	-	-	2,144	-	-	-	2,144
Issuance of shares and stock options	1,448	131	(4,760)	(16,508)	32,612	-	11,475
Balance at December 31, 2008	432,074	38,887	474,765	1,698,929	(253,436)	29,624	1,988,769

As of December 31, 2008, the number of issued shares was 444,480,095. This includes the number of issued and outstanding shares of 432,073,534 and the 1 number of treasury shares of 12,406,561. As of December 31, 2007, the number of issued shares was 444,480,095. This included the number of issued and outstanding shares of 435,625,934 and the number of treasury shares of 8,854,161.

² In 2007, 17,000,000 shares were repurchased, some of which were re-issued in order to cover exercised stock options and to satisfy the conversion rights of holders of our 5.50 percent Convertible Subordinated Notes. See Note 25 for further information.

³ In 2007, as part of a capital repayment program, EUR 1,012 million of equity was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11 percent. See Note 25 for further information.

⁴ In 2008, ASML paid out a dividend of EUR 108 million to its shareholders, see note 24 for further information.

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 5 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from ⁶ income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31 (in thousands)	2006 ¹ EUR	2007 ^{1,2} EUR	2008 EUR
Cash Flows from Operating Activities			
Net income	618,548	671,001	322,370
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	87,092	126,344	119,190
Impairment	17,354	9,022	25,109
Loss on disposals of property, plant and equipment ³	5,106	14,210	4,257
Share-based payments ³	9,667	16,506	13,535
Allowance for doubtful debts	249	(178)	188
Allowance for obsolete inventory	54,181	79,592	139,628
Deferred income taxes	(71,349)	106,403	(34,155)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(362,388)	42,410	132,147
Inventories	(85,213)	(438,746)	(87,804)
Other assets	(31,366)	(86,053)	(76,342)
Accounts payable	(8,916)	(38,944)	(94,375)
Income taxes payable	97,740	(74,428)	(158,277)
Other liabilities	161,575	273,872	(24,725)
Net cash provided by operating activities	492,280	701,011	280,746
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(70,619)	(179,152)	(259,770)
Proceeds from sale of property, plant and equipment ³	110	5,011	–
Purchases of intangible assets	(120)	–	(35)
Acquisition of subsidiary (net of cash acquired)	–	(188,011)	–
Net cash used in investing activities	(70,629)	(362,152)	(259,805)
Cash Flows from Financing Activities			
Capital repayment	–	(1,011,857)	–
Purchase of treasury shares	(401,000)	–	–
Purchase of shares in conjunction with conversion rights of bondholders and stock options	(277,385)	(359,856)	(87,605)
Net proceeds from issuance of shares and stock options ³	26,173	63,307	11,475
Dividend paid	–	–	(107,841)
Net proceeds from issuance of bond	–	593,755	–
Redemption and/or repayment of debt	(8,318)	(9,718)	(2,411)
Excess tax benefits from stock options	2,906	9,006	2,144
Net cash used in financing activities	(657,624)	(715,363)	(184,238)
Net cash flows	(235,973)	(376,504)	(163,297)
Effect of changes in exchange rates on cash	(12,779)	(7,717)	845
Net decrease in cash and cash equivalents	(248,752)	(384,221)	(162,452)
Cash and cash equivalents at beginning of the year	1,904,609	1,655,857	1,271,636
Cash and cash equivalents at end of the year	1,655,857	1,271,636	1,109,184
Supplemental Disclosures of Cash Flow Information:			
Cash paid for:			
Interest	48,656	38,936	40,247
Taxes	217,466	167,268	167,360
Supplemental non-cash investing and financing activities:			
Conversion of bonds into 30,811,215, 26,232,275 and 0 ordinary shares respectively in 2006, 2007 and 2008	459,087	378,413	–

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

³ In 2008, ASML made reclassifications for share-based payments and loss on disposals of property, plant and equipment to improve the understanding of the consolidated statements of cash flows. We have adjusted the comparative figures of 2006 and 2007 accordingly.

Notes to the Consolidated Financial Statements

1. General information / Summary of significant accounting policies

ASML Holding N.V., with its corporate headquarters in Veldhoven, the Netherlands, is engaged in the development, production, marketing, sale and servicing of advanced semiconductor equipment systems exclusively consisting of lithography systems. ASML's principal operations are in the Netherlands, the United States of America and Asia.

The Company's shares are listed for trading in the form of registered shares on NASDAQ Global Select Market ("New York shares") and in the form of registered shares on Euronext Amsterdam ("Amsterdam Shares"). The principal trading market of the Company's ordinary shares is Euronext Amsterdam.

The accompanying consolidated financial statements include the financial statements of ASML Holding N.V. headquartered in Veldhoven, the Netherlands, and its consolidated subsidiaries (together referred to as "ASML" or the "Company").

Basis of preparation

The accompanying consolidated financial statements are stated in thousands of euro ("EUR") unless indicated otherwise. ASML follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). ASML's reporting currency is the euro.

Change in accounting policy

The accounting policies applied in financial year 2008 are unchanged compared to the previous financial year except for the accounting of free or discounted products or services (award credits) offered to ASML's customers as part of a volume purchase agreement.

Until December 31, 2007, ASML accounted for award credits offered to its customers based on the cost accrual method. Under the cost accrual method the estimated future costs of the award credits were recognized as a liability until the award credits were delivered to the customer. As of January 1, 2008, ASML accounts for award credits based on the deferred revenue method. Under the deferred revenue method a sales transaction that gives rise to award credits is accounted for as a multiple element revenue transaction. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until the award credits are delivered to the customer.

We believe that the use of the deferred revenue method is preferable since it better reflects the substance of the transaction and the business rationale of granting the customer award credits since compared to previous years, award credits are more often used as a sales incentive tool. Further, we believe that the deferred revenue model improves the understanding of ASML's business performance because this model has a direct impact on important business indicators like the average sales price and gross margin.

The comparative figures for 2006 and 2007 have been adjusted to reflect the change in accounting policy. The shareholders' equity as of January 1, 2006 was negatively impacted with EUR 2.3 million. The impact on the 2006, 2007 and 2008 consolidated statements of operations and the per-share amounts is as follows:

Year ended December 31 (in millions, except per share data)	2006 EUR	2007 EUR	2008 EUR
Net system sales	(15)	(41)	56
Cost of system sales	(7)	(30)	36
Income from operations	(8)	(11)	20
Net income	(6)	(8)	16
Basic net income per ordinary share	(0.02)	(0.02)	0.04
Diluted net income per ordinary share	(0.01)	(0.02)	0.04

Prior period error

In December 2007, ASML reached an agreement with the Netherlands tax authorities on the fiscal treatment of the gains and losses on the Company's net investment hedges in foreign operations. This resulted in a release of deferred tax liabilities of EUR 8.7 million which was incorrectly recognized under the (provision for) benefit from income taxes in the consolidated statement of operations instead of in equity under other comprehensive income in 2007. In 2008, subsequent to the filing of the

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2007 annual report on Form 20-F, ASML detected and made a correction for this prior period error. The comparative figures for the year 2007 have been adjusted to correct this error. This correction had a positive impact on shareholders' equity and a negative impact on net income of EUR 8.7 million. The negative impact of the correction on the 2007 basic and diluted net income per ordinary share amounts to EUR 0.02 and EUR 0.01, respectively.

Use of estimates

The preparation of ASML's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the balance sheet dates, and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Principles of consolidation

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

Subsidiaries

Subsidiaries are all entities over which ASML has the power to govern financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. As from the date that these criteria are met, the financial data of the relevant company are included in the consolidation.

Acquisitions of subsidiaries are included on the basis of the 'purchase accounting' method. The cost of acquisition is measured as the cash payment made, the fair value of other assets distributed and the fair value of liabilities incurred or assumed at the date of exchange, plus the costs that can be allocated directly to the acquisition. The excess of the costs of an acquired subsidiary over the net of the amounts assigned to assets acquired and liabilities incurred or assumed is capitalized as goodwill.

Foreign currency translation

The financial information for subsidiaries outside the euro-zone is generally measured using local currencies as the functional currency. The financial statements of those foreign subsidiaries are translated into euro in the preparation of ASML's consolidated financial statements. Assets and liabilities are translated into euro at the exchange rate in effect on the respective balance sheet dates. Income and expenses are translated into euro based on the average exchange rate for the corresponding period. The resulting translation adjustments are recorded directly in shareholders' equity. Currency differences on intercompany loans that have the nature of a long-term investment are also accounted for directly in shareholders' equity.

Derivative instruments

The Company principally uses derivative hedging instruments for the management of foreign currency risks and interest rate risks. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of SFAS No. 133", the Company measures all derivative hedging instruments based on fair values derived from market prices of the instruments. The Company adopts hedge accounting for hedges that are highly effective in offsetting the identified hedged risks as required by the SFAS No. 133 effectiveness criteria.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk (fair value hedge);

A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk (cash-flow hedge); or

A hedge of the foreign currency exposure of a net investment in a foreign operation (net investment hedge);

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash-flows of hedged items.

Fair-value hedge

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability, that is attributable to the hedged risk, are recorded in the consolidated statements of operations. The Company designates foreign currency hedging instruments as a hedge of the fair value of a recognized asset or liability in non-

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functional currencies. The gain or loss relating to the ineffective portion of foreign currency hedging instruments is recognized in the consolidated statements of operations as “net sales” or “cost of sales”.

Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair-value hedges. The change in fair value is intended to offset the change in the fair value of the underlying fixed loan coupons, which is recorded accordingly. The gain or loss relating to the ineffective portion of interest rate swaps hedging fixed loan coupons payable is recognized in the consolidated statements of operations as “interest income” or “interest expenses”.

Cash-flow hedge

Changes in the fair value of a derivative that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, net of taxes, until the underlying hedged transaction is recognized in the consolidated statements of operations. In the event that the underlying hedge transaction will not occur within the specified time period, the gain or loss on the related cash-flow hedge is immediately released from other comprehensive income and included in the consolidated statements of operations.

Foreign currency hedging instruments that are being used to hedge cash-flows related to future sales or purchase transactions in non-functional currencies are designated as cash-flow hedges. The gain or loss relating to the ineffective portion of the foreign currency hedging instruments is recognized in the consolidated statements of operations in “sales” or “cost of sales”.

Interest-rate swaps that are being used to hedge changes in the variability of future interest receipts are designated as cash-flow hedges. The changes in fair value of the derivatives are intended to offset changes in future interest cash-flows on the assets. The gain or loss relating to the ineffective portion of interest rate swaps hedging the variability of future interest receipts is recognized in the consolidated statements of operations as “interest income” or “interest expense”.

Net-investment hedge

Foreign currency hedging instruments that are being used to hedge changes in the value of a net investment are designated as net investment hedges. Changes in the fair value of a derivative that is designated and qualifies as a net investment hedge are recorded in other comprehensive income, net of taxes. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of operations as “interest income” or “interest expense”. Gains and losses accumulated in other comprehensive income are recognized in the consolidated statements of operations when the foreign operation is partially disposed or sold.

Cash and cash equivalents

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

Inventories

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

Goodwill

Goodwill represents the excess of the costs of an acquisition over the fair value of Company’s share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is allocated to reporting units for the purpose of impairment testing. The allocation is made to those reporting units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is stated at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets include acquired intellectual property rights, developed technology, customer relationships and other intangible assets. Acquired intellectual property rights, developed technology, customer relationships and other intangible assets are stated at cost, less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the

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straight-line method based on the estimated useful lives of the assets. The following table presents the estimated useful lives of ASML's other intangible assets:

Category	Estimated useful life
Intellectual property rights	3 - 10 years
Developed technology	6 years
Customer relationships	8 years
Other intangible assets	2 - 6 years

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Costs of assets manufactured by ASML include direct manufacturing costs, production overhead and interest costs incurred for qualifying assets during the construction period. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets. In the case of leasehold improvements, the estimated useful lives of the related assets do not exceed the remaining term of the corresponding lease. The following table presents the estimated useful lives of ASML's property, plant and equipment:

Category	Estimated useful life
Buildings and constructions	5 - 40 years
Machinery and equipment	2 - 5 years
Furniture, fixtures and other equipment	3 - 5 years
Leasehold improvements	5 - 10 years

Certain internal and external costs associated with the purchase and/or development of internally used software are capitalized when both the preliminary project stage is completed and management has authorized further funding for the project, which it has deemed probable to be completed and to be usable for the intended function. These costs are amortized on a straight-line basis over the period of related benefit, which ranges primarily from three to five years.

Evaluation of long-lived assets for impairment

Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

Goodwill is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is tested for impairment based on a two-step approach for each reporting unit. First, the recoverability is tested by comparing the carrying amount of the reporting unit including goodwill with the fair value of the reporting unit, being the sum of the discounted future cash flows. If the carrying amount of the reporting unit is higher than the fair value of the reporting unit, the second step should be performed. The goodwill impairment is measured as the excess of the carrying amount of the goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination.

Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Other intangible assets and property, plant and equipment are tested for impairment based on a two-step approach. First, the recoverability is tested by comparing the carrying amount of the other intangible assets and property, plant and equipment with the fair value being the sum of the undiscounted future cash flows. If the carrying amount of the other intangible assets and property, plant and equipment is higher than the fair value the assets are considered to be impaired. An impairment expense is recognized for the difference between the carrying amount and the fair value of the other intangible assets and property, plant and equipment.

Provisions

Provisions include employee contract termination benefits and lease contract termination costs.

Provisions for employee contract termination benefits are recognized when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where there is no possibility of withdrawal, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. The timing of recognition and measurement of the provision for employee termination benefits depends on whether employees are required to render

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service until they are terminated in order to receive the termination benefits. If employees are not required to render services beyond the minimum retention period, the provision will be recognized at the communication date. If employees are required to render services beyond the minimum retention period the provision will be recognized ratably over the future service period. The provisions are measured at fair value.

Provisions for lease contract termination costs are recognized when costs will continue to be incurred under a contract for its remaining term without economic benefit to the Company and the Company ceases using the rights conveyed by the contract. The provisions are measured at fair value which for an operating lease contract is determined based on the remaining lease payments reduced by the estimated sublease payments that could be reasonably obtained for the building.

Revenue recognition

ASML recognizes revenue when all four revenue recognition criteria are 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 collectability is reasonably assured. At ASML, this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer's site. Each system undergoes, prior to shipment, a "Factory Acceptance Test" in ASML's clean room facilities, effectively replicating the operating conditions that will be present on the customer's site, in order to verify whether the system will meet its standard specifications and any additional technical and performance criteria agreed with the customer. A system is shipped, and revenue is recognized, only after all specifications are met and customer sign-off is received or waived. Although each system's performance is re-tested upon installation at the customer's site, ASML has never failed to successfully complete installation of a system at a customer's premises.

In connection with future introductions of new technology, we will initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until we are able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML's results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2008 and 2007, we had no deferred revenue from shipments of new technology. During the three years ended December 31, 2008, no revenue from new technology was recorded that had been previously deferred. As our systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely "new" technology occurs infrequently, and has occurred on only one occasion since 1999.

ASML has no significant repurchase commitments in its general sales terms and conditions. From time to time the Company repurchases systems that it has manufactured and sold and, following refurbishment, resells those systems to other customers. This repurchase decision is driven by market demand expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The Company considers reasonable offers from any vendor, including customers, to repurchase used systems so that it can refurbish, resell and install these systems as part of its normal business operations. Once repurchased, the repurchase price of the used system is recorded in work-in-process inventory during the period it is being refurbished, following which the refurbished system is reflected in finished products inventory until it is sold to the customer. As of December 31, 2008 ASML has no repurchase commitments (2007: EUR 53 million).

A portion of our revenue is derived from contractual arrangements with our customers that have multiple deliverables, such as installation and training services, prepaid service contracts and prepaid extended optic warranty contracts. The revenue relating to the undelivered elements of the arrangements is deferred at fair value until delivery of these elements. The fair value is determined by vendor-specific objective evidence ("VSOE") except the fair value of the prepaid extended optic warranty which is based on the list price. VSOE is determined based upon the prices that we charge for installation, training, prepaid services and comparable services (such as relocating a system to another customer site) on a stand-alone basis, which are subject to normal price negotiations. Revenue from installation and training services is recognized when the services are completed. Revenue from prepaid service contracts and prepaid extended optic warranty contracts is recognized over the term of the contract.

The deferred revenue balance from installation and training services amounted to approximately EUR 3 million and EUR 15 million, respectively, as of December 31, 2008.

The deferred revenue balance from prepaid service contracts and prepaid extended optic warranty contracts amounted to approximately EUR 118 million and EUR 55 million, respectively, as of December 31, 2008.

We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment of revenue recognition. From time to time, we offer volume discounts to a limited number of customers. In some instances these volume discounts can be used to purchase field options (system enhancements). The related amount is recorded as a reduction in revenue at time of shipment. From time to time, we offer free or discounted products or services

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(award credits) to our customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction. The fair value of the consideration received for the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer.

Revenues are recognized excluding the taxes levied on revenues (net basis).

Warranty

We provide standard warranty coverage on our systems for twelve months and on certain optic parts for sixty months, providing labor and parts necessary to repair systems and optic parts during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge. We update these estimated charges periodically.

Accounting for shipping and handling fees and costs

ASML bills the customer for, and recognizes as revenue, any charges for shipping and handling costs. The related costs are recognized as cost of sales.

Cost of sales

Cost of system sales comprise direct product costs such as materials, labor, cost of warranty, depreciation, shipping and handling costs and related overhead costs. ASML accrues for the estimated cost of the warranty on its systems, which includes the cost of labor and parts necessary to repair systems during the warranty period. The amounts recorded in the warranty accrual are estimated based on actual historical expenses incurred and on estimated probable future expenses related to current sales. Actual warranty costs are charged against the accrued warranty reserve.

Costs of service sales comprise direct service costs such as materials, labor, depreciation and overhead costs.

Research and development costs and credits

Costs relating to research and development are charged to operating expense as incurred. ASML receives subsidies and other credits only from governmental institutes. These 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 costs occur.

Share-based payments

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant-date fair value of stock options and stock. The grant-date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk-free interest rate used in the model is determined, based on a Euro government bond with a life equal to the expected life of the equity-settled share-based payments. The fair value of stock is determined based on the closing price of the Company's ordinary shares on the Euronext Amsterdam on the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of operations in the period in which the revision is determined, with a corresponding adjustment to equity.

We make quarterly assessments of the adequacy of the (hypothetical) tax pool to determine whether there are tax deficiencies that require recognition in the consolidated statements of operations. We have selected the alternative transition method (under FSP FAS 123(R)-3) in order to calculate the tax pool.

Our current share-based payment plans do not provide for cash settlement of options and stock.

Income taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the tax effect of incurred net operating losses and for tax consequences attributable to differences between the

balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. If it is more likely than not that the carrying amounts of deferred tax assets will not be realized, a valuation allowance is recorded to reduce the carrying amounts of those assets.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

On January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB No. 109" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Contingencies and litigation

We are party to various legal proceedings generally incidental to our business, as disclosed in Note 18 to the consolidated financial statements. In connection with these proceedings and claims, our management evaluated, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case, management determined that either a loss was not probable or was not reasonably estimable. As a result, no estimated losses were recorded as a charge to our consolidated statements of operations in 2006, 2007 and 2008. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, we may agree to settle or to terminate a claim or proceeding in which we believe that we would ultimately prevail where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in an expensive and protracted litigation, the outcome of which is uncertain.

We accrue for legal costs related to litigation in our consolidated statements of operations at the time when the related legal services are actually provided to us.

Net income per ordinary share

Basic net income per share is computed by dividing net income by the weighted average ordinary shares outstanding for that period. Diluted net income per share reflects the potential dilution that could occur if options issued under ASML's share-based payment plan were exercised, and if ASML's convertible notes were converted, unless the exercise of the stock options or conversion of the convertible notes would have an anti-dilutive effect. The dilutive effect is calculated using the if-converted method. Following this method, ASML's convertible bonds are considered dilutive in 2006 and 2007. Excluded from the diluted weighted average number of shares outstanding calculation are cumulative preference shares contingently issuable to the preference share foundation, since they represent a different class of stock than the ordinary shares. See further discussion in Note 24.

The earnings per share (EPS) data have been calculated in accordance with the following schedule:

As of December 31 (in thousands, except per share data)	2006 ¹ EUR	2007 ^{1,2} EUR	2008 EUR
Basic EPS computation:			
Net income available to holders of common shares	618,548	671,001	322,370
Weighted average number of shares outstanding (after deduction of treasury stock) during the year			
	474,860	462,406	431,620
Basic earnings per share	1.30	1.45	0.75
Diluted EPS computation:			
Net income available to holders of common shares	618,548	671,001	322,370
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	14,714	11,850	–
Net income available to holders of common shares plus effect of assumed conversions	633,262	682,851	322,370
Weighted average number of shares:			
474,860	462,406	431,620	
Plus shares applicable to:			
Stock options	2,550	4,569	2,585
Convertible subordinated notes	26,573	18,668	–
Dilutive potential common shares			
	29,123	23,237	2,585
Adjusted weighted average number of shares	503,983	485,643	434,205
Diluted earnings per share	1.26	1.41	0.74

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are not included in net income, but recorded directly in shareholders' equity. For the years ended December 31, 2006, 2007 and 2008, comprehensive income consists of net income, unrealized gains and losses on derivative instruments, net of taxes, and unrealized gains and losses on foreign currency translation, net of taxes.

New U.S. GAAP Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This statement replaces FASB Statement No. 141 "Business Combinations". SFAS 141(R) improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This FASB statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the impact that SFAS 141(R) may have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). This FASB Staff Position (FSP) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently assessing the impact that FSP SFAS 142-3 may have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). The Statement defines fair value, provides guidance on how to measure assets and liabilities using fair value and expands disclosures about fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively (with a limited form of retrospective application) as of the beginning of the fiscal year in which this Statement is initially applied.

In February 2008, the FASB issued FASB Staff Position No. 157-2, “Effective date of FASB Statement No. 157” (“FSP FAS 157-2”), which delays the effective date of SFAS 157 for certain non-recurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. We are currently assessing the impact that the adoption of SFAS No. 157 as delayed by FSP FAS 157-2 may have on our consolidated financial statements. ASML has only partially adopted SFAS 157. We have not applied SFAS 157 for impairment assessments of non-financial long-lived assets and goodwill.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, “Determining the Fair value of a Financial Asset in a Market That Is Not Active” (“FSP FAS 157-3”), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP FAS 157-3 clarifies how (1) management’s internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP FAS 157-3 is effective immediately and will apply to ASML upon adoption of SFAS 157. We believe that the adoption of FSP FAS 157-3 for the items currently deferred by FSP FAS 157-2 will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). This statement is intended to enhance required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash-flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently assessing the impact that SFAS 161 may have on our consolidated financial statements.

2. Significant effects of the current global financial market crisis and economic downturn

As a result of the actions taken to respond to the current global financial market crisis and economic downturn the following charges have been recognized in ASML’s consolidated statements of operations in 2008:

(in thousands)	2008 EUR
Restructuring costs	22,397
Inventory obsolescence	94,601
Impairments of property, plant and equipment	20,839
Total	137,837

As a result of the sharp decreases in demand in the fourth quarter of 2008 and in anticipated demand in 2009 caused by the current global financial market crisis and economic downturn, ASML has recognized impairment charges of EUR 20.8 million on property, plant and equipment and inventory obsolescence charges of EUR 94.6 million.

In order to lower its cost and break-even level, ASML announced in December 2008 a reduction in work force of approximately 1,000 employees or 12 percent of the total work force, mainly contract employees. ASML also announced the shutdown of its production facilities for two weeks in the fourth quarter of 2008 and four weeks in the first half of 2009. Furthermore, ASML announced a restructuring that resulted in the discontinuation of its training center in the United States, the downsizing of its United States headquarters and the closure of several other service locations, reflecting the continuing migration of semiconductor manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The restructuring resulted in the recognition of a provision for employee contract termination benefits of EUR 2.4 million, reflecting the elimination of approximately 90 jobs in the United States and approximately 15 jobs at service locations in other parts of the world. As part of this restructuring, ASML ceased the use of its training facility in Tempe, United States, incurring lease contract termination costs of EUR 20.0 million in 2008.

These costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR	Inventory obsolescence EUR	Impairment of property, plant and equipment EUR	Total EUR
Cost of sales	21,492	94,601	20,111	136,204
Research and development costs	-	-	728	728
Selling, general and administrative costs	905	-	-	905
Total	22,397	94,601	20,839	137,837

3. Business combinations

In March 2007, we acquired 100 percent of the outstanding shares of Brion Technologies, Inc. ("Brion"). Brion is a manufacturer of computational lithography products used for the implementation of optical proximity correction ("OPC") to design data and verification before mask manufacture. The acquisition of Brion enabled ASML to improve the implementation of OPC technology and resolution enhancement techniques such as Double Patterning and Source-Mask Optimization for the masks used on ASML systems and otherwise. These improvements in turn are expected to extend the practical resolution limits of ASML ArF immersion products. We also expect Brion's computational lithography capability will enable us to offer products that further improve the set-up and control of ASML lithography systems.

The total consideration amounted to EUR 193.3 million. ASML paid EUR 181.1 million in cash, EUR 5.3 million in stock options and EUR 6.9 million in acquisition related costs. ASML assumed all Brion stock options which were outstanding prior to the effective date of the acquisition. The Brion stock options assumed were converted into ASML stock options. The fair value of the stock options was determined using a Black-Scholes option valuation model. The fair value of the stock options relating to past services was part of the total consideration. The fair value of the stock options relating to future services will be part of the future compensation expenses.

The assets and liabilities arising from the acquisition of Brion were as follows:

(in thousands)	Fair value EUR	Acquiree's carrying amount EUR
Accounts receivable	1,642	1,642
Inventories	1,776	1,776
Other current assets	102	102
Deferred tax assets	3,720	-
Other assets	3,411	3,411
Other intangible assets	61,259	-
Property, plant and equipment	2,529	2,529
Accounts payable	(706)	(706)
Accrued liabilities and other	(8,073)	(14,551)
Deferred tax liabilities	(15,731)	(1,058)
Subtotal	49,929	(6,855)
Goodwill on acquisition	143,340	-
Total	193,269	(6,855)

The goodwill is attributable to the expected growth potential and synergies expected to arise after the acquisition of Brion. The goodwill recorded as part of the Brion acquisition is not tax deductible.

Other intangible assets of EUR 61.3 million consist of EUR 26.8 million of developed technology, EUR 9.0 million of customer relationships, EUR 23.1 million of in-process research and development and EUR 2.4 million of other intangible assets.

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Brion's in-process research and development was fully amortized at the date of acquisition in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" and is included in research and development costs.

The weighted-average useful life of developed technology, customer relationships and other intangible assets is six years, eight years and two to six years respectively.

As part of a retention package employees and executives of Brion were granted a cash retention bonus, stock awards, performance stock awards and the existing stock options of Brion were converted to ASML stock options (see Note 17).

In 2008 we completed the purchase price allocation of Brion. No adjustments were made to the initial allocation of the purchase price.

4. Market risk and derivatives

The Company is exposed to a variety of financial risks: market risk (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. None of these transactions are entered into for trading or speculative purposes.

While the financial markets have shown an increased volatility, we continue to believe that market information is the most reliable and transparent means of measurement for our derivative instruments that are measured at fair value.

Foreign currency risk management

The Company uses the euro as its invoicing currency in order to limit the exposure to foreign currency movements. Exceptions may occur on a customer by customer basis. To the extent that invoicing is done in a currency other than the euro, the Company is exposed to foreign currency risk.

It is the Company's policy to hedge material transaction exposures, such as sales transactions, forecasted purchase transactions and accounts receivable/accounts payable. The Company hedges these exposures through the use of foreign exchange options and forward contracts. The use of a mix of foreign exchange options and forward contracts is aimed at reflecting the likelihood of the transactions occurring. In the fourth quarter of 2008, four sales transactions were postponed, resulting in ineffective hedges. During the 12 months ended December 31, 2008, EUR 18.0 million loss was recognized in net sales relating to ineffective hedges (2007: EUR 0.2 million gain was recognized in cost of sales relating to ineffective hedges). The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

As of December 31, 2008 EUR 43.6 million loss (2007: EUR 3.5 million loss) of other comprehensive income, net of taxes, represents the total anticipated loss to be charged to net sales, and EUR 1.9 million gain (2007: EUR 3.1 million loss) is the total anticipated gain to be released to cost of sales over the next twelve months as the forecasted revenue and purchase transactions occur.

It is the Company's policy to hedge material remeasurement exposures. These net exposures from certain monetary assets and liabilities in non-functional currencies are hedged with forward contracts.

It is the Company's policy to manage material currency translation exposures resulting predominantly from ASML's U.S. dollar net investments by hedging these partly with forward contracts.

The related foreign currency translation amounts, net of taxes, included in cumulative translation adjustment for the years ended December 31, 2007 and 2008 were EUR 23.3 million gain and EUR 12.7 million gain, respectively.

Interest rate risk management

The Company has both assets and liabilities that bear interest, which expose the Company to fluctuations in the prevailing market rate of interest. The Company uses interest rate swaps to align the interest typical terms of interest bearing assets with the interest typical terms of interest bearing liabilities. The Company still retains residual financial statement exposure risk to the extent that the asset and liability positions do not fully offset. It is the Company's policy to enter into interest rate swaps to hedge this residual exposure. For this purpose the Company uses interest rate swaps to hedge changes in market value of fixed loan coupons payable on our Eurobond due to changes in market interest rates and to hedge the variability of future interest receipts as a result of changes in market interest rates on part of our cash and cash equivalents.

Financial instruments

The Company uses foreign exchange derivatives to manage its currency risk and interest rate swaps to manage its interest-rate risk. Most derivatives will mature in one year or less after the balance sheet date. The following table summarizes the notional amounts and estimated fair values of the Company's financial instruments:

As of December 31 (in thousands)	2007 Notional Amount EUR	Fair Value EUR	2008 Notional Amount EUR	Fair Value EUR
Currency forward contracts ^{1,2}	283,881	528	896,642	(38,521)
Currency options ²	90,000	4,887	–	–
Interest rate swaps ³	1,029,900	16,553	641,500	63,172

(Source: Bloomberg Finance LP)

1 Mainly includes forward contracts on U.S. dollar and Japanese yen.

2 Net amount of forward and option contracts assigned as a hedge to sales and purchase transactions, to monetary assets and liabilities and to net investments in foreign operations.

3 The 2007 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond and of EUR 380 million relating to cash and cash equivalents. The 2008 notional amount of the interest rate swaps mainly consists of EUR 600 million relating to a Eurobond. The fair value of interest rate swaps includes accrued interest and mainly consists of the fair value of interest rate swaps relating to a EUR 600 million Eurobond.

The fair value of currency forward contracts (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the forward contracts at the reporting date, taking into account interest rates and exchange rates.

The fair value of currency options (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the option agreements at the reporting date, taking into account interest rates, exchange rates and volatility.

The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that a bank would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates.

Credit risk management

Financial instruments that potentially subject ASML to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative financial instruments used in hedging activities.

Cash and cash equivalents and derivative instruments contain an element of risk of the counterparties being unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML's counterparties to a sufficient number of major financial institutions. Also, in response to the increased volatility of the financial markets, a material part of the cash and cash equivalents has been invested in government related securities. ASML does not expect the counterparties to default given their high credit quality.

ASML's customers consist of integrated circuit manufacturers located throughout the world. ASML performs ongoing credit evaluations of its customers' financial condition and ASML maintains an allowance for potentially uncollectable accounts receivable. ASML regularly reviews the allowance by considering factors such as historical payment experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In response to the increased volatility of the financial markets, ASML has taken additional measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership. Retention enables ASML to recover the systems in the event a customer defaults on payment.

Capital risk management

Our general strategy is to seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 and 1.5 billion. The Company regularly reviews the efficiency of its capital structure. To the extent that our cash and cash equivalents exceeds this target and there are no investment opportunities that we wish to pursue, we will consider returning excess cash to our shareholders, including through share buybacks, dividends and capital repayment. However, implementation of additional share buy back programs will depend on the recovery of the industry and economy.

5. Cash and cash equivalents

Cash and cash equivalents at December 31, 2008 include short-term deposits of EUR 833 million (2007: EUR 1,201 million), investments in Money Market Funds of EUR 201 million (2007: EUR 0.0 million) and interest-bearing bank accounts of EUR 75 million (2007: EUR 71 million).

Cash and cash equivalents have insignificant interest rate risk and remaining maturities of three months or less at the date of acquisition. No further restrictions on usage of cash and cash equivalents exist. The carrying amount of these assets approximates their fair value.

6. Accounts receivable

Accounts receivable consist of the following:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Accounts receivable, gross	639,360	464,703
Allowance for doubtful debts	(1,385)	(1,430)
Accounts receivable, net	637,975	463,273

The carrying amount of the accounts receivable approximates the fair value. The maximum exposure to credit risk at December 31, 2008 is the fair value of the accounts receivable mentioned above. ASML has taken additional measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership, which is intended to enable ASML to recover the systems in the event a customer defaults on payment.

Movements of the allowance for doubtful debts are as follows:

(in thousands)	2007 EUR	2008 EUR
Balance at beginning of year	(2,388)	(1,385)
Utilization of the provision	825	143
(Addition) / release for the year ¹	178	(188)
Balance at end of year	(1,385)	(1,430)

1 (Addition) / release for the year is recorded in cost of sales.

On January 23, 2009, Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. Qimonda has amounts outstanding to ASML of approximately EUR 37 million in respect of two systems delivered, of which EUR 21 million is reflected in accounts receivable and EUR 16 million is reflected in finance receivables. ASML believes that the outstanding amounts receivable from Qimonda are collectible or the value of the receivables can be realized through the retention of title of the two systems. In case the trustee in bankruptcy will not honour the contracts with ASML, we will execute our right to retrieve these systems, in order to substantially cover the financial risk for ASML. The timing of such potential retrieval of the systems is uncertain.

7. Finance receivables

Finance receivables consist of the net investment in sales-type leases. The sales-type leases transfer ownership of the systems to the lessee by the end of the lease term. The average lease term is 2.5 years. The following table lists the components of the finance receivables as of December 31, 2008:

As of December 31 (in thousands)	2008 EUR
Finance receivables, gross	40,866
Unearned interest	(3,611)
Finance receivables, net	37,255
Current portion of finance receivables, gross	6,781
Current portion of unearned interest	(556)
Non-current portion of finance receivables, net	31,030

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On January 23, 2009 Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. See note 6 for more information.

At December 31, 2008, the finance receivables due for payment in each of the next five years and thereafter are as follows:

(in thousands)	EUR
2009	6,781
2010	29,640
2011	4,445
2012	-
2013	-
Thereafter	-
Total	40,866

8. Inventories

Inventories consist of the following:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Raw materials	139,868	140,615
Work-in-process	712,815	655,505
Finished products	378,572	392,910
Total inventories, gross	1,231,255	1,189,030
Allowance for obsolescence and/or lower market value	(129,045)	(189,880)
Total inventories, net	1,102,210	999,150

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

(in thousands)	2007 EUR	2008 EUR
Balance at beginning of year	(115,418)	(129,045)
Addition for the year ¹	(79,592)	(139,628)
Effect of exchange rates	4,259	(17)
Release of the provision	-	2,113
Utilization of the provision	61,706	76,697
Balance at end of year	(129,045)	(189,880)

¹ Addition for the year is recorded in cost of sales.

The increased 2008 inventory obsolescence relates to certain non leading-edge systems which management no longer believes can be sold for two reasons, both relating to the global financial market crisis and economic downturn. The first reason relates to our customers' decision to delay non leading-edge capacity additions which increases the risk that certain systems will become technologically obsolete. The second reason has to do with the expected plant closures by our high-tech customers to reduce certain non leading-edge capacity, which management believes will result in a high supply of used systems and downward pressure on sales prices.

9. Other assets

Other non-current assets consist of the following:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Derivative instruments	20,930	53,206
Loan to Micronic	13,000	13,000
Compensation plan assets ¹	7,929	7,103
Prepaid expenses	6,233	5,542
Subordinated loan granted to lessor in respect of Veldhoven headquarters ²	5,445	5,445
Other	6,454	3,901
Total other non-current assets	59,991	88,197

1 For further details on compensation plan refer to Note 17.

2 For further details on loan granted to lessor in respect of Veldhoven headquarters refer to Note 16.

Derivative instruments consist of the non-current part of the fair value of interest-rate swaps which include accrued interest.

The loan to Micronic relates to a license agreement between Micronic Laser Systems AB and ASML. The loan is repayable at demand with a notice period of 90 days.

Other current assets consist of the following:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Advance payments to Zeiss	100,112	103,798
Prepaid expenses	63,211	57,471
Derivative instruments	9,411	39,240
VAT	34,459	18,693
Other	27,336	16,875
Total other current assets	234,529	236,077

Zeiss is our sole supplier of lenses and, from time to time, receives non-interest advance payments from us that assist in financing Zeiss' work in process and thereby secure lens deliveries to us. Amounts owed under these advance payments are repaid through lens deliveries. We do not maintain an allowance for doubtful debts against these advances but based on periodical monitoring of Zeiss' financial condition confirm that no loss allowance is necessary.

Prepaid expenses include a tax prepayment on intercompany profit, not realized by the group of EUR 26.2 million in 2008 (2007: EUR 28.8 million).

Derivative instruments consist of currency forward contracts and the current part of interest rate swaps.

10. Goodwill

Changes in goodwill are summarized as follows:

(in thousands)	2007 EUR	2008 EUR
Cost		
Balance, January 1	-	128,271
Acquisition subsidiary	143,340	-
Effect of exchange rates	(15,069)	3,182
Balance, December 31	128,271	131,453
Carrying amount, December 31	128,271	131,453

The goodwill relates to the acquisition of Brion in March 2007.

11. Other intangible assets

(in thousands)	Intellectual property EUR	Developed Technology EUR	Customer relationships EUR	In process R&D EUR	Other EUR	Total EUR
Cost						
Balance, January 1, 2007	47,215	–	–	–	–	47,215
Acquisition subsidiary	–	26,708	9,010	23,148	2,393	61,259
Effect of exchange rates	–	(2,807)	(947)	–	(252)	(4,006)
Balance, December 31, 2007	47,215	23,901	8,063	23,148	2,141	104,468
Additions	35	–	–	–	–	35
Effect of exchange rates	–	593	200	–	54	847
Balance, December 31, 2008	47,250	24,494	8,263	23,148	2,195	105,350
Accumulated amortization and impairment						
Balance, January 1, 2007	29,139	–	–	–	–	29,139
Amortization	8,069	3,551	898	23,148	775	36,441
Impairment charges	589	444	–	–	–	1,033
Effect of exchange rates	–	(230)	(59)	–	(51)	(340)
Balance, December 31, 2007	37,797	3,765	839	23,148	724	66,273
Amortization	5,780	3,840	1,005	–	867	11,492
Impairment charges	–	552	–	–	–	552
Effect of exchange rates	–	249	50	–	42	341
Balance, December 31, 2008	43,577	8,406	1,894	23,148	1,633	78,658
Carrying amount						
December 31, 2007	9,418	20,136	7,224	–	1,417	38,195
December 31, 2008	3,673	16,088	6,369	–	562	26,692

In connection with a settlement of worldwide patent litigation between Nikon, ASML and Zeiss, on December 10, 2004, ASML entered into a patent cross-license agreement with Nikon, effective November 12, 2004, pursuant to which (i) ASML granted Nikon a non-exclusive license to manufacture and sell lithography equipment under patents owned or otherwise sublicensable by ASML and (ii) Nikon granted ASML a non-exclusive license to manufacture and sell lithography equipment (other than optical components) under patents owned or otherwise sublicensable by Nikon.

The licenses under the agreement are perpetual for patents having an effective application date before 2003 (“Class A Patents”) and all other patents (“Class B Patents”) will terminate at the end of 2009. At any time until June 30, 2015, either party has a limited right to designate up to 5 Class B patents (or patents related to lithography issued from 2010 to 2015) of the other party as Class A Patents. Any patents acquired after the date of the agreement are deemed Class B Patents.

In connection with the settlement, ASML made an initial payment to Nikon of US\$60 million in 2004 and further payments of US\$9 million in 2005, 2006 and 2007 (in total EUR 70 million).

Based upon a royalty valuation method (using a royalty structure which was determined through an analysis of royalty agreements that involve transfers of technologies broadly comparable to ASML’s technology), EUR 21 million of the EUR 70 million of charges relating to the settlement was determined to pertain to future sales and was capitalized under intangible assets. The intangible asset is amortized over a period of five years under cost of sales, which equals the remaining estimated useful life of Class A Patents and the contractual life of Class B Patents. The remaining EUR 49 million was determined to relate to past conduct, i.e., components of products that had been affected by the patents covered by the patent cross-license agreement and that had been installed prior to effectiveness of the cross-license agreement. This amount was expensed as research and development costs in ASML’s consolidated statements of operations for the year ended December 31, 2004.

Developed technology, customer relationships, in-process research and development and other intangible assets were obtained from the acquisition of Brion.

During 2008, we recorded amortization charges of EUR 11.5 million (2007: EUR 36.4 million) of which we recorded EUR 11.5 million in cost of sales (2007: EUR 13.0 million) and EUR 0.0 million in research and development costs (2007: EUR 23.4 million).

Estimated amortization expenses relating to other intangible assets for the next five years are as follows:

(in thousands)	EUR
2009	8,565
2010	5,208
2011	5,001
2012	5,001
2013	1,697
Thereafter	1,220
Total	26,692

12. Property, plant and equipment

Property, plant and equipment consist of the following:

(in thousands)	Buildings and constructions EUR	Machinery and equipment EUR	Leasehold improvements EUR	Furniture, fixtures and other equipment EUR	Total EUR
Cost					
Balance, January 1, 2007	121,158	435,019	136,941	229,119	922,237
Additions	90,318	95,063	14,687	32,139	232,207
Acquisition subsidiary	–	2,077	144	308	2,529
Disposals	(22,037)	(51,104)	(2,059)	(2,028)	(77,228)
Effect of exchange rates	(6,280)	(14,125)	(596)	(2,436)	(23,437)
Balance, December 31, 2007	183,159	466,930	149,117	257,102	1,056,308
Additions	172,002	107,093	12,319	30,625	322,039
Disposals	(382)	(91,024)	(8,037)	–	(99,443)
Effect of exchange rates	752	399	425	570	2,146
Balance, December 31, 2008	355,531	483,398	153,824	288,297	1,281,050
Accumulated depreciation and impairment					
Balance, January 1, 2007	61,933	337,832	81,927	169,655	651,347
Depreciation	3,338	41,229	12,832	31,141	88,540
Impairment charges	1,537	5,313	229	910	7,989
Disposals	(16,985)	(36,861)	(1,735)	(1,261)	(56,842)
Effect of exchange rates	(2,774)	(10,524)	(414)	(1,908)	(15,620)
Balance, December 31, 2007	47,049	336,989	92,839	198,537	675,414
Depreciation	6,604	54,081	14,961	31,918	107,564
Impairment charges	266	22,324	423	1,544	24,557
Disposals	(558)	(59,671)	(7,201)	–	(67,430)
Effect of exchange rates	548	(255)	80	(68)	305
Balance, December 31, 2008	53,909	353,468	101,102	231,931	740,410
Carrying amount¹					
December 31, 2007	136,110	129,941	56,278	58,565	380,894
December 31, 2008	301,622	129,930	52,722	56,366	540,640

Includes as of December 31, 2008 and 2007 assets under construction, respectively, for buildings and constructions of EUR 122.1 million, and EUR 79.6 million, 1 machinery and equipment of EUR 4.6 million and EUR 6.6 million, leasehold improvements of EUR 2.4 million and EUR 1.2 million and furniture, fixtures and other equipment of EUR 8.6 million and EUR 16.4 million.

Additions to buildings and constructions relate to the construction of new facilities in Veldhoven and Taiwan.

The majority of the Company's disposals in 2007 and 2008 relate to machinery and equipment, primarily consisting of prototypes, demonstration and training systems. These systems are similar to those that ASML sells in its ordinary course of business. The systems are capitalized under property, plant and equipment because they are held for own use and, at the time they are placed in service, expected to be used for a period longer than one year. These systems are recorded at cost and depreciated over their useful life. From the time that these assets are no longer held for own use but intended for sale, they are reclassified from property, plant and equipment to inventory at the lower of their carrying value or fair market value. When sold, the proceeds and cost of these systems are recorded as net sales and cost of sales, respectively, identical to the treatment of other sales transactions. The cost of sales for these systems includes the inventory value and the additional costs of refurbishing (materials and labor).

During 2008, we recorded impairment charges of EUR 24.6 million (2007: EUR 8.0 million) of which we recorded EUR 20.8 million (2007: EUR 7.6 million) in cost of sales, EUR 2.2 million (2007: EUR 0.2 million) in research and development costs and EUR 1.6 million (2007: EUR 0.2 million) in selling, general and administrative costs.

The impairment charges recorded in 2008 mainly related to machinery and equipment (EUR 22.3 million). The Company impaired certain non leading-edge machinery and equipment that are ceased to be used during the expected economic life, and which management no longer believes can be sold for two reasons, both relating to the global financial market crisis and economic downturn. The first reason relates to our customers' decision to delay non leading-edge capacity additions which increases the high risk that certain systems will become technologically obsolete. The second reason has to do with the expected plant closures by our high-tech customers to reduce certain non leading-edge capacity, which management believes will result in a high supply of used systems and a downward pressure on sales prices. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 5.4 million) and their carrying amount. In determining the fair value of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that it uses to manage its business.

The impairment charges recorded in 2007 mainly related to buildings and constructions (EUR 1.5 million) and machinery and equipment (EUR 5.3 million). The impairment charges with respect to buildings and constructions mainly related to a building in Veldhoven that has been abandoned in 2007 and has been demolished in 2008 to create space for the EUV clean room and central utilities which are currently under construction. The impairment was determined based on the difference between the building's estimated fair value (being EUR 0.0 million) and its carrying amount. The impairment charges with respect to machinery and equipment mainly relate to development, production and field service tooling that no longer met current technology requirements as a result of new technology introductions. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 0.0 million) and their carrying amount.

During 2008, we recorded depreciation charges of EUR 107.6 million (2007: EUR 88.5 million) of which we recorded EUR 50.3 million (2007: EUR 48.6 million) in cost of sales, EUR 25.5 million (2007: EUR 21.5 million) in research and development costs and EUR 31.8 million (2007: EUR 18.4 million) in selling, general and administrative costs.

13. Accrued liabilities and other liabilities

Accrued liabilities and other liabilities consist of the following:

As of December 31 (in thousands)	2007 ¹ EUR	2008 EUR
Deferred revenue	355,218	262,209
Costs to be paid	189,925	190,225
Advances from customers	163,759	169,250
Personnel related items	152,444	130,651
Derivative instruments	11,281	67,794
Standard warranty	73,198	35,225
Other	1,233	4,472
Total accrued liabilities and other	947,058	859,826
Less: long-term portion of accrued liabilities and other	7,936	70,038
Short-term portion of accrued liabilities and other	939,122	789,788

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

Deferred revenue mainly consists of prepaid service contracts, prepaid extended optic warranty contracts and credit awards regarding free or discounted products or services.

Advances from customers consist of down payments made by customers prior to shipment for systems included in our current product portfolio or systems currently under development.

Personnel related items mainly consist of accrued management bonuses, sales commissions and profit sharing; accrued vacation days and vacation allowance; accrued wage tax, social securities and accrued pension premiums.

Derivative instruments mainly consist of the fair value of interest-rate swaps and currency forward and option contracts on U.S. dollar and Japanese Yen.

We provide standard warranty coverage on our systems for twelve months and an additional lens warranty generally for four years, providing labor and parts necessary to repair systems during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance, expected results from improvement programs and field expenses. Based upon historical service records, the charge of average service hours and parts per system is calculated to determine the estimated warranty charge. These estimates are updated periodically. Changes in product warranty liabilities for the years 2007 and 2008 are as follows:

(in thousands)	2007 EUR	2008 EUR
Balance, January 1	75,297	73,198
Additions of the year	47,258	30,322
Utilization of the provision	(28,302)	(35,233)
Release of the provision ¹	(17,988)	(33,409)
Effect of exchange rates	(3,067)	347
Balance, December 31	73,198	35,225

¹ The release was due to a change in accounting estimate based on lower than expected historical warranty expenses as a result of an improved learning curve concerning our systems. The release has been included in cost of sales.

14. Provisions

Provisions consist of the following:

(in thousands)	Employee contract termination benefits EUR	Lease contract termination costs EUR	Total EUR
Balance at January 1, 2008	-	-	-
Addition of the year	2,428	19,969	22,397
Utilization of the provision	-	-	-
Effect of exchange rates	(163)	(2,061)	(2,224)
Balance at December 31, 2008	2,265	17,908	20,173
Less: short-term portion of provisions	2,265	2,413	4,678
Long-term portion of provisions	-	15,495	15,495

In December 2008, ASML announced a restructuring which will result in the discontinuation of its training center in the United States, downsizing of the United States headquarters and closure of several other locations, reflecting the continuous migration of the semiconductor manufacturing activities to Asia which has been accelerated by the current global financial market crisis and economic downturn. The total restructuring costs are EUR 22.4 million and consist of employee contract termination benefits and contract termination costs. These costs have been fully recognized in 2008.

Provision for employee contract termination benefits relates mainly to the reduction of approximately 105 jobs and comprises only personnel costs. The provision for employee contract termination benefits is expected to be substantially utilized in the first half of 2009.

Provision for lease contract termination costs relates to an operating lease contract for a building for which no economic benefits are expected. The provision for lease contract termination costs is expected to be utilized by 2017.

The annually expected cost savings of the restructuring are EUR 9.6 million.

The restructuring costs are recognized as follows in the consolidated statements of operations:

(in thousands)	Restructuring costs EUR
Cost of sales	21,492
Selling, general and administrative costs	905
Total	22,397

15. Long-term debt

As of December 31, 2008 long-term debt consists of the Company's outstanding Eurobond of EUR 600 million.

Eurobond

The following table summarizes the carrying amount of the Company's outstanding Eurobond, including fair value of interest-rate swaps used to hedge the change in the fair value of the Eurobond:

As of December 31 (in thousands)	2007 EUR	2008 EUR
5.75 percent Eurobond		
Principal amount	600,000	600,000
Fair value interest-rate swaps ¹	(436)	47,050
Total	599,564	647,050

¹ The fair value of the interest-rate swaps excludes accrued interest.

In June 2007, we completed an offering of EUR 600 million principal amount of our 5.75 percent Notes due 2017, with interest payable annually on June 13 of each year, commencing on June 13, 2008. The notes are redeemable at the option of ASML, in whole or in part, at any time by paying a make whole premium, and unless previously redeemed, will be redeemed at 100 percent of their principal amount on June 13, 2017.

The following table summarizes the estimated fair value of our Eurobond:

As of December 31 (in thousands)	Principal Amount EUR	2007 Carrying Amount EUR	Fair Value EUR	Principal Amount EUR	2008 Carrying Amount EUR	Fair Value EUR
5.75 percent Eurobond	600,000	599,564	532,260	600,000	647,050	345,585

(Source: Bloomberg Finance LP)

The fair value of the Company's Eurobond is estimated based on the quoted market prices as of December 31, 2008. The fair value of the Eurobond is lower than the principal amount as a result of an increased implied credit spread.

Lines of credit

As of December 31, 2008, the Company has an available credit facility for a total amount of EUR 500 million (2007: EUR 500 million), which will expire in May 2012.

No amounts were outstanding under this credit facility at the end of 2008 and 2007. The credit facility contains a certain restrictive covenant that the Company maintains a minimum financial condition ratio, calculated in accordance with a contractually agreed

formula. ASML was in compliance with this covenant at December 31, 2008 and 2007. ASML does not currently anticipate any difficulty in continuing to meet this covenant requirement.

Outstanding amounts under this credit facility will bear interest at the European Interbank Offered Rate (EURIBOR) or the London Interbank Offered Rate (LIBOR) plus a margin that is dependent on the Company's liquidity position.

16. Commitments, contingencies and guarantees

The Company has various contractual obligations, some of which are required to be recorded as liabilities in the Company's consolidated financial statements, including long- and short-term debt. Others, namely operating lease commitments, purchase obligations and guarantees, are generally not required to be recognized as liabilities on the Company's balance sheet but are required to be disclosed.

Lease Commitments and Variable Interests

The Company leases equipment and buildings under various operating leases. Operating leases are charged to expense on a straight-line basis. See the Tabular Disclosure of Contractual Obligations below.

In December 2003, the FASB issued FIN 46(R), "Consolidation of Variable Interest Entities". Under FIN 46(R), an enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or a combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both.

In 2003, ASML moved to its current Veldhoven headquarters. The Company is leasing these headquarters for a period of 15 years from an entity (the "lessor") that was incorporated by a syndicate of three banks ("shareholders") solely for the purpose of leasing this building. The lessor's shareholders equity amounts to EUR 1.9 million. The shareholders each granted a loan of EUR 11.6 million and a fourth bank granted a loan of EUR 12.3 million. ASML provided the lessor with a subordinated loan of EUR 5.4 million and has a purchase option that is exercisable either at the end of the lease in 2018, at a pre-determined price of EUR 24.5 million, or during the lease at the book value of the assets. The total assets of the lessor entity amounted to approximately EUR 54 million at inception of the lease.

ASML believes that it holds a variable interest in this entity and that the entity is a variable interest entity ("VIE") because it is subject to consolidation in accordance with the provisions of paragraph 5 of FIN 46(R). The total equity investment at risk is approximately 3.6 percent of the lessor's total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders.

ASML determined that it is not appropriate to consolidate the VIE as it is not the primary beneficiary. To make this determination, the expected losses and expected residual returns of the lessor were allocated to each variable interest holder based on their contractual right to absorb expected losses and residual returns. The analysis of expected losses and expected residual returns involved determining the expected negative and positive variability in the fair value of the lessor's net assets exclusive of variable interests through various cash-flow scenarios based upon the expected market value of the lessor's net assets. Based on this analysis, ASML determined that other variable interest holders will absorb the majority of the lessor's expected losses, and as a result, ASML is not the primary beneficiary.

ASML's maximum exposure to the lessor's expected losses is estimated to be approximately EUR 5.4 million.

Purchase Obligations

The Company enters into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations include medium to long-term purchase agreements. These contracts differ and may include certain restrictive clauses. Any identified losses that result from purchase commitments that are forfeited are provided for in the Company's financial statements. As of December 31, 2008, the Company had purchase commitments for a total amount of approximately EUR 978 million (2007: EUR 1,405 million). The current commitment level has decreased compared to 2007, which is mainly due to lower market demand. In our negotiations with suppliers we continuously seek to align our purchase commitments with our business objectives. We are able to delay the main part of our purchase commitments for one or two years. See the Tabular Disclosure of Contractual Obligations below.

Tabular Disclosure of Contractual Obligations

The Company's contractual obligations with respect to long-term debt obligations, operating lease obligations, purchase obligations and other liabilities as of December 31, 2008 can be summarized as follows:

Payments due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Long Term Debt Obligations, including interest expenses ¹	957,550	34,500	69,000	69,000	785,050
Operating Lease Obligations	152,454	36,865	50,982	31,553	33,054
Purchase Obligations	978,250	919,586	34,532	7,341	16,791
Unrecognized tax benefits	124,202	5,247	34,900	14,324	69,731
Other Liabilities ²	1,131	1,131	-	-	-
Total Contractual Obligations	2,213,587	997,329	189,414	122,218	904,626

¹ We refer to Note 15 to the consolidated financial statements for the amounts excluding interest expense.

² Other liabilities relate to a finance lease agreement regarding software.

Long term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. Reference is made to note 15 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 42 million, EUR 46 million and EUR 43 million for the years ended December 31, 2006, 2007 and 2008 respectively.

Several operating leases for our buildings contain purchase options, exercisable at the option of the Company at the end of the lease, and in some cases, during the term of the lease. The amounts to be paid if ASML should exercise these purchase options at the end of the lease as of December 31, 2008 can be summarized as follows:

Purchase options due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Purchase options	58,004	2,269	-	8,250	47,485

Purchase obligations include purchase commitments with vendors in the ordinary course of business. We are able to delay the main part of our purchase commitments for one or two years.

Unrecognized tax benefits relate to a liability for uncertain tax positions. Reference is made to note 19 to the consolidated financial statements.

Other Off-Balance Sheet Arrangements

The Company has certain additional non material commitments and contingencies that are not recorded on its balance sheet but may result in future cash requirements.

From time to time we provide guarantees to third parties in connection with transactions entered into by our Netherlands subsidiaries in the ordinary course of business.

Qimonda

On January 23, 2009, Qimonda AG and Qimonda Dresden OHG (together "Qimonda"), a German memory chipmaker, filed for insolvency. Qimonda has amounts outstanding to ASML of approximately EUR 37 million in respect of two systems delivered, of which EUR 21 million is reflected in accounts receivable and EUR 16 million is reflected in finance receivables. ASML believes that the outstanding amounts receivable from Qimonda are collectible or the value of the receivables can be realized through the retention of title of the two systems. In case the trustee in bankruptcy will not honour the contracts with ASML, we will execute our right to retrieve these systems, in order to substantially cover the financial risk for ASML. The timing of such potential retrieval of the systems is uncertain.

17. Employee benefits

In February 1997, SVG (Company that merged with ASML in May 2001) adopted a non-qualified deferred compensation plan that allowed a select group of management and highly compensated employees and directors to defer a portion of their salary, bonus and directors fees. The plan allowed SVG to credit additional amounts to participants' account balances, depending on the amount of the employee's contribution, up to a maximum of 5.0 percent of an employee's annual salary and bonus. In addition, interest is credited to the participants' account balances at 120 percent of the average Moody's corporate bond rate. For calendar years 2006, 2007 and 2008, participants' accounts were credited at 6.92 percent, 7.16 percent and 7.34 percent respectively. SVG's contributions and related interest became 100 percent vested in May 2001 with the merger of SVG and ASML. During fiscal years 2006, 2007 and 2008, the expense incurred under this plan was EUR 0.2 million, EUR 0.1 million and 0.2 million, respectively. As of December 31, 2007 and 2008 the Company's liability under the deferred compensation plan was EUR 2 million and EUR 2 million respectively.

In July 2002, ASML adopted a non-qualified deferred compensation plan for its United States employees that allows a select group of management or highly compensated employees to defer a portion of their salary, bonus, and commissions. The plan allows ASML to credit additional amounts to the participants' account balances. The participants divide their funds among the investments available in the plan. Participants elect to receive their funds in future periods after the earlier of their employment termination or their withdrawal election, at least three years after deferral. There were minor plan expenses in 2006, 2007 and 2008. On December 31, 2007 and 2008, the Company's liability under the deferred compensation plan was EUR 6 million and EUR 5 million, respectively.

Pension plans

ASML maintains various pension plans covering substantially all of its employees. The Company's approximately 3,600 employees in the Netherlands participate in a multi-employer union plan ("Bedrijfstakpensioenfonds Metalektronica") determined in accordance with the collective bargaining agreements effective for the industry in which ASML operates. This multi-employer plan spans approximately 1,250 companies and 156,000 contributing members. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Netherlands governmental authorities. By law (the Netherlands Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan's assets to its obligations. This coverage ratio must exceed 100 percent for the total plan. Every company participating in a Netherlands multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The pension rights of each employee are based upon the employee's average salary during employment.

ASML's net periodic pension cost for this multi-employer plan for any fiscal period is the amount of the required contribution for that period. A contingent liability may arise from, for example, possible actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity or any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

The current global financial market crisis and economic downturn and a significant decrease in interest rates have caused the coverage ratio of the multi-employer plan to fall to 91 percent as of November 30, 2008 (December 31, 2007: 135 percent), resulting in an increase in pension premiums. For 2009, the pension premium will increase by one percent to a maximum of 23 percent of the total pensionable salaries. The funding ratio is calculated by dividing the fund's capital by the total sum of pension liabilities and is based on actual market interest.

ASML also participates in several defined contribution pension plans, with ASML's expenses for these plans equaling the contributions made in the relevant fiscal period.

The Company's pension costs for all employees for the three years ended December 31, 2008 were:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR	2008 EUR
Pension plan based on multi-employer union plan	21,407	26,485	30,579
Pension plans based on defined contribution	7,538	6,993	8,466
Total	28,945	33,478	39,045

Bonus plan

ASML has a performance-related bonus plan for senior management, who are not members of the Board of Management. Under this plan, the bonus amount is dependent on the actual performance on corporate, departmental and personal targets. The bonus for members of senior management can range between 0 percent and 40 percent, or 0 percent and 70 percent of their annual salaries, depending upon their seniority. The performance targets for 2008 are set per half year. The bonus of the first half year of 2008 has been paid in the third quarter of 2008 and the bonus of the second half year is accrued for in the consolidated balance sheets as of December 31, 2008 and is expected to be paid in the first quarter of 2009. The Company's bonus expenses for all participants under this plan were:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR	2008 EUR
Bonus expenses	8,202	8,934	7,756

ASML has a retention bonus plan for employees and executives of Brion including three retention bonuses. The first retention bonus was conditional on the first year of employment after the acquisition date and was paid in March 2008. The second retention bonus is conditional on the second year of employment after the acquisition date and is payable in March 2009. The third retention bonus is conditional on the third year of employment after the acquisition date and is payable in March 2010. The Company's bonus expenses for all participants under this plan were:

Year ended December 31 (in thousands)	2007 EUR	2008 EUR
Bonus expenses	5,335	5,031

Profit-sharing plan

ASML has a profit-sharing plan covering all employees who are not members of the Board of Management or senior management. Under the plan, eligible employees receive an annual profit-sharing bonus, based on a percentage of net income relative to sales ranging from 0 to 20 percent of annual salary. The profit-sharing percentage for the years 2006, 2007 and 2008 was 12 percent, 14 percent and 6 percent, respectively. This profit-sharing bonus is accrued for in the consolidated statements of operations for the year ended December 31, 2008 for an amount of EUR 18.1 million, expected to be paid in the first quarter of 2009.

Share-based payments

ASML has adopted various share-based payment plans for its employees, which are described below. The total gross amount of recognized expenses associated with share-based payments was EUR 9.7 million in 2006, EUR 16.5 million in 2007 and EUR 13.5 million in 2008.

Total compensation expenses related to non vested awards to be recognized in future periods amount to EUR 17.5 million as per December 31, 2008 (2007: EUR 26.2 million). The weighted average period over which these costs are expected to be recognized is calculated at 1.5 years (2007: 1.4 years).

Stock option transactions are summarized as follows:

	Number of shares	Weighted average exercise price per share (EUR)
Outstanding, January 1, 2006	25,791,301	23.09
Granted	1,185,863	17.81
Exercised	(1,964,268)	14.40
Expired/Forfeited	(1,589,546)	33.01
Outstanding, December 31, 2006	23,423,350	23.40
Granted	1,438,100	8.59
Exercised	(4,345,322)	15.29
Expired/Forfeited	(5,466,029)	32.76
Outstanding, December 31, 2007	15,050,099	20.89
Granted	990,526	14.38
Exercised	(1,119,426)	12.03
Expired/Forfeited	(2,993,452)	15.48
Outstanding, December 31, 2008	11,927,747	22.53
Exercisable, December 31, 2008	9,731,391	24.29
Exercisable, December 31, 2007	10,696,587	24.37
Exercisable, December 31, 2006	17,258,450	27.15

The estimated weighted average fair value of options granted during 2006, 2007 and 2008 was EUR 5.69, EUR 12.95 and EUR 6.56, respectively, on the date of grant.

The weighted average share price at the date of exercise for stock options was EUR 17.91 (2007: EUR 23.46).

Options outstanding Range of exercise prices (EUR)	Number outstanding December 31, 2008	Number Exercisable December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options (EUR)
0.15 - 7.94	752,711	497,992	0.60	1.76
8.17 - 12.62	5,407,605	4,809,819	6.11	11.40
12.75 - 19.13	1,704,589	660,721	7.22	17.19
19.45 - 29.18	471,912	171,929	8.77	24.04
29.65 - 44.48	21,000	21,000	3.07	36.89
45.02 - 67.53	3,569,930	3,569,930	3.07	46.02
Total	11,927,747	9,731,391	5.50	22.53

Details with respect to stock options and stock are set forth in the following table:

As of December 31 (in thousands, except for contractual term)	2006	2007	2008
Aggregate intrinsic value of stock options exercised (EUR)	12,162	33,273	5,894
Total fair value at vesting date of shares vested during the year (EUR)	362	127	4,288
Aggregate remaining contractual term of currently exercisable options (years)	2.21	3.72	4.83
Aggregate intrinsic value of exercisable stock options (EUR)	-	-	-
Aggregate intrinsic value of outstanding stock options (EUR)	-	-	-

Stock transactions are summarized as follows:

Share plan	Year	Conditionally outstanding stock at January 1, 2008	Number of conditionally stock granted	Stock price (EUR)	Forfeited/ expired	Vested	Conditionally outstanding stock at December 31, 2008	End of vesting period
Employee plan	2007	45,151	-	24.26	-	-	45,151	19-10-2010
Brion stock plan	2007	462,232	-	17.50	(86,806)	(154,077)	221,349	07-03-2010
Brion performance stock plan	2007	170,173	-	23.12	(47,938)	(40,745)	81,490	31-12-2010
New hire performance stock plan	2007	24,546	-	22.00	-	-	24,546	31-12-2010
Senior management plan	2007	-	74,073	17.80	(3,332)	-	70,741	19-10-2010
Employee plan	2008	-	35,761	14.87	-	-	35,761	18-07-2011
Brion performance stock plan	2008	-	200,032	12.95	-	-	200,032	31-12-2011
New hire performance stock plan	2008	-	39,408	14.83	-	-	39,408	31-12-2010
Total		702,102	349,274		(138,076)	(194,822)	718,478	

Stock option plans

The Company has adopted various stock option plans for its employees. Each year, the Board of Management determines, by category of ASML personnel, the total available number of stock options and maximum number of shares that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company. Options granted under ASML's stock option plans have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the applicable grant dates. Granted stock options generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

The fair value of the stock options is determined using a Black-Scholes option valuation model. We changed our method of estimating expected volatility for all stock options granted after January 1, 2006 from the exclusive use of historical volatility to the exclusive use of implied volatility. The primary reason for this change is that historical volatility had showed a significant and consistent downward trend over the five years ended December 31, 2006, which we believe is the result of the semiconductor industry becoming more mature and less cyclical. Within this period, historical share price volatility decreased from 89 percent in 2002 to 28 percent in 2006. The implied volatility as applied by ASML in 2006 was approximately 30 percent, which is significantly lower than historical share price volatility of 55 percent over the five year period then ended, and was much closer to the actual volatility of ASML's share price over fiscal year 2006 of 28 percent. Consequently, we no longer believe that an average historical volatility over a period commensurate with the expected term of the employee stock options (4-5 years) is likely to be indicative of future stock price behavior. Instead, we believe that the exclusive use of implied volatility results in a more accurate estimate of the expected stock price volatility because it more appropriately reflects market expectations of future stock price volatility. Our stock options are actively traded on Euronext Amsterdam. For this purpose, we use implied volatility as calculated by Bloomberg, which is based on an average of traded stock options:

- with market prices reasonably close to the date of grant;
- that have exercise prices close to the exercise price of the employee stock options; and
- that have a remaining maturity of up to four years.

The Black-Scholes option valuation of the fair value of our stock options is based on the following assumptions:

As of December 31	2006	2007	2008
Weighted average share price (in EUR)	17.8	24.0	12.5
Volatility (in percentage)	30.0	29.0	54.5
Expected life (in years)	5.0	4.9	4.9
Risk free interest rate	3.8	4.4	4.4
Expected dividend yield (in EUR)	-	-	1.15
Forfeiture rate ¹	-	-	-

¹ As of the three-years ended December 31, 2008 forfeitures are estimated to be nil.

When establishing the expected life assumption we annually take into account the contractual terms of the options as well as historical employee exercise behavior.

Stock Option Extension Plans and Financing

In 2002, employees were offered an extension of the option period for options granted in 2000. As a result the option period was extended until 2012. Employees who accepted the extension became subject to additional exercise periods in respect of their options. At the modification date, there was no intrinsic value of the modified award because the exercise price under each plan

still exceeded ASML's stock price on the modification date. As a result, these stock option extensions did not result in recognition of any compensation expense in accordance with APB Opinion No. 25 and related interpretations.

Stock option plans that were issued before 2001 were constructed with a virtual financing arrangement in compliance with the applicable laws and after obtaining the necessary corporate approvals, whereby ASML loaned the tax value of the options granted to employees subject to the Netherlands tax-regime. The interest-free loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option is actually exercised. If the options expire unexercised, the loans are forgiven. ASML's Supervisory Board approved the Stock Option Plans 2000 at the time, including the loans, as these were part of the Stock Option Plan.

In 2006, we launched a stock option plan for Netherlands employees holding stock options granted in 2000 (option "A"), which expire in 2012. In this plan we granted options (option "B") which only become effective after option "A" expires unexercised in 2012. The virtual employee loan in conjunction with option "A" will then be transferred to option "B" and consequentially gets the status of a perpetual loan. In total 932 employees chose to join this plan. Under the plan we granted 1,515,643 stock options and recognized additional compensation expenses of EUR 0.8 million for the year ended December 31, 2006.

Policy for issuing shares upon exercise

Until 2006 we issued new shares to satisfy the option rights of option holders upon exercise. In 2007 both new shares as well as repurchased shares were used to satisfy the option rights upon exercise. In 2008 only repurchased shares were used to satisfy the option rights upon exercise.

Share-based payment plans

In 2007 ASML launched new share-based payment plans providing employees the choice between stock, stock options or a combination of both. The new share-based payment plans divide the employees in two categories, senior management excluding the Board of Management and other employees who are not part of the Board of Management or senior management. Each year, the Board of Management determines the total number of awards that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company.

The fair value of the stock options is determined using a Black-Scholes option valuation model. For the assumptions on which the Black-Scholes option valuation model is used reference is made to the disclosure above under the caption "Stock Option Plans".

Senior management plan

The senior management plan consists of two parts, both including a half-year performance condition based on a targeted Return On Average Invested Capital ("ROAIC") and a three year service condition. ROAIC is determined by dividing the average income from operations less provision for income taxes by the average invested capital. The average invested capital is determined by total assets less cash and cash equivalents less current liabilities.

In October 2007 stock and stock options were awarded to senior management under the new share-based payment plan. In April 2008, the targeted first half-year ROAIC was approved by the Board of Management and communicated to senior management. At that time awards for the first part were granted to senior management. In mid-2008 at time of approval and communication of the second-half year ROAIC, awards for the second part were granted to senior management. Stock options granted under the senior management plan have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the date the plan was communicated to senior management (announcement date). The fair value of stock is determined based on the closing price of the Company's ordinary shares on Euronext Amsterdam on the announcement date. The announcement date may differ from the grant date for reason of later approval and mutual understanding of the performance condition. Granted awards generally vest over a two to three-year period with any unexercised stock options expiring ten years after the announcement date.

Employee plan

The employee plan includes a three-year service condition. Stock options granted under the employee plan have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the grant date. The fair value of stock is determined based on the closing price of the Company's ordinary shares on Euronext Amsterdam on the grant date. Granted awards generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

Brion share-based payment plans

In March, 2007 ASML acquired Brion. As part of a retention package employees and executives of Brion have been granted stock awards, performance stock awards and the Brion stock options outstanding at the acquisition date have been converted to ASML stock options.

Brion stock plan

The Brion stock plan includes a three-year service condition. The fair value of the stock is determined based on the closing price of the Company's ordinary shares on the NASDAQ on the grant date. Granted awards generally vest over a three-year period.

Brion performance stock plan

The performance stock awards are conditional on the executive completing a three to four year requisite service period and on achievement of the performance conditions. The performance target is based on multiple metrics, each with its own weight. The fair value of the stock is determined based on the closing price of the Company's ordinary shares on the NASDAQ on the grant date.

Brion stock option plan

At the effective date of the acquisition the existing stock options of Brion have been converted to ASML stock options leaving the vesting terms and conditions unchanged. The fair value of the stock options was determined using a Black-Scholes option valuation model. The fair value of the stock options relating to past services is part of the total purchase consideration. The fair value of the stock options relating to future services will be part of future compensation expenses. Granted awards generally vest over a four-year period.

New hire performance stock plan

Some new hires are eligible to conditional performance stock awards, under the conditions set forth in the general terms and conditions. The maximum number of performance stock will be determined on the day of conditional grant and will be based upon the market fair value of an ASML share per that day. The ultimately awarded number of shares of performance stock will be determined on yearly targets over a three year period of achievement. These targets are financial parameters relating to ROAIC parameters of a benchmark group.

18. Legal contingencies

ASML is party to various legal proceedings generally incidental to its business. ASML also faces exposure from other actual or potential claims and legal proceedings. In addition, ASML customers may be subject to claims of infringement from third parties alleging that the ASML equipment used by those customers in the manufacture of semiconductor products, and/or the methods relating to use of the ASML equipment, infringes one or more patents issued to those third parties. If these claims were successful, ASML could be required to indemnify such customers for some or all of any losses incurred or damages assessed against them as a result of that infringement.

The Company accrues for legal costs related to litigation in its statement of operations at the time when the related legal services are actually provided to ASML.

Patent litigation with Nikon

Pursuant to agreements executed on December 10, 2004, ASML, Zeiss and Nikon agreed to settle all pending worldwide patent litigation between the companies. The settlement included an exchange of releases, a cross-license of patents related to lithography equipment used to manufacture semiconductor devices and payments to Nikon by ASML and Zeiss. In connection with the settlement, ASML and Zeiss made settlement payments to Nikon from 2004 to 2007.

Arbitration with Aviza Technology

On December 1, 2006, Aviza Technology ("Aviza") initiated arbitration proceedings against ASML Holding N.V., ASML U.S., Inc. and certain of ASML Holding N.V.'s affiliates (collectively, the "ASML parties"). Aviza's arbitration demand alleged that the ASML parties engaged in fraud and made negligent misrepresentations or omissions in connection with a 2002 License Agreement between ASML and IPS, Ltd. That agreement was assigned to Aviza in connection with the 2003 divestiture of ASML's Thermal Division.

On March 24, 2008, the arbitrator in the Aviza case ruled in ASML's favor holding that Aviza failed to establish a cause of action against ASML. On June 19, 2008, the arbitrator awarded ASML its legal fees and costs associated with the case.

Dividend withholding tax

In May and June 2006, ASML entered into forward purchase agreements with a broker acting as principal to effect share repurchases under its share buyback program. The aggregate number of shares bought back under these agreements through July 13, 2006 was 25,450,296.

The Netherlands tax authorities challenged ASML's fiscal interpretation of the forward purchase agreements and sought to recast the repurchase as a dividend payment to unidentifiable shareholders. Accordingly, the Netherlands tax authorities assessed ASML for dividend withholding tax such that an (additional) amount of approximately EUR 24 million would be payable by ASML. In June

2008, as a result of objections lodged by ASML, the matter was settled. ASML paid an insignificant (additional) amount in connection with the settlement.

19. Income taxes

The components of income before income taxes are as follows:

Year Ended December 31 (in thousands)	2006 ¹ EUR	2007 ¹ EUR	2008 EUR
Domestic	647,227	461,682	141,418
Foreign	214,532	386,471	168,226
Total	861,759	848,153	309,644

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In addition to the income tax benefit recognized in the consolidated statements of operations, current and deferred tax of EUR 18.2 million (gain) have been recognized in equity in the year 2008 related to stock option plans and derivative instruments.

The Netherlands domestic statutory tax rate amounted to 25.5 percent in 2008 and 2007. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The reconciliation between the (provision for) benefit from income taxes shown in the consolidated statements of operations, based on the effective tax rate, and expense based on the domestic tax rate, is as follows:

Year Ended December 31 (in thousands)	2006 ¹ EUR	%	2007 ^{1,2} EUR	%	2008 EUR	%
Income from operations before income taxes	861,759	100.0	848,153	100.0	309,644	100.0
Income tax expense based on domestic rate	255,081	29.6	216,279	25.5	78,959	25.5
Change in statutory tax rate	(2,987)	(0.4)	(6)	-	-	0.0
Different tax rates	(19,677)	(2.3)	(16,538)	(1.9)	(26,764)	(8.6)
Other credits and non-taxable items	10,794	1.3	(22,583)	(2.7)	(64,921)	(21.0)
Provision for (benefit from) income taxes shown in the consolidated statements of operations	243,211	28.2	177,152	20.9	(12,726)	(4.1)

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

Income tax expense based on domestic rate reflects the tax expense that would have been applicable if all of our income were derived from our Netherlands operations.

The Netherlands statutory tax rate was reduced from 29.6 percent for 2006 to 25.5 percent for 2007 and following years. This led to a remeasurement of our deferred tax assets and liabilities, resulting in a one time tax benefit of EUR 3.0 million in 2006 since we had a net deferred tax liability position in the Netherlands tax jurisdiction in both years.

A portion of our results are realized in countries other than the Netherlands where different tax rates are applicable. Different tax rates mainly reflect the adjustment necessary to give effect to the differing tax rates applicable in these non-Netherlands jurisdictions.

Other credits and non-taxable items reflect the impact on statutory rates of permanent non-deductible and non-taxable items such as non-deductible taxes, non-deductible interest expense, and non-deductible meals and entertainment, as well as the impact of various tax credits on our provision for income taxes. In 2008, the decrease in income taxes is mainly related to three items on which we reached agreement with the Netherlands tax authorities. These items are the treatment of taxable income related to ASML's patent portfolio, the valuation of intellectual property rights acquired in the past against historical exchange rates, and the treatment of taxable income related to a temporarily depreciated investment in ASML's United States subsidiary, all

of which had a favorable impact on the effective tax rate. As a result of these three items, ASML recognized exceptional tax income of approximately EUR 70 million in 2008.

The provision for income taxes consists of the following:

Year Ended December 31 (in thousands)	2006 ¹ EUR	2007 ^{1,2} EUR	2008 EUR
Current			
Domestic	190,844	96,751	(45,165)
Foreign	27,459	86,962	16,502
Deferred			
Domestic	(2,084)	(9,213)	15,614
Foreign	26,992	2,652	323
Total	243,211	177,152	(12,726)

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, subsequent to the filing of the 2007 annual report on Form 20-F, ASML detected and made a correction for a prior period error with respect to a release of 2 deferred tax liabilities of EUR 8.7 million. This release was incorrectly recognized in the 2007 consolidated statement of operations under (provision for) benefit from income taxes instead of in equity under other comprehensive income. The 2007 figures have been adjusted to reflect this correction. See Note 1 to the consolidated financial statements.

The deferred tax position and liability for unrecognized tax benefits recorded on the balance sheet are as follows:

As of December 31 (in thousands)	2007 ¹ EUR	2008 EUR
Deferred tax position	84,308	134,268
Liability for unrecognized tax benefits	(110,346)	(124,202)
Total	(26,038)	10,066

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

The calculation of our liability for unrecognized tax benefits involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. We believe that we have adequately provided for uncertain tax positions. However, settlement of these uncertain tax positions in a manner inconsistent with our expectations could have a material impact on our results of operations, financial condition and cash-flows.

On January 1, 2007 we adopted the provisions of FIN 48 "Accounting for Uncertainty in Income Taxes". Consistent with the provisions of FIN 48, as of December 31, 2008, ASML classified EUR 124.2 million of the liability for unrecognized tax benefits as non-current liabilities because payment of cash was not anticipated within one year of the balance sheet date. These non-current income tax liabilities are recorded in deferred and other tax liabilities in the consolidated balance sheets. The total liability for unrecognized tax benefits, if recognized, would have a favorable effect on the Company's effective tax rate.

Expected interest and penalties related to income tax liabilities have been accrued for and are included in the liability for unrecognized tax benefits and in the (provision for) benefit from income taxes. The balance of accrued interest and penalties recorded in the consolidated balance sheets of December 31, 2007 amounted to EUR 21.5 million and as of December 31, 2008 amounted to EUR 23.6 million; these amounts were also classified as non-current liabilities consistent with the provisions of FIN 48.

There were three main topics on which we reached agreement with the fiscal authorities in 2008 that have affected our effective tax rate. For these three main topics and their related tax positions the more-likely-than-not recognition threshold of FIN 48 was not met as of December 31, 2007.

In the course of 2008, we reached agreement with the Netherlands tax authorities on determination of the tax benefits resulting from application of the so-called "Royalty Box", a Netherlands tax measure intended to stimulate innovation. The Royalty Box mechanism partly exempts income attributable to research efforts and protected by patents from taxation, resulting in taxation of

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so called patent income at an effective corporate income tax rate of 10.0 percent instead of 25.5 percent. This agreement covered the Royalty Box for the years 2007, 2008 and the years thereafter.

We also reached agreement with the Netherlands tax authorities on the valuation of intellectual property rights acquired from the United States against a fixed historical U.S. dollar exchange rate.

Finally, we reached agreement with the Netherlands tax authorities on the tax base of the temporarily depreciated investment in ASML's United States subsidiary. This depreciated amount has to be added back to taxable income in the period 2006-2010 in five equal installments.

The benefit of the Royalty Box for both 2007 and 2008, the benefit of the recognized deferred tax asset for intellectual property rights and the benefit of the temporarily depreciated investment have all been recorded in the (provision for) benefit from income taxes for 2008. As a result, ASML recognized exceptional tax income of approximately EUR 70 million.

A reconciliation of the beginning and ending balance of the liability for unrecognized tax benefits is as follows:

(In millions)	2007 EUR	2008 EUR
Balance, January 1	138.3	110.3
Gross increases - tax positions in prior period	17.7	13.0
Gross decreases - tax positions in prior period	(30.3)	(6.5)
Gross increases - tax positions in current period	26.6	15.2
Settlements	(35.5)	(5.0)
Lapse of statute of limitations	(6.5)	(2.8)
Balance, December 31	110.3	124.2

For the year ended December 31, 2008, there were no material changes related to the liability for unrecognized tax benefits that impacted the Company's effective tax rate.

The Company estimates that the total liability of unrecognized tax benefits will change with EUR 5.2 million within the next 12 months. The estimated changes to the liability for unrecognized tax benefits within the next 12 months are mainly due to expected settlements and expiration of statute of limitations which are expected to have a favorable effect on the Company's effective tax rate.

The deferred tax position is classified in the consolidated financial statements as follows:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Deferred tax assets - short term	78,395	71,780
Deferred tax assets - long-term	141,032 ¹	148,133
Deferred tax liabilities - short term	(50)	(148)
Deferred tax liabilities - long-term	(135,069)	(85,497)
Total	84,308	134,268

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

The deferred tax position in the consolidated financial statements is as follows:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Tax effect carry-forward losses	80,569	57,832
Bilateral Advance Pricing Agreement	9,370	20,856
Research and Development Costs	36,355	43,522
Inventories and work-in-progress	44,689	33,298
Restructuring and impairment	–	12,840
Temporary depreciation investments	(120,987)	(72,587)
Other temporary differences	34,3121	38,507
Total	84,308	134,268

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

Deferred tax assets result predominantly from net operating loss carry-forwards incurred in the United States. Net operating losses qualified as tax losses under United States federal tax laws incurred by United States group companies can in general be offset against future profits realized in the 20 years following the year in which the losses are incurred. The Company's ability to carry forward its United States federal tax losses in existence at December 31, 2008 will expire in the period 2021 through 2023. Net operating losses qualified as tax losses under United States state tax laws incurred by United States group companies can in general be offset against future profits realized in the 5 to 20 years following the year in which the losses are incurred. The period of net operating loss carry forward for United States state tax purposes depends on the state in which the tax loss arose. The Company's ability to carry forward United States state tax losses in existence at December 31, 2008 will expire in the period 2008 through 2023. The total amount of losses carried forward as of December 31, 2008 is EUR 144.5 million tax basis or EUR 57.8 million tax effect, which resides completely with ASML US, Inc., and US based subsidiaries of ASML US Inc. Based on management's analysis, we believe that all United States qualified tax losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable income from operations, possible tax planning alternatives available to us, and a realignment of group assets that we effected during the period 2001 through 2003 and that included the transfer of certain tangible and intangible assets of ASML US, Inc. to ASML Netherlands B.V. The value of the assets transferred has resulted and will result in additional income recognized by ASML US, Inc., which we believe, taken together with projected future taxable income from operations will be sufficient to absorb the net operating losses that ASML US, Inc. has incurred, prior to the expiry of those losses. In order to determine with certainty the tax consequences and value of this asset transfer and the remuneration of ASML US, Inc. for intercompany services rendered, in 2002 we requested a bilateral advance pricing agreement ("APA") from the US and Netherlands tax authorities which resulted in September 2007 in two duly signed advance pricing agreements between certain ASML subsidiaries and the tax authorities of the United States and the Netherlands.

The deferred tax assets for research and development costs relate to costs which are tax deductible in future years.

The components of the deferred tax assets related to inventories and work-in-progress are EUR 20.3 million deferred tax asset due to a tax law change in The Netherlands requiring accelerated profit recognition on work-in-process and EUR 13.0 million temporary differences on timing of allowance for obsolete inventory in the United States. Temporary differences on timing of allowance for obsolete inventory result from tax laws that defer deduction for an allowance for obsolete inventory until the moment the related inventory is actually disposed of or scrapped, rather than when the allowance is recorded for accounting purposes.

The deferred tax assets related to restructuring and impairment relate to costs, that are tax deductible in future years.

Pursuant to Netherlands tax laws, we have temporarily depreciated part of our investment in our United States group companies in the period 2001 – 2005. This depreciation has been deducted from the taxable base in the Netherlands, which resulted in temporary (cash) tax refunds in prior years. This tax refund will be repaid in the period 2006 – 2010 in five equal installments. As of December 31, 2008, this repayment obligation amounted to EUR 72.6 million, which is recorded as a long-term deferred tax liability in the Company's consolidated financial statements.

We are subject to tax audits in our major tax jurisdictions for years as from 2001. Our major tax jurisdictions are the Netherlands, the United States and Hong Kong. During such audits, local tax authorities may challenge the positions taken by us.

20. Segment disclosure

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

ASML operates in one reportable segment for the development, manufacturing, marketing and servicing of lithography equipment. In accordance with SFAS No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information," ASML's chief operating decision-maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company.

Since the beginning of 2005, management reporting includes net system sales figures of the Company's product lines: 300 mm new systems, 200 mm new systems and used systems. Net sales for these product lines in 2006, 2007 and 2008 were as follows:

Year ended December 31 (in thousands)	2006 ¹ EUR	2007 ¹ EUR	2008 EUR
300 millimeter new systems	2,902,744	3,154,802	2,297,109
200 millimeter new systems	165,069	99,396	49,228
used systems	145,923	97,083	170,425
Total net system sales	3,213,736	3,351,281	2,516,762

As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

For geographical reporting, net sales are attributed to the geographic location in which the customers' facilities are located. Identifiable assets are attributed to the geographic location in which they are located. Net sales and identifiable assets by geographic region were as follows:

Year Ended December 31 (in thousands)	Net sales EUR	Identifiable assets EUR
2006¹		
Japan	143,788	14,345
Korea	1,079,233	13,730
Singapore	85,544	7,246
Taiwan	739,432	16,058
Rest of Asia	241,583	915,583
Europe	369,289	2,148,495
United States	922,907	740,036
Total	3,581,776	3,855,493
2007¹		
Japan	270,068	39,666
Korea	1,019,733	21,888
Singapore	204,673	4,989
Taiwan	794,113	53,534
Rest of Asia	283,076	824,524
Europe	344,013	2,602,672
United States	852,509	359,389
Total	3,768,185	3,906,662
2008		
Japan	437,202	239,746
Korea	909,941	12,204
Singapore	72,245	5,174
Taiwan	361,808	62,509
Rest of Asia	252,713	374,285
Europe	280,040	2,750,007
United States	639,729	337,324
Total	2,953,678	3,781,249

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As of January 1, 2008 ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until 1 December 31, 2007 ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. See note 1 to the consolidated financial statements.

In 2008, sales to the largest customer accounted for EUR 754 million or 25.5 percent of net sales. In 2007, sales to the largest customer accounted for EUR 818 million or 21.7 percent of net sales. In 2006, sales to one customer accounted for EUR 722 million or 20.1 percent of net sales. ASML's three largest customers accounted for 42.2 percent of accounts receivable at December 31, 2008, 40.1 percent of accounts receivable at December 31, 2007, and 35.0 percent of accounts receivable at December 31, 2006.

Substantially all our sales were export sales in 2006, 2007 and 2008.

21. Board of Management and Supervisory Board remuneration

Board of Management

The remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of the Remuneration Committee of the Supervisory Board. The remuneration policy was last amended, and adopted by the General Meeting of Shareholders on April 3, 2008. ASML's aim with the remuneration policy is to continue to attract, reward and retain qualified industry professionals in an international labor market. The remuneration structure and levels are determined by referencing to the appropriate top executive pay market practices by benchmarking positions. The total remuneration consists of base salary and benefits, a short-term performance cash bonus and performance stock options and long-term performance stock.

Base salary, benefits and short-term performance cash bonus

The remuneration of the members of the Board of Management was as follows:

Year Ended December 31	2006 EUR	2007 EUR	2008 EUR
Salaries	1,921,375	2,010,000	2,073,000
Bonuses	882,872	940,781	988,236 ^{1,2}
Pension cost	196,887	221,958	249,072
Other benefits ³	243,917	245,968	266,625
Total	3,245,051	3,418,707	3,576,933

¹ As part of the new 2008 remuneration policy, as approved by the General Meeting of Shareholders on April 3, 2008, the maximum annual performance bonus percentages have been increased from 50 percent in 2007 to 75 percent (CEO) or 60 percent (other members of the Board of Management) in 2008.

² The bonuses can be related for an amount of EUR 629,255 to the first half year of 2008 and for an amount of EUR 358,981 to the second half year of 2008.

³ Other benefits include housing costs, company car costs, social security costs, health and disability insurance costs and representation allowances.

The 2008 remuneration of the individual members of the Board of Management was as follows:

	Received Base Salary EUR	Earned Cash Bonus EUR	Other benefits ¹ EUR	Total EUR
E. Meurice	735,000	414,569	102,434	1,252,003
P.T.F.M. Wennink	455,000	205,311	49,209	709,520
M.A. van den Brink	483,000	217,945	43,686	744,631
K.P. Fuchs	400,000	150,411	71,296	621,707

¹ Other benefits include housing costs, company cars costs, social security costs, health and disability insurance costs and representation allowances.

ASML has an annual short-term performance cash bonus plan for the Board of Management. Under the new 2008 Remuneration Policy, the annual performance bonus ranges between 0 percent and 75 percent (CEO) or 60 percent (other members of the Board of Management) (2007: between 0 percent and 50 percent) of base salary. Under this plan the ultimate bonus amount is dependent on the actual achievement of corporate targets. These targets are market share and financial and operational performance parameters relating to return on average invested capital, technology related parameters and qualitative targets based on agreed key objectives.

The 2008 vested pension benefits¹ of individual members of the Board of Management was as follows:

	2008 EUR
E. Meurice	91,982
P.T.F.M. Wennink	56,350
M.A. van den Brink	59,913
K.P. Fuchs	40,827

¹ Since the pension arrangement for members of the Board of Management is a defined contribution plan, the Company does not have additional pension obligations beyond the annual premium contribution.

Performance Stock Options

Details of options held by members of the Board of Management to purchase ordinary shares of ASML Holding N.V. are set forth below:

	Jan. 1, 2008	Exercised during 2008	Expired during 2008	Dec. 31, 2008	Exercise price	Share price on exercise date	Expiration date
E. Meurice	125,000	–	–	125,000	10.62	–	15-10-2014
	12,500	–	–	12,500	11.52	–	21-01-2015
	57,770	–	–	57,770	11.53	–	19-01-2015
	88,371	–	–	88,371	17.90	–	18-01-2016
	95,146	–	–	95,146	20.39	–	17-01-2017
P.T.F.M. Wennink	31,500	–	–	31,500	58.00	–	20-01-2012
	20,000	–	20,000	–	20.28	–	21-01-2008
	32,379	–	–	32,379	11.53	–	19-01-2015
	56,236	–	–	56,236	17.90	–	18-01-2016
	58,964	–	–	58,964	20.39	–	17-01-2017
M.A. van den Brink	31,500	–	–	31,500	58.00	–	20-01-2012
	40,473	–	–	40,473	11.53	–	19-01-2015
	59,098	–	–	59,098	17.90	–	18-01-2016
	61,644	–	–	61,644	20.39	–	17-01-2017
K.P. Fuchs	6,113	–	–	6,113	11.53	–	19-01-2015
	22,000	–	–	22,000	17.61	–	21-04-2016
	53,558	–	–	53,558	17.90	–	18-01-2016
	53,604	–	–	53,604	20.39	–	17-01-2017

Conditional Performance Stock Options

Members of the Board of Management are eligible for a maximum conditional performance stock option grant, under the conditions set forth in the new 2008 Remuneration Policy, with a value equal to 50 percent of their base salary (whereas the value at target level equals to 25 percent of their base salary). The maximum number of performance stock options in relation to this amount was determined on the day of publication of the 2007 annual results (in 2008) and was based upon the fair value of a performance stock option in accordance with the Cox Ross Rubinstein method. The fair value according to this method equals EUR 4.33 per performance stock option. The ultimately awarded number of performance stock options is determined upon achievement of the 2008 target. Based on the Black-Scholes option valuation model, the fair value of the options granted in 2007 and 2008 was EUR 6.74 and EUR 5.66, respectively. The compensation expenses recorded in the consolidated statements of operations for the year ended December 31, 2008 amount to EUR 0.9 million (2007: EUR 1.8 million).

The actual number of performance stock options which will be awarded in 2009 in relation to performance achievements over 2008 are as follows:

	Actual number of performance stock options which were awarded in 2008 for 2007 actual achievement	Number of performance stock options which will be awarded in 2009 for 2008 actual achievement ¹
E. Meurice	95,146	42,448
P.T.F.M. Wennink	58,964	26,277
M.A. van den Brink	61,644	27,894
K.P. Fuchs	53,604	23,101

¹ The numbers are based on a latest estimate. The actual numbers of performance stock options will be determined by the remuneration committee in February 2009.

Conditional Performance Stock

Members of the Board of Management are eligible for a maximum conditional performance stock award, under the conditions set forth in the 2008 new remuneration policy, with a value equal to a maximum of 96.25 percent of their base salary (whereas the value at target level equals 55 percent of their base salary). The maximum number of performance stock in relation to this amount was determined on the day of publication of the 2007 annual results (in 2008) and was based upon the fair value of a performance stock in accordance with the Cox Ross Rubinstein method. The fair value according to this method equals EUR 12.41 per performance stock. The ultimately awarded number of performance stock will be determined over a three year period upon achievement of targets set in 2008. These targets are financial and operational performance parameters relating to average return on invested capital parameters. ASML accounts for this stock award performance plan as a variable plan. The fair value of the stock granted in 2007 and 2008 was EUR 20.39 and EUR 17.20, respectively. The compensation expenses recorded in the consolidated statements of operations for the year ended December 31, 2008 amount to EUR 3.3 million (2007: EUR 3.3 million).

The maximum number of performance stock from 2008 which can be awarded in relation to performance targets over the three year performance period 2008 through 2011 are as follows:

	Actual number of performance stock granted in 2005 awarded in 2008	Maximum number of performance stock granted in 2006 to be awarded in 2009 ¹	Maximum number of performance stock granted in 2007 to be awarded in 2010	Maximum number of performance stock granted in 2008 to be awarded in 2011
E. Meurice	36,972	72,136	66,338	57,002
P.T.F.M. Wennink	20,721	45,905	41,111	35,287
M.A. van den Brink	25,902	48,241	42,980	37,458
K.P. Fuchs	3,912	43,719	37,374	28,201

¹ The actual number of performance stock will be determined by the Remuneration Committee in the first half year of 2009.

Benefits upon termination of employment

The employment agreements with Mr. P. Wennink and Mr. M. van den Brink do not contain specific provisions regarding benefits upon termination of those agreements. Potential severance payments will be according to applicable law.

The employment agreement with Mr. E. Meurice contains specific provisions regarding benefits upon termination of this agreement. If ASML gives notice of termination of the employment agreement for reasons which are not exclusively or mainly found in acts or omissions on the side of Mr. E. Meurice, a severance payment equal to one year base salary will be paid upon the effective date of termination. This severance payment will also be paid in case Mr. Meurice gives notice of termination of the employment agreement in connection with a substantial difference of opinion between him and the Supervisory Board regarding his employment agreement, his function or the Company's strategy.

Furthermore, Mr. E. Meurice would also be entitled to the aforementioned severance amount in the event ASML or its legal successor gives notice of termination in connection with a Change of Control (as defined in the employment agreement) or if Mr. Meurice gives notice of termination, that is directly related to such Change of Control and such notice is given within twelve months from the date on which the Change of Control occurs.

In 2008, Mr. K. Fuchs received a payment of one year salary (EUR 400,000) in connection with his resignation, which payment was in accordance with the terms of Mr. Fuchs' employment contract.

Supervisory Board

The annual remuneration for Supervisory Board members covers the period from one annual General Meeting of Shareholders to the next one. The annual remuneration is paid in quarterly installments starting after the annual General Meeting of Shareholders.

The general meeting of shareholders is the body that determines the remuneration package for Supervisory Board members. At ASML's annual General Meeting of Shareholders held on March 28, 2007, ASML's shareholders adopted the following remuneration package: each individual member, with the exception of the non-European members, receives EUR 40,000 with the Chairman receiving EUR 55,000. The US Supervisory Board members each receive EUR 70,000 for their membership. Additionally, members of the Audit Committee are paid EUR 10,000 for their membership, with the Chairman of the Audit Committee receiving EUR 15,000 for his chairmanship. The members of the other Committees are paid EUR 7,500 per Committee, with the Chairman receiving EUR 10,000 per Committee chairmanship. To compensate for certain obligations ASML has towards the US government as a result of the SVG merger in 2001, and which this member needs to fulfill, one US member receives an additional EUR 10,000.

During 2007 and 2008, ASML paid out the following amounts to the individual members of the Supervisory Board:

Year Ended December 31	20071 EUR	2008 EUR
H. Bodt ²	70,000	-
OB Bilous	92,500	95,000
J.A. Dekker	75,000	60,000
J.W.B. Westerburgen	75,000	60,000
F.W. Fröhlich	67,500	55,000
A.P.M. van der Poel ³	85,000	80,000
H.C.J. van den Burg	58,750	47,500
W.T. Siegle ⁴	38,750	77,500
R. Deusinger ⁵	9,856	20,188

The amounts paid in 2007 consist of the annual compensation over the period April 1, 2006 until March 31, 2007, and the compensation over Q2 and Q3 2007. In addition, each Supervisory Board member received a net cost allowance over Q2 and Q3 2007, amounting to EUR 900, and EUR 1,200 for the Chairman of the Supervisory Board.

2 Membership ended March 28, 2007.

3 Chairmanship started March 28, 2007.

4 Membership started March 28, 2007.

5 Membership started July 17, 2007 and ended June 4, 2008.

In addition, a net cost allowance was paid to each Supervisory Board member in 2008, amounting to EUR 1,800 per year, and EUR 2,400 per year for the Chairman of the Supervisory Board.

In 2009, ASML expects to pay the following amounts to the individual members of the Supervisory Board (in euro):

OB Bilous	95,000
H.C.J. van den Burg	47,500
J.A. Dekker ¹	30,000
F.W. Fröhlich	55,000
P.F.M. van der Meer Mohr ²	20,000
A.P.M. van der Poel	80,000
W.T. Siegle	77,500
J.W.B. Westerburgen	60,000
W. Ziebart ²	20,000

1 Membership will end March 26, 2009.

² Membership will start March 26, 2009, subject to appointment by the General Meeting of Shareholders. Amount is subject to change, depending on eventual committee memberships.

In addition, in 2009, ASML expects to pay a net cost allowance amounting to EUR 1,800 per year to each Supervisory Board member, and EUR 2,400 per year to the Chairman of the Supervisory Board.

Members of the Board of Management and/or Supervisory Board are free to acquire or dispose of ASML shares or options for their own account, provided they comply with the ASML Insider Trading Rules 2005. Those securities are not part of members' remuneration from the Company and are therefore not included.

22. Selected operating expenses and additional information

Personnel expenses for all payroll employees were:

Year Ended December 31 (in thousands)	2006 EUR	2007 EUR	2008 EUR
Wages and salaries	406,307	469,214	477,374
Social security expenses	31,958	35,905	37,877
Pension and retirement expenses	28,945	33,478	39,045
Share-based payments	9,667	16,506	13,535
Total	476,877	555,103	567,831

The average number of payroll employees in FTEs from continuing operations during 2006, 2007 and 2008 was 5,320, 6,191 and 6,840 respectively. The total number of payroll personnel employed in FTEs per sector was:

Year Ended December 31	2006	2007	2008
Research and development	1,480	1,831	2,042
Goodsflow	1,450	1,699	1,936
Customer support	2,128	2,475	2,346
General	402	468	488
Sales	134	109	118
Total	5,594	6,582	6,930

As of December 31, 2006, 2007 and 2008, a total of 1,486, 1,725 and 1,329 temporary employees in FTEs, respectively, were employed in the Company's continuing operations.

In 2006, 2007 and 2008, a total of 2,739, 3,112 and 3,510 (on average) payroll employees in FTEs in the Company's continuing operations (excluding temporary employees), respectively, were employed in the Netherlands.

In December 2008, ASML received approval to participate in the Labor Time Reduction Program, a Netherlands government program that helps companies to reduce working hours for employees without impacting their salaries. Employees receive part of their wages and salaries from the national unemployment fund on the condition they will spend non-working hours on training and education. The plan is designed to protect employment in viable industries during an exceptionally severe downturn such as the current one. It is a temporary measure consisting of an initial period of six weeks that can be renewed up to three times, pending government approval for each period. Extension for a further six weeks will be requested early 2009. The effect of this measure is that the labor time of 1,100 of our payroll employees in the Netherlands will be reduced by 50 percent for six weeks as of January 5, 2009. This measure will decrease our salary expenses by 35 percent for this group of employees in the applicable period, amounting to EUR 1.5 million per applicable period in 2009.

23. Vulnerability due to certain concentrations

ASML relies on outside vendors to manufacture the components and subassemblies used in its systems, each of which is obtained from a sole supplier or a limited number of suppliers. ASML's reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these subassemblies and components. In particular, the number of systems ASML has been able to produce has been limited by the production capacity of Zeiss. Zeiss is currently ASML's sole external supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen and Wetzlar, Germany. During 2008 our sales were not limited by the deliveries from Zeiss.

ASML sells a substantial number of lithography systems to a limited number of customers. See Note 20. Business failure of one of our main customers may result in adverse effects on our business, financial condition and results of operations.

24. Capital stock

Share capital

ASML's authorized share capital consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued.

Our Board of Management has the power to issue shares if and to the extent the Board of Management has been authorized to do so by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association). However, the Supervisory Board must approve any issuance of shares.

Ordinary shares

At our annual General Meeting of Shareholders, held on April 3, 2008, the Board of Management was granted the authorization to issue shares and/or rights thereto representing up to a maximum of 5 percent of our issued share capital as of the date of authorization, plus an additional 5 percent of our issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 26, 2010.

Holders of our ordinary shares have a preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association), the Board of Management has the power, with the approval of the Supervisory Board, to limit or exclude the preemptive rights of holders of ordinary shares. A designation may be renewed. At our annual General Meeting of Shareholders, held on April 3, 2008, the Board of Management was authorized, subject to the aforementioned approval, to restrict or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to grant this authority through September 26, 2010. At this annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares and options separately for a period of 18 months.

The Company may repurchase its issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and our Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, our current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through October 3, 2009 up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) at a price between the nominal value of the ordinary shares purchased and 110 percent of the market price of these securities on Euronext Amsterdam or NASDAQ. At our annual General Meeting of Shareholders to be held on March 26, 2009, our shareholders will be asked to extend this authority through September 26, 2010.

Cumulative preference shares

In 1998, the Company granted to the preference share foundation, "Stichting Preferente Aandelen ASML" (the "Foundation") an option to acquire cumulative preference shares in the capital of the Company (the "Preference Share Option"). This option was amended and extended in 2003. In connection with the synthetic share buyback concluded in October 2007, a second amendment to the option agreement between the Foundation and ASML was made in 2007. In view of the requirements as set forth in Section 5:71 paragraph 1(c) of the act on the supervision of financial markets (*Wet op het financieel toezicht*, the "Wft"), a third amendment to the option agreement between the Foundation and ASML has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares.

The object of the Foundation is to look after the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated with ASML, in such way that the interests of ASML and of those enterprises and of all parties concerned are safeguarded as well as possible, and influences which might affect the independence and the identity of ASML and those enterprises contrary to those interests, are strenuously kept from intruding on the Foundation, and everything related to the above or possibly conducive thereto.

The Foundation seeks to realize its object by the acquiring and holding of cumulative preference shares in the capital of ASML and by exercising the rights attached to these shares, particularly the voting rights attached to these shares. Because of their lower nominal value, the cumulative preference shares have less voting rights than ordinary shares but are entitled to dividends

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on a preferential basis at a percentage based on EURIBOR for cash loans with a duration of twelve months – weighted by the amount of days for which the rate is applied – during the financial year for which the distribution is made, plus 2 percent.

The Preference Share Option gives the Foundation the right to acquire a number of cumulative preference shares, provided that the aggregate nominal value of such number of cumulative preference shares shall not exceed the aggregate nominal value of the ordinary shares that have been issued at the time of exercise of the Preference Share Option for a subscription price equal to their EUR 0.02 nominal value. Only one-fourth of this subscription price is payable at the time of initial issuance of the cumulative preference shares. The cumulative preference shares may be cancelled and repaid by the Company upon the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management approved by the Supervisory Board. Exercise of the Preference Share Option could effectively dilute the voting power of the ordinary shares then outstanding by one-half.

If the right mentioned above is exercised and as a result cumulative preference shares are issued, the Company, at the request of the Foundation, will repurchase or cancel all cumulative preference shares held by the Foundation as a result of such issuance with repayment of the amount paid and exemption from the obligation to pay up on the cumulative preference shares. In that case the Company is obliged to effect the repurchase and cancellation respectively as soon as possible.

If the Foundation will not request the Company to repurchase or cancel all cumulative preference shares held by the Foundation within 20 months after issuance of these shares, the Company will be obliged to convene a General Meeting of Shareholders in order to decide on a repurchase or cancellation of these shares.

The Foundation is independent of the Company. As of January 1, 2009 its Board of Directors comprises four independent voting members from the Netherlands business and academic communities, Mr. R.E. Selman, Mr. M.W. den Boogert, Mr. J.M. de Jong and Mr. A. Baan.

Dividend proposal

In 2008, the Company revised its reserves and dividend policy, resulting in dividend payments for 2007, starting with a pay out of EUR 0.25 per ordinary share of EUR 0.09. Management will assess annually the dividend amount to be proposed to the Annual General Meeting of Shareholders. A proposal will be submitted to the Annual General Meeting of Shareholders on March 26, 2009 to declare a dividend for 2008 of EUR 0.20 per ordinary share of EUR 0.09.

25. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides a summary of shares repurchased by the Company between 2006 and 2008:

Program	Period	Total Number of Shares purchased	Average Price Paid per Share (EUR)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Programs	Total value of Shares Purchased as Part of Publicly Announced Plans or Programs (in EUR million)
2006-2007 Share program	May 17-26, 2006	6,412,920	15.59	6,412,920	19,037,376	100
2006-2007 Share program	June 7-30, 2006	13,517,078	15.81	19,929,998	5,520,298	314
2006-2007 Share program	July 3-13, 2006	5,520,298	15.62	25,450,296	–	400
2006-2007 Share program	October 12, 2006	14,934,843	18.55	14,934,843	–	277
2006-2007 Share program	February 14-23, 2007	8,000,000	19.53	8,000,000	–	156
Capital repayment program 2007	September - October 2007	55,093,409	18.36	55,093,409	–	1,012
2007-2008 Share program	November 14-26, 2007	9,000,000	22.62	9,000,000	5,000,000	204
2007-2008 Share program	January 17-22, 2008	5,000,000	17.52	14,000,000	–	292

2006 – 2007 Share Program

On March 23, 2006, the General Meeting of Shareholders authorized the repurchase of up to a maximum of 10 percent of our issued shares through September 23, 2007. The number of shares bought back in the initial phase of this Repurchase Program was 25,450,296 shares, representing 100 percent of the announced objective for the initial phase of the Repurchase Program of maximum EUR 400 million and 5.25 percent of outstanding shares. This 2006 Repurchase Program was completed in the third quarter of 2006. Shares repurchased were recorded at cost and classified within shareholders' equity. ASML cancelled these repurchased shares in 2007.

In the second phase of the Repurchase Program, ASML repurchased 14,934,843 additional shares pursuant to a call option transaction announced on October 9, 2006. These repurchased shares represented 100 percent of the announced objective of the second phase of the Repurchase Program. In order to mitigate the dilution due to the issuance of shares upon conversion of its convertible bond due October 2006, these shares were subsequently used to satisfy the conversion rights of holders of ASML's 5.75 percent Convertible Subordinated Notes. The Company paid an aggregate of EUR 277 million in cash for these shares. This repurchase program was completed in the fourth quarter of 2006. These shares were purchased from a third party who issued the call option.

In February 2007, ASML repurchased the final phase of shares under the Repurchase Program of the remaining 1.7 percent of outstanding share, being 8,000,000 shares. The share program was announced on February 14, 2007 and was completed in the first quarter of 2007. Shares repurchased have been used to cover outstanding stock options and to satisfy partly the conversion rights of holders of ASML's 5.50 percent Convertible Subordinated Notes.

Capital repayment program 2007

On July 17, 2007 the Extraordinary General Meeting of Shareholders approved three proposals to amend the Company's Articles of Association. The first amendment involved an increase of share capital by an increase in the nominal value per ordinary share from EUR 0.02 to EUR 2.12 and a corresponding reduction in share premium. The second amendment was a reduction of the nominal value per ordinary share from EUR 2.12 to EUR 0.08 resulting in the payment to shareholders of EUR 2.04 per ordinary share. The third amendment involved a reduction in stock, whereby 9 ordinary shares with a nominal value of EUR 0.08 each were consolidated into 8 ordinary shares with a nominal value of EUR 0.09 each. As a result of these amendments, which in substance constitute a synthetic share buyback, EUR 1,012 million has been repaid to our shareholders and the outstanding number of ordinary shares was reduced by 55,093,409 shares or 11 percent. The capital repayment program was completed in October 2007.

2007-2008 Share program

On March 28, 2007, the General Meeting of Shareholders authorized the repurchase of up to a maximum of three times 10 percent of our issued shares through September 28, 2008.

In 2007, the aggregate number of shares bought back under the 2007-2008 share program was 9,000,000, representing 64.3 percent of the announced objective of 14,000,000 shares to be repurchased during a period ending on September 28, 2008. The share program was announced on October 17, 2007. Shares repurchased will be used to cover outstanding stock options.

In January 2008, ASML bought back 5,000,000 shares. The aggregate number of shares bought back up to and including January 2008, represents 100 percent of the announced objective of 14,000,000 shares.

Authorization of share repurchases

On April 3, 2008, the General Meeting of Shareholders authorized the repurchase of up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (April 3, 2008) through October 3, 2009. However, implementation of additional share buy back programs will depend on the recovery of the industry and economy.

Veldhoven, the Netherlands

January 23, 2009

/s/ Eric Meurice, Chief Executive Officer
Eric Meurice, Chief Executive Officer

/s/ Peter T.F.M. Wennink, Chief Financial Officer
Peter T.F.M. Wennink, Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Supervisory Board and Shareholders of ASML Holding N.V.:

We have audited the accompanying consolidated balance sheets of ASML Holding N.V. and subsidiaries (collectively, the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2008 (all expressed in euros). We also have audited the Company’s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASML Holding N.V. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte Accountants B.V.
Deloitte Accountants B.V.
Eindhoven, The Netherlands
January 23, 2009



Exhibits

ASML ANNUAL REPORT 2008

Exhibit Index

Exhibit No.	Description
1	Articles of Association of ASML Holding N.V. (English translation) (Incorporated by reference to Amendment No. 11 to the Registrant's Registration Statement on Form 8-A/A, filed with the Commission on November 2, 2007)
2.1	Fiscal Agency Agreement between ASML Holding N.V., Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. relating to the Registrant's 5.75 percent Notes due 2017
4.1	Agreement between ASML Lithography B.V. and Carl Zeiss, dated March 17, 2000 (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2000) #
4.2	Agreement between ASML Holding N.V. and Carl Zeiss, dated October 24, 2003 (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003) #
4.3	Form of Indemnity Agreement between ASML Holding N.V. and members of its Board of Management (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
4.4	Form of Indemnity Agreement between ASML Holding N.V. and members of its Supervisory Board (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
4.5	Form of Employment Agreement for members of the Board of Management (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003)
4.6	Nikon-ASML Patent Cross License Agreement, dated December 10, 2004, between ASML Holding N.V. and Nikon Corporation (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.7	ASML/Zeiss Sublicense Agreement, 2004, dated December 10, 2004, between Carl Zeiss SMT AG and ASML Holding N.V. (Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.8	ASML New Hires and Incentive Stock Option Plan For Management (Version 2003) (Incorporated by reference to the Registrant's Statement on Form S-8, filed with the Commission on September 2, 2003 (File No. 333-109154))
4.9	ASML Incentive and New Hire Option Plan for Board of Management (Incorporated by reference to the Registrant's Registration Statement on Form S-8, filed with the Commission on June 9, 2004 (File No. 333-116337))
4.10	ASML Option Plan for Management of ASML Holding Group Companies (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on June 30, 2005 (file No. 333-126340))
4.11	ASML Stock Option Plan for New Hire Options granted to Members of the Board of Management (Version April 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.12	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.13	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.14	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.15	ASML Restricted Stock Plan (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on March 7, 2007 (file No. 333-141125))
4.16	Brion Technologies, Inc., 2002 Stock Option Plan (as amended on March 25, 2005; March 24, 2006; and November 17, 2006) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on April 20, 2007 (file No. 333-142254))
4.17	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version January 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.18	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.19	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.20	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.21	ASML Performance Stock Plan for Members of the Board of Management (Version 1) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.22	ASML Performance Stock Option Plan for Members of the Board of Management (Version 2) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.23	ASML Stock Option Plan from Base Salary for Senior & Executive Management (Version October 2007) (Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Commission on November 2, 2007 (file No. 333-147128))

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Exhibit No.	Description
4.24	ASML Performance Stock Option Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.25	ASML Performance Share Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.26	ASML Restricted Stock Plan (version 2) (Incorporated by reference to the Registrant' s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
8.1	List of Material Subsidiaries*
12.1	Certification of CEO and CFO Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
13.1	Certification of CEO and CFO Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Deloitte Accountants B.V.*

* Filed at the Commission herewith

Certain information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission

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Exhibit 8.1

List of material subsidiaries

Legal Entity	Country of Incorporation
Subsidiaries of ASML Holding N.V.:	
ASML Netherlands B.V.	Netherlands (Veldhoven)
ASML MaskTools B.V.	Netherlands (Veldhoven)
ASML Real Estate B.V.	Netherlands (Veldhoven)
ASML Germany GmbH	Germany (Dresden)
ASML France S.a.r.l.	France (Montbonnot)
ASML (UK) Ltd.	UK (Paisley (Scotland))
ASML Israel (2001) Ltd.	Israel (Ramat-Gan)
ASML Ireland Ltd.	Ireland (Dublin)
ASML Italy S.r.l.	Italy (Avezzano)
ASML Hong Kong Ltd.	Hong Kong SAR
ASML Singapore Pte. Ltd.	Singapore
ASML Korea Co. Ltd.	Korea (Kyunggi-Do)
ASML Japan Co. Ltd.	Japan (Kawasaki-shi, Kanagawa-Ken)
ASML Shanghai International Trading Co. Ltd.	China/ Shanghai Free Trade Zone
ASML (Tianjin) Co. Ltd.	China (Tianjin)
ASML Taiwan Ltd.	Republic of China (Hsinchu)
ASML Equipment Malaysia Sdn. Bhd.	Malaysia (Penang)
ASML US, Inc.	US (Delaware)
ASML Belgium BVBA	Belgium (Essen)
Subsidiaries of ASML US, Inc.:	
ASML Capital US, Inc.	US (Delaware)
ASML MaskTools Inc.	US (Delaware)
Brion Technologies, Inc.	US (Delaware)
Subsidiary of ASML Hong Kong Ltd.:	
ASML Macau Commercial Offshore Ltd.	Macau (dissolved April 16, 2008)
ASML Hong Kong Logistic Services Ltd.	Hong Kong SAR
Limited partnership with ASML Belgium BVBA as the managing partner:	
ASML Finance Belgium CV	Belgium (Essen)

Exhibit 12.1

Certification of the Chief Executive Officer

I, Eric Meurice, certify that:

1. I have reviewed this annual report on Form 20-F of ASML Holding N.V.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact

2. necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all

3. material respects the financial condition, results of operations and cash-flows of the company as of, and for, the periods presented in this report;

The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and

4. procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed

a) under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be

b) designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our

c) conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the company's internal control over financial reporting that occurred during the

d) period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over

5. financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting

a) which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 23, 2009

/s/ Eric Meurice,
Eric Meurice,
Chief Executive Officer

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Certification of the Chief Financial Officer

I, Peter T.F.M. Wennink, certify that:

1. I have reviewed this annual report on Form 20-F of ASML Holding N.V.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash-flows of the company as of, and for, the periods presented in this report;

3. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed a) under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be b) designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our c) conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the company's internal control over financial reporting that occurred during the d) period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting a) which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 23, 2009

/s/ Peter T.F.M. Wennink

Peter T.F.M. Wennink
Chief Financial Officer

Exhibit 13.1

Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 20-F of ASML Holding N.V. (the "Company") for the fiscal year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Eric Meurice, as Chief Executive Officer of the Company, and Peter T.F.M. Wennink, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric Meurice
Name: Eric Meurice
Title: Chief Executive Officer

Date: January 23, 2009

/s/ Peter T.F.M. Wennink
Name: Peter T.F.M. Wennink
Title: Chief Financial Officer

Date: January 23, 2009

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of section 18 of the Securities Exchange Act of 1934.

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Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

To the Supervisory Board and Shareholders of ASML Holding N.V.:

We consent to the incorporation by reference in the following Registration Statements on Form S-8 (Nos. 333-13332, 333-109154, 333-105600, 333-116337, 333-126340, 333-136362, 333-141125, 333-142254, 333-144356, 333-147128 and 333-153277) of our report dated January 23, 2009, relating to the financial statements of ASML Holding N.V. and subsidiaries (collectively, the “Company”) and the effectiveness of the Company’ s internal control over financial reporting, appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2008.

/s/ Deloitte Accountants B.V.

Deloitte Accountants B.V.
Eindhoven, The Netherlands
January 23, 2009

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