ASML

Statutory Annual Report 2008

Contents

In this report the name "ASML" is sometimes used for convenience in contexts where reference is made to ASML Holding N.V. and/or any of its subsidiaries in general. The name is also used where no useful purpose is served by identifying the particular company or companies.

Foreword

Dear shareholder,

We started 2008 with two strong quarters which confirmed the need by our customers for our immersion technology. After the summer, however, the economic climate deteriorated rapidly in the wake of the global banking crisis. As credit became scarce for our customers and as end markets for electronics products softened swiftly, we witnessed an unprecedented drop-off in demand for semiconductor equipment. It now appears the global economy has entered into one of its worst downturns.

Because we are operating in the typically cyclical capital goods industry, we are structurally prepared for a volatile environment. Therefore, in response to the unprecedented slowdown in orders, ASML has been able to reduce costs swiftly, while not impacting key research and development projects. We have reduced the total workforce by around 12 percent, comprising approximately 1,000 employees who were mainly on flexible temporary contracts. We also participated in the Labor Time Reduction Program, a temporary measure made possible by the Dutch government to help companies reduce working hours for payroll employees without impacting their salaries. In the first quarter of 2009 we expect to have cut our operational expenses by EUR 50 million per quarter compared to the cost level in the second quarter of 2008.

We finished the year with a strong cash position of EUR 1.1 billion, within our target range of EUR 1.0 billion and EUR 1.5 billion, which gives our customers security that we can execute their orders, while continuing the research and development that they rely upon for future generations of lithography machines. Also, we have invested heavily in our supplier base and helped them implement systems to better cope with economic volatility.

In spite of the recession impact and a weaker market, we have reinforced our position at the forefront of innovation and technology as we have prepared in 2008 three major product introductions: the XT4 new generation TWINSCAN, the new platform for TWINSCAN called NXT and the Extreme Ultraviolet (EUV) platform based on a new light source. We will ramp production of the new XT4 and NXT platforms in 2009, and in 2010 we will ship the first EUV production systems that will enable the progress of Moore's Law well into the next decade. ASML has traditionally invested in new technology and systems during downturns in order to take full advantage from the economic recovery when it comes. We still expect to grow to sales levels of EUR 5 billion during the next business upturn, and we will have production capacity in place to deliver on this expectation.

In these challenging times, we are particularly conscious of the contributions required from everyone at ASML; our colleagues' hard work and dedication deserves special recognition here.

I want to thank you for your support to ASML.

Eric Meurice,
President and Chief Executive Officer
Chairman of the Board of Management,
ASML Holding N.V.

Board of Management

Eric Meurice (1956)
President, Chief Executive Officer and
Chairman of the Board of Management
Appointed in 2004, re-appointed in 2008
French nationality

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

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

Klaus P. Fuchs (1958)
Executive Vice President Operations
Appointed in 2006, resigned effective January 1, 2009
German nationality

Supervisory Board

Arthur P.M. van der Poel (1948)
(Chairman)
Former Chief Executive Officer of Philips Semiconductors
First appointed 2004
Current term until 2012
Dutch nationality

OB Bilous (1938)
Former General Manager and
VP Worldwide Manufacturing of IBM's Microelectronics Division
First appointed 2005
Current term until 2009
United States nationality

Ieke C.J. van den Burg (1952)
Member of the European Parliament
First appointed 2005
Current term until 2009
Dutch nationality

Jan A. Dekker (1939)
Former Chief Executive Officer of TNO
First appointed 1997
Current term until 2009
Dutch nationality

Fritz W. Fröhlich (1942)
Former Deputy Chairman and
Chief Financial Officer of Akzo Nobel N.V.
First appointed 2004
Current term until 2012
German nationality

Jos W.B. Westerburgen (1942)
Former Company Secretary and
Head of Tax of Unilever N.V. and Plc.
First appointed 2002
Current term until 2009
Dutch nationality

William T. Siegle (1939)
Former Senior Vice President and
Chief Scientist of AMD, Inc.
First appointed 2007
Current term until 2011
United States nationality

Supervisory Board report

The Supervisory Board has reviewed the Statutory Annual Report of ASML Holding N.V. ("ASML" or the "Company") for the financial year 2008, as prepared by the Board of Management. Deloitte has duly examined the Company's financial statements, and the Auditor's Report is included in the Statutory Financial Statements.

General

The Supervisory Board supervises and advises the Board of Management of ASML Holding N.V. in performing its management tasks and setting ASML's strategy.

Like many public companies in the Netherlands, the Company has a two-tier board structure with independent, non-executive members serving on the Supervisory Board. Under Netherlands law, members of the Supervisory Board may neither serve as members of the Board of Management nor as officers or employees of the Company. The Supervisory Board considers all current Supervisory Board members to be independent pursuant to the criteria of the Netherlands Corporate Governance Code (the "Code").

The Supervisory Board, acting in the interests of ASML, its business and shareholders, supervises and advises the Board of Management. Major management decisions, such as ASML's strategy, major investments and budget, require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems, including the internal control and risk management systems, and the financial reporting process. The Supervisory Board selects and appoints new Board of Management members, prepares the remuneration policy for the Board of Management, and decides on the remuneration for the individual members of the Board of Management. In addition, the Supervisory Board is the body that nominates new Supervisory Board candidates for appointment to the Annual General Meeting of Shareholders ("AGM or "Annual General Meeting of Shareholders"), and submits proposals for the remuneration of the Supervisory Board members.

The Supervisory Board closely follows the developments in the area of corporate governance and the application of the relevant corporate governance rules within the Company. In 2008, the Supervisory Board also discussed the proposed revision of the Code, and provided its feedback on the proposed changes to the Corporate Governance Code Monitoring Committee. The Supervisory Board is currently reviewing the final amended Code as published on December 10, 2008, to determine the implications for the Supervisory Board, its committees, ASML's Board of Management and ASML as a company. For a more detailed description on corporate governance we refer to the Corporate Governance Chapter of the Statutory Annual Report.

Meetings and activities of the Supervisory Board

The Supervisory Board held six meetings in 2008 and in addition three conference calls specifically for the quarterly results. No Supervisory Board member of those who were in office during the full year of 2008, was absent more than once at the meetings held in 2008. During the various meetings, the Supervisory Board discussed ASML's strategy, financial situation, business risks, budget and corporate targets, among other matters. In addition to the scheduled meetings and conference calls, members of the Supervisory Board interacted intensively with the Board of Management, as well as with its individual members, through consultations, calls and regular reports.

In 2008, the Supervisory Board spent considerable time discussing ASML's corporate and technology strategy. Furthermore, several discussions evolved around the current global financial market crisis and economic downturn and the possible consequences thereof for ASML.

The members of the Board of Management attended all meetings of the Supervisory Board. However, the members of the Board of Management were not present when the Supervisory Board, at the end of each meeting, discussed topics related to, amongst others, the functioning of the Board of Management and the Supervisory Board, its individual members, the composition of both bodies and their relationship.

In 2007, an evaluation was performed with respect to the functioning of the Supervisory Board, and several suggestions resulting from that evaluation were implemented in 2008, such as more frequent and extended Supervisory Board meetings, including a two-day off-site meeting, to ensure sufficient time to cover all relevant items. Also, meetings took place between the Chairman of the Supervisory Board and the individual members of the Board of Management. Implemented this year also, are the annual one-on-one meetings between the Chairman of the Supervisory Board and each Supervisory Board member to discuss specific issues.

This year's evaluation survey resulted in various improvement areas, for example with respect to the composition of the Supervisory Board, topics to be discussed during the year, the content of meeting materials, and the set up of meetings. Appropriate feedback has been given to the Board of Management concerning this evaluation meeting.

As is done each year, members of the Supervisory Board met twice during scheduled meetings with the Works Council in the Netherlands, to discuss, among other topics, the Company's strategy. Members of the Supervisory Board also met various other times with the Works Council to discuss other matters, such as the succession of Mr. Deusinger in view of the Works Councils' enhanced recommendation right for this candidacy. The Supervisory Board's relationship with the Works Council is characterized by continuous cooperation and professionalism.

Composition of the Supervisory Board

Mr. A. (Arthur) van der Poel and Mr. F. (Fritz) Fröhlich retired by rotation on April 3, 2008 and were both reappointed by the 2008 AGM.

In June 2008, Mr. R. (Rolf) Deusinger, who was appointed in July 2007, resigned from ASML's Supervisory Board. Acceptance of a new function, after resignation from his previous employer, made it difficult for Mr. Deusinger to continue his activities for ASML. Mr. Deusinger's appointment was based on the Works Council's enhanced recommendation right, and therefore the Works Council also had an enhanced recommendation right with respect to Mr. Deusinger's successor. The Works Council recommended to nominate Ms. P. (Pauline) F.M. van der Meer Mohr. The Supervisory Board agreed with the Works Council's recommendation, and announced in September 2008 that it will nominate for appointment Ms. Van der Meer Mohr at the 2009 AGM.

Ms. H (Ieke) van den Burg and Messrs. OB (OB) Bilous, J. (Jan) Dekker and J.(Jos) Westerburgen will resign by rotation per the 2009 AGM, scheduled to be held on March 26, 2009. Except for Mr. Dekker, all resigning members have made known their availability for reappointment. Mr. Dekker is not available for reappointment, because of the fulfillment of his twelve year tenure as member of ASML's Supervisory Board. The Supervisory Board will certainly miss Mr. Dekker's highly valued contribution.

The Supervisory Board has announced that it will nominate for appointment Mr. W. (Wolfgang) Ziebart as successor of Mr. Dekker at the 2009 AGM.

For further details on the activities and responsibilities of the Supervisory Board, we refer to the Corporate Governance Chapter of this Annual Report.

Supervisory Board Committees

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.

Decisions and recommendations of the four committee meetings are reviewed in plenary meetings of the Supervisory Board. The committees can discuss the topics relevant for these committees in more detail than would be possible in the full Supervisory Board, and thus a more thought through advice can be provided to the Board of Management, and better decisions can be taken in the full Supervisory Board.

In general, each committee evaluates its composition and function on an annual basis. The annual evaluations ensure continuous focus on the quality of the activities of the committees, its composition and its functioning.

For further description of the activities and responsibilities of the committees of the Supervisory Board, we refer to the Corporate Governance Chapter of this Statutory Annual Report.

Audit Committee

In 2008, the Audit Committee met four times and held five conference calls, specifically for the quarterly results. The current members of our Audit Committee are Mr. Fröhlich (Chairman), Mr. Dekker, and Mr. Van der Poel. The members of the Audit Committee are all independent, non-executive members of the Supervisory Board.

During 2008, the main subjects of the meetings of the Audit Committee were the review of ASML's quarterly earnings announcements and audited annual consolidated financial statements. Continuous attention was given to the activities of the internal audit department with respect to ASML's internal controls and risk management systems, including the internal controls over financial reporting in light of Section 404 of the Sarbanes-Oxley Act of 2002. Other activities of the Audit Committee were: discussion and approval of the internal and external audit plan and related external audit fees; review of the audit and non-audit fees paid to the Company's external auditor; review of the audit activities of the Company's internal and external auditor; review of the internal and external auditor's management letter; discussions on tax strategy, as well as the tax systems and tax planning, investor relations, review of the way ASML manages its IT landscape, and review of regular updates on the activities of the Company's Disclosure Committee. Significant attention was given this year to ASML's financial position and financing policy, in view of the current global financial market crisis and economic downturn.

Remuneration Committee

In 2008, the Remuneration Committee met four times. The Remuneration Committee members also held several conference calls to discuss a variety of topics. The current members of our Remuneration Committee are Mr. Westerburgen (Chairman) and Ms. Van den Burg. Because of Mr. R. Deusinger's resignation, a vacancy is open for his position in the Remuneration Committee.

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

The Selection and Nomination Committee held three scheduled meetings and several additional meetings on an ad hoc basis in 2008. The current members of our Selection and Nomination Committee are Mr. Westerburgen (Chairman), Mr. Bilous and Mr. Van der Poel.

The main topics in 2008 were the composition of the Supervisory Board and the Board of Management. With respect to the composition of the Supervisory Board, the succession of Mr. Deusinger and Mr. Dekker was discussed, resulting in the selection of two candidates to be nominated for appointment at the 2009 AGM. In addition, the Selection and Nomination Committee reviewed the Supervisory Board's current rotation schedule, and it was decided that this should be amended in such a manner that some members' terms should be shortened to avoid that in 2013, five members out of the eight members will be up for reappointment.

Also, the composition of the Board of Management was discussed extensively, among other factors due to Mr. Fuchs' resignation effective January 1, 2009. As a result of these discussions, the Selection and Nomination Committee recommended to appoint Mr. F. (Frits) van Hout as member of the Board of Management. On October 30, 2008, the Supervisory Board announced its intention to appoint Mr. Van Hout to ASML's Board of Management, subject to notification to the 2009 AGM. More details on Mr. Van Hout can be found on ASML's website.

The Committee members also met with the Works Council to discuss the selection of Mr. Deusinger's successor.

Technology and Strategy Committee

The Technology and Strategy Committee met three times in 2008. One meeting was held off-site, at Zeiss, to get a better understanding of the technology surrounding the optics supplied by Zeiss, as these are very important parts in ASML's systems. The current Supervisory Board members of our Technology and Strategy Committee are Mr. Dekker (Chairman), Mr. Bilous, Mr. Van der Poel and Mr. Siegle. In addition, the Technology and Strategy Committee may appoint one or more advisors from within and/or from 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.

In 2008, the Technology and Strategy Committee reviewed specific ASML technology matters and the outcome was addressed in the meetings of the full Supervisory Board. This practice increases the full Supervisory Board's understanding of ASML technology matters and enables it to better supervise the strategic choices facing ASML.

The main subjects of the meetings of the Technology and Strategy Committee in 2008 were the Company's technology roadmap, including Extreme Ultra Violet ("EUV") lithography, maskless lithography, immersion technology, double patterning and holistic lithography (for example Brion, metrology).

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members is described in Note 30 to the Statutory Financial Statements 2008. The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. In addition to their fee as member of the Supervisory Board, Supervisory Board members also receive a fee for each committee membership. The Supervisory Board remuneration is not dependent on the financial results of the Company. No member of the Supervisory Board personally maintains a business relationship with the Company other than as a member of the Supervisory Board.

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

The Company has not granted any loans to, nor has it granted any guarantees in favor of, any of the members of the Supervisory Board.

The 2004 General Meeting of Shareholders has, as part of the amendment to the Company's Articles of Association, agreed to indemnify the members of the Supervisory Board against any claim arising in connection with their position as member of the Supervisory Board, provided that such claim is not attributable to willful misconduct or intentional recklessness of such Supervisory Board member. The Board of Management has further implemented the indemnification of the Supervisory Board members by means of separate indemnification agreements.

Composition of the Board of Management

The Board of Management currently consists of three members. Mr. Van Hout will be appointed by the Supervisory Board as fourth member of the Board of Management, subject to notification to the 2009 AGM to be held on March 26, 2009.

For further details and a biography of the members of the Board of Management, see Item 6A. to the Annual Report on Form 20-F, and ASML's corporate website.

Remuneration of the Board of Management

General

The Remuneration Committee reviews and proposes the general compensation and benefit programs for the Board of Management, as well as the remuneration for the individual members of the Board of Management.

Amount and Composition

The 2004 AGM adopted the Remuneration Policy 2004, which was amended in 2006 by the Supervisory Board to reflect further developments and insights with respect to the Board of Management remuneration. The 2006 AGM adopted the 2006 Remuneration Policy. Beginning 2008, the Supervisory Board of ASML, through its Remuneration Committee, concluded that the 2006 Remuneration Policy should again be amended as a result of further developments and insights in this area since the 2006 revision. The 2008 AGM held on April 3, 2008, adopted the revised 2008 Remuneration Policy.

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 the 2008 Remuneration Policy as well as recent external developments. Current compensation and benefits and levels are benchmarked against relevant peer companies. External compensation survey data and, where necessary, external consultants are used to benchmark our remuneration levels and structures. The Remuneration Committee also reviews and proposes to the Supervisory Board corporate goals and objectives relevant to the compensation of all members of the Board of Management. The Remuneration 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.

The external auditor performs agreed upon procedures on the targets achieved, to provide additional assurance whether the performance targets set have been achieved.

Outline 2008 remuneration report

The outline of the remuneration report of the Supervisory Board for the financial year 2008 concerning the remuneration policy of the Company are the following:

1. Total remuneration for members of the Board of Management consists of (i) base salary; (ii) short-term performance cash bonus and performance stock options; (iii) long-term performance stock and (iv) other benefits. The earning of cash bonus, performance stock options and performance stock is dependent on the achievement of predetermined performance criteria;
2. The following ratio is used to balance the various elements of the remuneration: 100-75-25-55 for the CEO, where base salary is 100; the maximum performance bonus is 75; performance stock options are 25 and performance stock is 55; for the other members of the Board of Management this ratio is 100-60-25-55. The maximum payout for performance stock options is 50 percent and the maximum payout for performance stock is 96.25 percent for all members of the Board of Management
3. Base salary, short-term and long-term incentives are measured against the 50th percentile or market median of the appropriate Top Executive reference Market; and
4. Members of the Board of Management are offered a pension plan based on a defined contribution. The total defined contribution is a percentage of the pensionable salary and is dependent on the participant's age. The total contribution percentage lies between 6 percent and 24 percent, of which the participant pays 30 percent, while ASML pays the remaining 70 percent.

The remuneration of the members of the Board of Management is described in Note 30 to the Statutory Financial Statements 2008. The remuneration of the Board of Management in the year 2008 was in accordance with the 2008 Remuneration Policy. The entire remuneration report of the Supervisory Board concerning the remuneration policy of the Company in 2008 and the 2008 revised Remuneration Policy are published on the Company's website.

The Remuneration Committee will consider further alignment of the Board of Management Remuneration Policy with the Netherlands Corporate Governance Code as amended in 2008. This amended code is effective for annual periods beginning January 1, 2009. The Remuneration Committee will come up with a proposal for amendment of the remuneration policy at the AGM of 2010, if necessary.

Indemnification

The 2004 AGM has, as part of the amendment of the Company's Articles of Association, agreed to indemnify the members of the Board of Management against any claim arising in connection with their position as member of the Board of Management, provided that such claim is not attributable to willful misconduct or intentional recklessness of such Board of Management member. The Supervisory Board has further implemented the indemnification of the Board of Management members by means of separate indemnification agreements.

Gratitude to ASML employees

We acknowledge the professional contributions made by those associated with the Company throughout 2008, and in particular, we express our appreciation and gratitude to the personal dedication and commitment of all ASML employees during the current challenging times. We would especially like to thank those people whose contracts were terminated in 2008 due to the impact of the severe economic down turn on ASML. We appreciate their shown commitment and passion. These employees have been an integral part of ASML's success achieved so far.

Information on Supervisory Board members

Presented below is the personal data of all Supervisory Board members that is required to be disclosed in this report in order to comply with the Code.

OB Bilous

gender	male
age	70
profession	former General Manager and VP Worldwide Manufacturing of IBM's Microelectronics Division
principal position	Chairman of the Board of Directors of Sematech
nationality	US
other relevant positions	Board member Nantero, Inc.
first appointed	2005
current term until	2009

H.C.J. van den Burg

gender	female
age	56
profession	member of the European Parliament
principal position	member of the European Parliament
nationality	Dutch
other relevant positions	member of the Supervisory Board of APG Groep N.V.
first appointed	2005
current term until	2009

J.A. Dekker

gender	male
age	69
profession	former CEO of TNO
principal position	President of the Royal Institute of Engineers (KIVI NIRIA)
nationality	Dutch
other relevant positions	member of the Supervisory Boards of Koninklijke BAM Group N.V. and Syntens
first appointed	1997
current term until	2009

F.W. Fröhlich

gender	male
age	66
profession	former Deputy Chairman and CFO of Akzo Nobel N.V.
principal position	Chairman of the Supervisory Board of Randstad Holding N.V. and Chairman of the Supervisory Board of Draka Holding N.V.
nationality	German
other relevant positions	Chairman of the Supervisory Board of Altana AG, member of the Supervisory Boards of Allianz Nederland N.V. and Rexel SA.
first appointed	2004
current term until	2012

A.P.M. van der Poel

gender	male
age	60
profession	former member of the Board of Management of Royal Philips Electronics
principal position	member of the Board of Directors of Gemalto Holding N.V.
nationality	Dutch
other relevant positions	member of the Supervisory Boards of PSV N.V. and DHV Holding B.V.
first appointed	2004
current term until	2012

W.T. Siegle

gender	male
age	69
profession	Former Senior Vice President and Chief Scientist of AMD, Inc.
principal position	member of the Advisory Board of Acorn Technologies, Inc.
nationality	US
other relevant positions	n.a.
first appointed	2007
current term until	2011

J.W.B. Westerburgen

gender	male
age	66
profession	former Company Secretary and Head of Tax of Unilever N.V. and Plc.
principal position	retired
nationality	Dutch
other relevant positions	member of the Supervisory Board of Unibail Rodamco S.A. and Vice-Chairman of the Board of the Association Aegon
first appointed	2002
current term until	2009
Company Secretary	Mr. R.F. Roelofs
Appointed	2002
Deputy Company Secretary	Ms. G.C.M. Keizer
Appointed	2002

The Supervisory Board,
Veldhoven, February 17, 2009

Corporate Governance

I. General

ASML Holding N.V. ("ASML" or the "Company") was established in 1994 as a private limited liability company. ASML is the parent company of ASML Netherlands B.V., which was established in 1984, as well as of other, mainly foreign, subsidiaries. ASML is a public limited liability company, with registered seat in Veldhoven, the Netherlands and is governed by Netherlands law. ASML's shares have been listed on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam") and on the NASDAQ Stock Market LLC ("NASDAQ") since 1995.

ASML continuously monitors and assesses applicable Netherlands, U.S., and other relevant corporate governance codes, rules, and regulations. ASML is subject to the Netherlands Corporate Governance Code (the "Code"), as ASML is registered in the Netherlands and is listed on Euronext Amsterdam. On December 10, 2008 the Netherlands Corporate Governance Code Monitoring Committee presented an amended Code to the special interest groups that have requested the changes and to the Ministers of Finance, Justice and Economic Affairs. Since the amended Code will come into force with effect from the financial year starting on January 1, 2009, this Corporate Governance Chapter is still based on the initial Code which came into force with effect from the financial year starting on 1 January 2004. Because ASML is also listed on NASDAQ, it is required to comply with the U.S. Sarbanes-Oxley Act of 2002, as well as NASDAQ listing rules, and the rules and regulations promulgated by the U.S. Securities and Exchange Commission ("SEC").

In the past years, ASML has strengthened the accountability of its Board of Management and Supervisory Board, has increased shareholders rights and powers in accordance with relevant regulations, and has increased its focus on communication with shareholders and shareholders' participation at general meetings of shareholders.

ASML's Supervisory Board and Board of Management, who are responsible for ASML's corporate governance structure, will continue their efforts to ensure that ASML's practices and procedures comply with both U.S. and Netherlands corporate governance requirements. In this report, ASML addresses its corporate governance structure, referring to the principles and best practices set forth in the Code. ASML's Supervisory Board and Board of Management are of the opinion that ASML complies with the vast majority of the recommendations in the Code. In those cases where ASML cannot or chooses not to comply with the Code, an explanation is provided.

In case of material changes in the corporate governance structure of ASML and/or in its compliance with the Code, ASML shall put these on the agenda of its Annual General Meeting of Shareholders ("AGM") for discussion.

II. Board of Management

Role and Procedure

ASML's Board of Management consists of at least two members and is responsible for managing ASML, under the chairmanship of its President and Chief Executive Officer ("CEO"). The current Board of Management comprises three members. The fourth member of the Board of Management will be appointed by the Supervisory Board subject to notification to the AGM to be held on March 26, 2009.

Although the various management tasks are divided among the members of the Board of Management, the Board of Management remains collectively responsible for the management of ASML, the deployment of its strategy and policies, and the achievement of its objectives and results.

In fulfilling its management tasks and responsibilities, the Board of Management is guided by the interests of ASML and the business connected with it, as well as by the interests of ASML's stakeholders. The Board of Management is accountable to the Supervisory Board and the General Meeting of Shareholders for the performance of its management tasks.

Because ASML has a two-tier board structure, the Supervisory Board supervises the Board of Management in the execution of its tasks and responsibilities. The Board of Management provides the Supervisory Board with all information, in writing or otherwise, necessary for the Supervisory Board to fulfill its duties. Besides the information provided in the regular meetings, the Board of Management keeps the Supervisory Board informed on a frequent basis with respect to developments relating to ASML's business, financials, operations, and industry developments.

Important decisions of the Board of Management require the approval of the Supervisory Board, including decisions concerning:
- the operational and financial objectives of ASML;
- the strategy designed to achieve the objectives; and
- the parameters to be applied in relation to the strategy to achieve the objectives.

The main elements of the operational and financial objectives of ASML, the strategy to achieve the objectives, and the parameters to be applied are included in the Report of the Board of Management. In the "risk factors" section of the 2008 Statutory Annual Report, ASML describes the sensitivity of its results to both external as well as internal factors and variables.

The Rules of Procedure for the Board of Management contain the general responsibilities for the full Board of Management and for its individual members, as well as the logistics surrounding the meetings. The Rules of Procedure are posted on the Corporate Governance page of ASML's website.

Appointment, Other Functions

Members of the Board of Management are appointed by the Supervisory Board upon recommendation by ASML's Selection and Nomination Committee and after notification to the General Meeting of Shareholders. Members of the Board of Management appointed after the 2004 amendment of the Articles of Association, are appointed for a period of four years. Their appointment terms as Board of Management member can be extended for consecutive four-year terms, as the Supervisory Board decided to do in the case of Mr. Meurice in 2008. Messrs. P. Wennink and M. van den Brink were appointed for an indefinite period of time as they were appointed before 2004. Their existing employment contracts, including all rights and obligations under these contracts, will be honored.

The Supervisory Board may suspend and dismiss members of the Board of Management, but only after consulting the General Meeting of Shareholders.

Board of Management members may only accept a Supervisory Board membership of another listed company after having obtained prior approval from the Supervisory Board. Currently, no Board of Management member has more than two Supervisory Board memberships in other listed companies. No current member of the Board of Management is chairman of a supervisory board of a listed company. Members of the Board of Management are required to notify the Supervisory Board of other important functions either held or to be held by them.

Internal Risk Management and Control Systems, External Factors

The Board of Management is responsible for ensuring that ASML complies with applicable legislation and regulations. It is also responsible for the financing of ASML and for managing the risks, both internal and external, related to its business activities.

The establishment of ASML's internal risk management and control system is based on the identification of external and internal risk factors that could influence the operational and financial objectives of ASML and contains a system of monitoring, reporting, and operational reviews.

To help identifying risks, ASML uses a formal risk management approach, consisting of a set of risks definitions (Risk Universe) which are discussed amongst ASML senior management during an annually recurring risk workshop. Based on this risk assessment, actions are initiated to further enhance ASML's risk mitigation.

ASML publishes two annual reports in respect of the financial year 2008 ("2008 Annual Reports"): a Statutory Annual Report in accordance with the Netherlands legal requirements and International Financial Reporting Standards ("IFRS") as adopted by the European Union and an Annual Report on Form 20-F in accordance with U.S. securities laws, based on U.S. GAAP. Both 2008 Annual Reports include risk factors that are specific to the semiconductor industry, ASML and its shares. In addition, in its Annual 2008 Reports, ASML provides sensitivity analyses by providing:
- a narrative explanation of its financial statements;
- the context within which financial information should be analyzed; and
- information about the quality, and potential variability, of ASML's earnings and cash flow. In its "In Control Statement", as included in the Statutory Annual Report 2008, the Board of Management addresses ASML's internal risk management and control systems.

Annually, pursuant to the Sarbanes-Oxley Act, ASML's management conducts an evaluation, under the supervision and with the participation of ASML's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of ASML's internal control over financial reporting based upon the framework in "Internal Control — Integrated Framework". Based on that evaluation, management has concluded that ASML's internal control over financial reporting was effective as of December 31, 2008, providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the United States of America Generally Accepted Accounting Principles.

With respect to the process of drafting annual reports, ASML has extensive guidelines for the lay-out and the content of its reports. These guidelines are primarily based on applicable laws. For the Statutory Annual Report, ASML follows the requirements of Netherlands law and regulations, including preparation of the consolidated financial statements in accordance with IFRS. For the Annual Report on Form 20-F, ASML applies the requirements of the U.S. Securities and Exchange Act of 1934, and prepares the financial statements included therein in accordance with U.S. GAAP. With respect to the preparation process of these and the other financial reports, ASML applies internal procedures to safeguard completeness and correctness of such information as part of its disclosure controls and procedures.

ASML's Disclosure Committee, consisting of various members of senior management, from different functional areas within ASML, reports to and assists ASML's CEO and CFO in the maintenance, review and evaluation of disclosure controls and procedures. The Disclosure Committee's main responsibility is to ensure compliance with applicable disclosure requirements arising under United States and Netherlands law and applicable stock exchange rules. The Chairman of the Disclosure Committee reports to the Audit Committee and the CEO and CFO on the Disclosure Committee meetings.

ASML's Internal Control Committee, comprising among others three members of the Disclosure Committee, advises ASML's CEO and CFO about their assessment of ASML's disclosure controls and procedures and internal control over financial reporting. The Chairman of the Internal Control Committee reports to the Audit Committee on progress of the assessments.

Code of Conduct
Part of ASML's risk management and control system is ASML's Code of Ethical Business Conduct (the "Code of Conduct"). The Code of Conduct contains rules and guidelines on integrity subjects and issues.

ASML has established a Complaints Procedure, which provides rules and procedures with respect to the reporting by employees, anonymously if desired, of alleged violations of the Code of Conduct. ASML has three Complaints Committees: in Europe, the U.S., and Asia, to whom ASML employees may submit such reports. The Complaints Procedure provides that alleged violations of the Code of Conduct by Board of Management members can be reported to the Chairman of the Supervisory Board. ASML also has a Corporate Complaints Committee, which deals with appeals resulting from the cases handled by the local Complaints Committees, as well as cases that cannot be handled locally because of the possible impact for the whole Company.

With respect to alleged irregularities of a financial nature, ASML has established a Whistleblower's Procedure. This procedure contains rules for the reporting of alleged irregularities of a financial nature to ASML's Director Internal Audit and/or to the Chairman of the Supervisory Board, depending on the issue. Reporting can be done by both ASML employees as well as third parties; the Whistleblower's Procedure also permits anonymous reporting by employees.

In addition to the Whistleblower's Procedure ASML introduced a corporate Anti Fraud Policy, which facilitates the development of controls which will aid in prevention, deterrence and detection of fraud against ASML.

The Code of Conduct, including complaints received based on the Complaints Procedure, the Anti Fraud policy and the Whistleblower's Procedure, if any, are regularly discussed in the Audit Committee.

The Code of Conduct, Complaints Procedure, Whistleblower's Procedure and the Anti-Fraud Policy are posted on ASML's Corporate Governance website.

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

Remuneration of the Board of Management

Amount and Composition
The 2004 AGM adopted the Remuneration Policy 2004, which was amended, and adopted, in 2006 to reflect further developments and insights. Beginning 2008, the Supervisory Board of ASML concluded that a gap existed between current Total Direct Compensation to 2007 Market Median levels and the anticipated 2008 levels. Therefore, the Supervisory Board, through its Remuneration Committee, revised the 2006 Remuneration Policy by adjusting the ratio of short term variable and long-term performance stock as percentage of base salary slightly upwards, thereby keeping Base Salary around Median level, rather than adjusting the Total Direct Compensation to almost 3rd quartile market level, with a corresponding increase of all related variable elements. The 2008 AGM held on April 3, 2008, adopted the 2008 Remuneration Policy.

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board based on the recommendation of the Remuneration Committee of the Supervisory Board. In proposing to the Supervisory Board the remuneration elements and levels applicable to the members of the Board of Management, the Remuneration Committee considers, among other factors:

- the 2008 Remuneration Policy, enabling ASML to reward overachievement in the share based incentives of the Board of Management.
- The actual compensation and benefits levels, benchmarked against relevant peer group companies, used to adjust ASML's actual figures to meet the chosen market positioning;

The 2008 Remuneration Policy was drafted in accordance with the Code and is designed to permit ASML to continue to attract, reward, and retain qualified and seasoned industry professionals in an international labor market. The remuneration structure promotes the interest of ASML in the medium and long-term, does not encourage Board of Management members to act in their own interests, and does not reward failing Board of Management members upon termination of their employment. The potential severance payment for Board of Management members who are appointed after adoption of the 2004 Remuneration Policy, is a maximum of one year gross base salary, unless considered unreasonable in view of the circumstances and subject to mandatory Netherlands employment law, to the extent applicable.

The total remuneration under the 2008 Remuneration Policy includes base salary, a short-term performance cash bonus and performance stock options, long-term performance stock, and benefits. It aims to balance and align remuneration with the short-term execution and long-term elements of the managerial tasks of the Board of Management. The variable part of remuneration is designed to strengthen the commitment of the members of the Board of Management to ASML as well as to its objectives. It is linked to previously determined, measurable targets, designed to achieve ASML's objectives.

Under the 2008 Remuneration Policy, members of the Board of Management are eligible to a cash performance bonus with a maximum of 75 (CEO) or 60 (other members) percent of their base salary. The annual bonus payout is dependent on pre-determined short-term performance criteria, which are drivers of Return on Average Invested Capital ("ROAIC") long-term performance. ROAIC is determined by dividing the average operating income 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. The bonus pay-outs are pro-rated on a linear basis to the level of achievement of targets. The performance criteria are based on the achievement of five measurable results. The weighting of each of these criteria is in principle equal. Furthermore the cash performance bonus is based upon agreed qualitative targets. The target setting and measuring period is semi-annual and the pay-out is annual. The short-term performance criteria, which are drivers of ROAIC long-term performance, are in principle:

- Market Share;
- Gross Margin;
- Operating Income;
- Working Capital;
- Technical Achievement Target.

Besides the quantitative performance criteria as mentioned above, the Supervisory Board has also set some qualitative targets based on agreed key objectives.

The cash bonus is accrued during the performance period.

The granting of performance stock options depends on the achievement after one year of the predetermined level of ROAIC. The options ultimately granted cannot be exercised in the first three years after the date of the initial conditional grant. The exercise price is the official price of the underlying stock on the day of publication of the annual results in the year to which the performance stock option plan relates. The performance stock option plans were approved by the 2006 AGM, for the financial year 2006 and subsequent years.

It is not the intention to modify the exercise price, nor the other conditions of the granted options during the term of the options, except if prompted by structural changes relating to the shares or to ASML in accordance with established market practice, such as (i) resulting from an issuance of shares with a pre-emption right for the holders of the shares outstanding at that time, (ii) a stock dividend, or (iii) a capitalization of reserves. In these circumstances, approval of the Supervisory Board is required.

Performance stock is awarded, without financial consideration, after fulfillment of predetermined performance targets over a three-year period. Once the stock is granted, it must be retained for at least two years after the date of grant or until the time of termination of employment, if this period is shorter. As the date of grant lies three years after the original date of target setting, and the members of the Board of Management have to retain the stock for at least two subsequent years, the total period before one obtains full rights to the stock will be five years. The Remuneration Committee believes that the total resulting period is in compliance with the Code. The 2008 AGM approved the performance stock plans for the Board of Management for 2008 and subsequent years.

Under the 2008 Remuneration Policy, members of the Board of Management are eligible for a maximum conditional performance stock option grant, under the conditions set forth in the aforementioned policy, with a value equal to 50 percent of their base salary. The value of the “on target” number of performance stock options granted equals 25 percent of their base salary. The maximum number of performance stock options for achieving the 2008 targets in relation to this amount was determined on the day of publication of the 2007 annual results (January 16, 2008), whereas the actual number of performance stock options awarded for achieving the 2008 targets will be determined on the day of publication of the 2008 annual results (January 15, 2009).

Furthermore, members of the Board of Management are eligible for a maximum conditional performance stock award, under the conditions set forth in the 2008 Remuneration Policy, with a value equal to 96.25 percent of their base salary. The value of the “on target” number of performance stock granted equals 55 percent of their base salary. Performance stock will be awarded annually under the condition of fulfillment of a predetermined performance target, which is measured over three calendar years. The performance measure for obtaining performance stock will be ASML’s relative ROAIC position compared to its peer group at the end of the three years. The peer group which is used for the measurement of ROAIC consists of KLA-Tencor, Varian Semiconductor, Applied Materials, Novellus, Cymer, Lam Research, MKS Instruments, Advanced Energy, Asyst and ASMI.

The number of performance stock will be awarded relative to the targeted ROAIC position and the ultimately achieved ROAIC position at the end of the three-year performance period. The maximum number of shares of performance stock for 2008 in relation to this amount was determined on the day of publication of the 2007 annual results (on January 16, 2008). The value of the performance stock is determined by using the objective binomial Cox Ross Rubinstein valuation method in line with U.S. GAAP guidelines and a performance discount of 30 percent in line with market practice. The value is calculated at the beginning of the performance period, on the day of publication of ASML’s annual results in the year in which the targets are set, using the market value of the underlying stock during the three preceding years.

The value of the 2008 performance stock on the basis of the Cox Ross Rubinstein method equals EUR 12.41 per share. The ultimately awarded number of shares of performance stock for 2008 will be determined in the 2011 financial year conditional upon achievement of performance targets relating to ROAIC over this three-year period.

With respect to trading in ASML securities, ASML employees, ASML Board of Management members and ASML Supervisory Board members, are bound by ASML’s Insider Trading Rules, which are published on the Company’s website. The ASML Insider Trading Rules stipulate, among other items, that members of the Board of Management may not trade during the two months preceding the publication of the annual results, and during the three weeks before publication of quarterly results. In addition, employees of ASML, including the members of the Board of Management, may not perform transactions in ASML securities during the open periods when they have inside information. The Insider Trading Rules, and the Rules of Procedure for the Board of Management, also contain provisions related to ownership of and transactions in securities of other companies, as well as reporting requirements for members of the Board of Management of changes in ownership of securities issued by other Netherlands listed companies. Such changes should be reported to ASML’s Central Officer on a quarterly basis. The regulations are drafted observing best practice provision II.2.6. of the Code. This requirement is not applicable for members of the Board of Management who have an agreement with an independent third party for the management of their securities.

No members of the Board of Management currently have ASML stock or stock options other than as part of their remuneration.

ASML has not granted any personal loans, guarantees, or the like to members of the Board of Management. However, stock option plans that were issued before 2001 were constructed with a virtual financing arrangement whereby ASML loaned the tax value of the options granted to employees and members of the Board of Management (being Messrs. M. van den Brink and P. Wennink) subject to the Netherlands tax-regime. The 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 Articles of Association provide for the indemnification of the members of the Board of Management against financial losses that are a direct result of their tasks as members of the Board of Management, provided that such claim is not attributable to willful misconduct or intentional recklessness of such member of the Board of Management. The Supervisory Board has further implemented the indemnification of the Board of Management members by means of separate indemnification agreements.

For more details about the Board of Management’s remuneration, its composition, and other relevant elements, reference is made to the 2008 Remuneration Policy and the Remuneration Report for the 2008 financial year (both published on ASML’s website), the Report of the Supervisory Board and other parts of ASML’s 2008 Annual Reports.

Determination and Disclosure of Remuneration

As previously stated, the 2008 AGM adopted ASML's 2008 Remuneration Policy. The Report of the Supervisory Board as included in ASML's 2008 Statutory Annual Report contains the main items of the Remuneration Report of the Supervisory Board concerning the application of the 2008 Remuneration Policy. The Remuneration Report contains the elements recommended by the Code.

Best practice provisions II.2.10 e) and g) of the Code, recommend to provide a description of the performance criteria and also a summary of the methods to determine the achievement of the performance criteria. ASML provides the quantitative performance criteria as well as a summary of the methods to determine the achievement of the performance criteria, but cannot give the exact target data, as this concerns highly competitive information, such as market share and gross margin. The Supervisory Board therefore feels that in light of its competitive sensitivity, it is justified not to publish more details of the targeted or actual quantitative performance levels used in the target setting under the Board of Management's Remuneration Policy. Full disclosure is not in the interest of ASML, and therefore also not in the interest of shareholders. It is the Supervisory Board's responsibility to set the actual targets for the variable part of the remuneration of the Board of Management taking into account the principle of reasonableness. The AGM endorsed this position in its meeting on March 23, 2006. The external auditor shall perform agreed upon procedures on the targets achieved, to provide additional assurance whether the performance targets set have been achieved.

The remuneration for the individual Board of Management members of ASML is determined by the Supervisory Board, upon a proposal from the Remuneration Committee, with reference to the 2008 Remuneration Policy. The 2008 Remuneration Policy is posted on ASML's Corporate Governance website and contains the quantitative performance criteria for the Board of Management. The level and structure of the remuneration of each of the members of the Board of Management is described in ASML's 2008 Annual Reports.

Conflicts of Interest

Conflict of interest procedures are incorporated in the Board of Management's Rules of Procedure and address the principle and the best practice provisions of the Code with respect to conflicts of interest. During the year 2008, no transactions occurred that could have given the appearance of conflicts of interest or that effectively involved conflicts of interest. In addition, during 2008 no transactions of material significance were entered into between ASML and a shareholder holding 10 percent or more shares in ASML's capital. Besides potential transactions that could cause conflict of interest situations, the Board of Management, together with the Chairman of the Supervisory Board, also carefully considers potential conflict of interest situations in view of other positions / functions of Board of Management members.

III. Supervisory Board

Role and Procedure

As mentioned before, ASML's Supervisory Board supervises the policies of the Board of Management and the general course of affairs of ASML and its subsidiaries. ASML's Supervisory Board also supports the Board of Management with its advice. The Supervisory Board is a separate and independent body from the Board of Management and from the Company. Under Netherlands law, Supervisory Board members cannot be members of the Board of Management and cannot be officers or employees of ASML.

In fulfilling its role and responsibilities, the Supervisory Board takes into consideration the interests of ASML and its subsidiaries, as well as the relevant interests of ASML's stakeholders. The Supervisory Board supervises and advises the Board of Management in performing its tasks, with a particular focus on:

- the achievement of ASML's objectives;
- ASML's corporate strategy and the management of risks inherent to ASML's business activities;
- the structure and operation of internal risk management and control systems;
- the financial reporting process; and
- compliance with applicable legislation and regulations.

In 2008, the Supervisory Board and its committees frequently discussed the corporate strategy, the financial and operational business risks, and the internal risk management and control systems. The topics discussed in the committee meetings are summarized in the plenary Supervisory Board meetings to provide each Supervisory Board member with sufficient information to understand ASML's current state of affairs.

In its report, the Supervisory Board describes its activities in the past financial year, as well as the number of meetings, the number of committee meetings, and the items discussed, both in the plenary Supervisory Board meetings, as well as in the committee meetings. Topics dealt with in the various meetings include those required by the provisions of the Code (e.g. strategy, risks, the functioning of the Supervisory Board and its individual members, its composition, profile, the functioning of the Board of Management and its individual members, composition, succession) as well as other relevant topics, such as ASML's financial position and strategy, technology related matters and ASML's investor relations program.

The Rules of Procedure of the Supervisory Board reflect requirements of the Code as well as requirements based on the Sarbanes-Oxley Act, but also corporate governance practices as developed by the Supervisory Board over the past years. Items include responsibilities of the Supervisory Board and its committees, composition of the Supervisory Board and its committees, logistics surrounding the meetings, meeting attendance of Supervisory Board members, rotation schedule for the Supervisory Board members. The Rules of Procedure also address the Supervisory Board's relationship with the various bodies within and stakeholders of ASML.

The Rules of Procedure include the charters for the four committees of the Supervisory Board to which the Supervisory Board has assigned certain tasks: the Audit Committee, the Remuneration Committee, the Selection and Nomination Committee, and the Technology and Strategy Committee. In accordance with Netherlands law, the plenary Supervisory Board remains responsible for the fulfillment of its role and responsibilities even if the Supervisory Board has delegated some of its responsibilities to one or more of its committees. The Rules of Procedure stipulate that the Supervisory Board and its committees may also obtain information from officers and external advisors of ASML, if necessary for the execution of its tasks.

The Rules of Procedure, as well as the charters of the four committees, may be amended from time to time when required by changes in law or regulations, or changed practices. Changes in the Supervisory Board 's Rules of Procedure need to be approved by the full Supervisory Board, changes in the charters of the committees are approved by the committee it concerns. The Audit Committee charter is reviewed annually, to regularly check whether the charter still complies with the applicable rules and regulations, especially those relating to the Sarbanes-Oxley Act.

Independence

The Supervisory Board is of the opinion that its current members are all independent as defined by the Code. Neither the Chairman nor any other member of the Supervisory Board is a former member of ASML's Board of Management, or has another relationship with ASML which can be judged "not independent" for ASML.

Furthermore, the Rules of Procedure of ASML's Supervisory Board include the independence definition prescribed by the Code. However, it could be that in the future, the Supervisory Board may need to deviate from the Code's independence definition when looking for the most suitable candidate for a vacancy. For example in case a candidate would have particular knowledge of / experience in the semiconductor – and related – industries. Such a background is very important to ASML's Supervisory Board to be able to perform its supervising function to the fullest extent. Since this industry has relatively few players, the Supervisory Board may want – or need – to nominate candidates for appointment to the AGM who do not fully comply with the criteria as listed under best practice provision III.2.2.c. of the Code. In those circumstances, ASML and the candidate will ensure that any such business relationship does not compromise the candidate's independence.

Expertise, Composition, Appointment

Following Mr. Deusinger's resignation in June, 2008, the Supervisory Board currently consists of seven members, the minimum being three members. The Supervisory Board determines the number of Supervisory Board members required for the performance of its functions.

The members of ASML's Supervisory Board show diversity with regard to their background, nationalities, age, and expertise. This is in accordance with the profile the Supervisory Board has developed for its composition. The profile aims for an international and adequate composition reflecting the global business activities of ASML, as well as for an adequate level of experience in financial, economic, technological, social, and legal aspects of international business. In case the Supervisory Board wishes to nominate members for reappointment, the Selection and Nomination Committee checks whether the reappointments would fit in the Supervisory Board's profile. The profile is posted on ASML's Corporate Governance website.

Pursuant to the law applicable to large corporations ("structuurregime"), members of the Supervisory Board are appointed by the General Meeting of Shareholders based on nominations proposed by the Supervisory Board. The Supervisory Board informs the AGM and the Works Council about upcoming resignations at the AGM in the year preceding the actual resignation(s). The General Meeting of Shareholders and the Works Council thus have ample opportunity to recommend candidates for the upcoming vacancies. The Supervisory Board may reject the proposed recommendations. Furthermore, the Works Council has an enhanced right to make recommendations for at least one-third of the members of the Supervisory Board. The enhanced recommendation right implies that the Supervisory Board may only reject the Works Council's recommendations for the following reasons: (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 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 of Appeal to declare its objection legitimate. Any decision of the Enterprise Chamber on this matter is non-appealable.

Ms. van den Burg was nominated – and appointed – in 2005 based on the Works Council's enhanced recommendation right. Because of Mr. Deusinger's resignation in June 2008, Ms. van der Meer Mohr is now nominated for appointment in the 2009 AGM, based on the Works Council's enhanced recommendation right.

Nominations by the Supervisory Board may be overruled by a resolution at the General Meeting of Shareholders with an absolute majority of the votes, representing at least one-third of ASML's outstanding share capital. If the votes cast in favor of such a 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 will make a new nomination. If the General Meeting of Shareholders does not appoint the person nominated and does not reject the nomination, the Supervisory Board will appoint the nominated person.

Newly appointed Supervisory Board members follow an introduction program specifically designed for this purpose and containing, among other things, an overview of ASML's history, organization, operations, market, strategy, industry and technology, ASML's financial and legal affairs, and ASML's human resources organization. Separately, Supervisory Board members also receive a technical tutorial to maintain / increase their knowledge of ASML's ever progressing technology. Furthermore, the Supervisory Board members annually determine their need for further training on any subject.

Supervisory Board members serve for a maximum term of four years from the date of their appointment, or a shorter period as may be set forth in the rotation schedule adopted by the Supervisory Board. They may be reappointed, provided that their entire term of office does not exceed 12 years. The rotation schedule is available on ASML's Corporate Governance website. At the end of 2008, the Supervisory Board decided to amend its current rotation schedule in such a manner that some members' terms were shortened to avoid that in 2013, five members out of the eight members will be up for reappointment.

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 reasons of lack of confidence. In such case, the Enterprise Chamber of the Amsterdam Court of Appeal shall appoint one or more members of the Supervisory Board at the request of the Board of Management.

None of the Supervisory Board members exceeds the maximum number of five memberships of supervisory boards of Netherlands listed companies (with a chairmanship counting double).

Role of the Chairman of the Supervisory Board and the Company Secretary

The Chairman of ASML's Supervisory Board is Mr. Van der Poel, Mr. Dekker is the Vice-Chairman. The role and responsibilities of the Chairman of the Supervisory Board are described in its Rules of Procedure and follow the provisions related to this subject as described in the Code. The Chairman determines the agenda of the Supervisory Board meetings. The Chairman acts as the main contact between the Supervisory Board and the Board of Management and ensures orderly and efficient proceedings at the General Meeting of Shareholders. The Chairman will also ensure that:

- the members of the Supervisory Board follow an introduction and training program for Supervisory Board members;
- the members of the Supervisory Board receive all information necessary for the proper performance of their duties on a timely basis;
- there is sufficient time for consultation and decision making by the Supervisory Board;
- the committees function properly;
- the performance of the Board of Management members and the Supervisory Board members is assessed at least once a year; and
- the Supervisory Board has proper contact with the Board of Management and the Works Council.

The Supervisory Board is assisted in the performance of its duties by the Company Secretary. The Company Secretary ensures that the correct procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations and the obligations under ASML's Articles of Association. The Company Secretary also ensures that the corporate governance requirements related to the Supervisory Board are met. The Company Secretary assists the Chairman of the Supervisory Board in the organization of the affairs of the Supervisory Board and its committees (information, agenda, evaluation, introduction program, etc.). The Company Secretary is appointed by and may also be dismissed by the Board of Management after prior approval from the Supervisory Board. In addition, a deputy company secretary was appointed to assist the Company Secretary.

Composition and Role of the four Committees of the Supervisory Board

Although the Supervisory Board retains ultimate responsibility, the Supervisory Board has delegated certain of its tasks to the following four committees: the Audit Committee, the Remuneration Committee, the Selection and Nomination Committee, and the

Technology and Strategy Committee. Their roles and functions are described in separate chapters in the Supervisory Board's Rules of Procedure. The Report of the Supervisory Board describes the composition of the committees, the number of meetings, and items discussed in those meetings.

The chairmen of the committees report verbally, and when deemed necessary in writing, the issues and items discussed in each meeting to the plenary Supervisory Board. In addition, the minutes of the committee meetings are available for all Supervisory Board members, thus ensuring that the full Supervisory Board is aware of all issues and subjects that were discussed in the committee meetings in order to be able to make the appropriate decisions when and where necessary.

In general, each committee performs an annual self-evaluation to assess the functioning of the committee and its individual members.

Audit Committee

The Audit Committee meets at least four times per year and always before the publication of the quarterly and annual financial results. In 2008, the Audit Committee met four times and held five conference calls to discuss, among other topics, the quarterly results and the press releases. Throughout the year, the Audit Committee focused on ASML's financial position and financing strategy, also in view of the current global financial market crisis and economic downturn. Furthermore, frequent topics were ASML's internal controls and risk management systems, the testing of internal controls over financial reporting in light of Section 404 of the Sarbanes-Oxley Act, and the supervision of the enforcement of the relevant legislation and regulations. For more details about the internal risk management and control systems, reference is also made to the relevant paragraphs and chapters in the Annual Reports 2008.

ASML provides the Audit Committee with all relevant information to be able to supervise adequately and efficiently the preparation and disclosure of financial information by ASML. This includes, among other things, information on the application of accounting standards in the Netherlands, IFRS, the choice of accounting policies and the work of internal and external auditors. Annually, the Audit Committee discusses and reviews ASML's tax planning policy, the investor relations activities and strategy, fraud policy, and the information and communication technology policy.

The Audit Committee, on behalf of the Supervisory Board, reviews and approves the fees of the external auditor. It is agreed that the Audit Committee will be the first contact for the external auditor if the external auditor discovers irregularities in the content of the financial reports. The external auditor provides the Audit Committee regularly with an update on the actual costs, for both audit services and non-audit services, and the Audit Committee thereby monitors the independence of the external auditor. The external auditor only provides the audit and non-audit services in accordance with ASML's pre-approval policy, as approved by the Audit Committee. As a general rule, the external auditor is present at meetings of the Audit Committee. In general, after each Audit Committee meeting, the Audit Committee (without management present) meets with the external auditor to discuss the relationship between the Audit Committee and the external auditor, the relationship between Board of Management and the external auditor, and any other issues deemed necessary to be discussed.

The Audit Committee generally invites ASML's CEO, CFO, and Corporate Controller to its meetings. The Internal Auditor also attends these meetings, depending on the agenda items. From time to time, other ASML employees may be invited to Audit Committee meetings to address subjects that are of importance to the Audit Committee.

Mr. Fröhlich, Chairman of the Audit Committee, is the Supervisory Board's financial expert, especially taking into consideration his extensive financial background and experience, especially as former CFO of Akzo Nobel N.V.

Remuneration Committee

In general, the Remuneration Committee prepares and the Supervisory Board establishes ASML's Remuneration Policy for members of the Board of Management, and oversees the development and implementation of the Remuneration Policy. The Remuneration Policy is revised on a regular (in general every two years) basis to keep up with market developments. 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 recommends to the Supervisory Board appropriate compensation levels for the Board of Management based on this evaluation.

In 2008, the Remuneration Committee met four times to discuss, besides the regular topics such as the targets and remuneration package for the Board of Management, the stock option plans and the Remuneration report, especially the revision of the Remuneration Policy. Independent experts in the field of remuneration for members of Boards of Management in Netherlands listed companies assisted the Remuneration Committee in above activities.

Based on the 2008 Remuneration Policy, the Remuneration Committee proposed new remuneration packages for the individual Board of Management members for the year 2008.

The Remuneration Committee prepared the 2008 Remuneration Report. This report contains a section describing the manner in which the 2008 Remuneration Policy was implemented and executed in 2008.

Mr. Westerburgen, the Chairman of the Remuneration Committee is neither a former member of ASML's Board of Management, nor a member of the board of management of another company. No member of the Remuneration Committee is a current member of the Board of Management of another Netherlands listed company.

Selection and Nomination Committee

The Selection and Nomination Committee meets at least twice a year, and more frequently when deemed necessary. In 2008, the Committee members met three times formally and several additional times on an ad hoc basis. This year, the Committee members met several times to discuss the resignation and succession of Mr. K. Fuchs as member of the Board of Management, as well as Mr. Deusinger's succession as member of the Supervisory Board. In relation to Mr. Deusinger's succession, the Selection and Nomination Committee also met with the Works Council to discuss his successor.

In addition, the Committee also had to find a successor for Mr. Dekker, who, as mentioned before, is legally required to retire per the 2009 AGM scheduled on March 26, 2009, as he will have fulfilled his twelve year tenure by then.

Furthermore, the Selection and Nomination Committee discussed selection criteria and appointment procedures for both Supervisory Board members and Board of Management members and assessed and discussed the size, composition, and current profile of the Supervisory Board. It discussed the functioning of the individual Supervisory Board and Board of Management members, as well as the selection criteria and appointment procedures for senior management.

Related to the composition of the Supervisory Board: besides Mr. Dekker, also Ms. van den Burg, and Messrs. Bilous and Westerburgen will retire by rotation on March 26, 2009 and have made their availability for re-appointment known. The Selection and Nomination Committee has reviewed the profile for each of those positions, and have determined that the nominations of the three members who are available for re-appointment, fit in the applicable profiles.

Technology and Strategy Committee

The Technology and Strategy Committee meets at least twice a year, and more frequently when deemed necessary. In 2008, the Committee met three times. One meeting included a trip to Zeiss, ASML's most important supplier, also to be able to assess Zeiss' technology in view of ASML's technology and product roadmap. The Technology and Strategy Committee provides advice to the Supervisory Board with respect to ASML's technological strategies and ASML's technology and product roadmaps. External experts as well as experts from within ASML may act as advisors to the Technology and Strategy Committee with respect to the subjects to be reviewed and discussed in this Committee. The advisors do not have voting rights. The Technology and Strategy Committee frequently uses the possibility to invite external and/or internal experts to attend Committee meetings.

This practice increases the understanding of ASML technology matters by the full Supervisory Board and enables the Supervisory Board to supervise the strategic choices facing ASML, including the Company's investment in research and development.

The main subjects of the meetings of the Technology and Strategy Committee in 2008 were the Company's technology roadmap, including Extreme Ultra Violet ("EUV") lithography, immersion technology, double patterning, and holistic lithography (for example Brion, metrology). The Committee also reviews the proposed Technology Leadership Index, being one of the targets for the Board of Management, and provides the Remuneration Committee with its advice on this topic.

Conflicts of Interest

Conflict of interest procedures are incorporated in the Supervisory Board's Rules of Procedure and address the principle and the best practice provisions of the Code with respect to conflicts of interest to the fullest extent. During the financial year 2008, no transactions occurred that could have given the appearance of conflicts of interest or that effectively involved conflicts of interest. Besides potential transactions that could cause conflict of interest situations, the Supervisory Board also carefully considers potential conflict of interest situations in view of other positions / functions of Supervisory Board members.

Remuneration of the Supervisory Board

The General Meeting of Shareholders determines the remuneration of the Supervisory Board members; the remuneration is not dependent on the results of the Company.

The Supervisory Board members do not receive ASML shares, or rights to acquire ASML shares, as part of its remuneration. In case members acquire or have acquired ASML shares or rights to acquire ASML shares, these must be for the purpose of long-term investment only. No member of ASML's Supervisory Board currently owns ASML shares or rights to acquire ASML shares. In concluding transactions in ASML shares, Supervisory Board members must comply with ASML's Insider Trading Rules. Detailed information on the Supervisory Board's remuneration can be found in the 2008 Annual Reports.

Regulations regarding ownership of and transactions in securities other than those issued by ASML for members of the Supervisory Board are incorporated in the Rules of Procedure of the Supervisory Board. The regulations are drafted observing best practice provision III.7.3. of the Code. The regulations for trading in securities other than ASML securities are posted on ASML's Corporate Governance website as part of the complete Rules of Procedure.

With respect to ASML securities, the ASML Insider Trading Rules stipulate – among other requirements – that members of the Supervisory Board may not trade during the two months preceding the publication of the annual results, and during the three weeks before publication of the quarterly results. In addition, members of the Supervisory Board may not perform transactions in ASML securities during the open periods when they have inside information. This requirement is not applicable for Supervisory Board members who have a management agreement with an independent third party for the management of her or his securities.

ASML has not granted any personal loans, guarantees, or the like to members of the Supervisory Board. ASML's Articles of Association provide for the indemnification of the members of the Supervisory Board against financial losses that are a direct result of their tasks as members of the Supervisory Board, provided that such claim is not attributable to willful misconduct or intentional recklessness of such Supervisory Board member. ASML has further implemented the indemnification of the members of the Supervisory Board by means of separate indemnification agreements.

IV. Shareholders and General Meeting of Shareholders

Powers

A General Meeting of Shareholders is held at least once a year and generally takes place in Veldhoven. In this meeting, at least the following items are discussed and/or approved:

- the written report of the Board of Management containing the course of affairs in ASML and the conduct of the management during the past financial year;
- the adoption of the annual accounts;
- ASML's reserves and dividend policy and justification thereof by the Board of Management;
- the discharge of the members of the Board of Management in respect of their management during the previous financial year;
- the discharge of the members of the Supervisory Board in respect of their supervision during the previous financial year;
- each substantial change in the corporate governance structure of ASML; and
- any other item the Board of Management or the Supervisory Board determine to place on the agenda.

The Board of Management requires the approval of the General Meeting of Shareholders and the Supervisory Board for resolutions regarding a significant change in the identity or character of ASML or its business, including in any event:

- a transfer of the business or virtually all of the business to a third party;
- entry into or termination of long-term cooperation by ASML or a subsidiary with another legal entity or partnership or as a general partner with full liability in a limited or general partnership if such cooperation or the termination thereof is of far-reaching significance for ASML; and
- an acquisition or disposal by ASML or a subsidiary of a participation in the capital of another company, the value of which equals at least one third of the amount of the assets according to the consolidated balance sheet with explanatory notes attached to the Annual Accounts as most recently adopted.

Proposals placed on the agenda by the Supervisory Board, the Board of Management, or shareholders submitted in accordance with the provisions of ASML's Articles of Association are discussed and resolved upon.

A routine agenda item is the limited authorization for the Board of Management to issue (rights to) shares in the outstanding capital, and to exclude pre-emptive shareholders rights for such issuances. This agenda item includes two elements: 1) the authorization to the Board of Management to issue a maximum of 10 percent (rights to) shares of ASML's issued share capital as of the date of authorization; and 2) the authorization to exclude pre-emptive rights in relation to the above share issue, with a maximum of 10 percent of ASML's issued share capital as of the date of authorization.

It is important for ASML to be able to issue (rights to) shares and to exclude the pre-emptive shareholders' rights in situations where it is imperative to be able to act quickly, for example when financial opportunities arise or when stock option plans need to be executed to attract and retain top talent. This authorization has been used in the past especially to optimize the financial position of ASML. Given the dynamics of the global capital markets, such financing transactions generally need to be executed in the shortest window of opportunity. The opportunity to issue shares or rights to shares, such as convertible bonds, would be limited if ASML needed to ask prior approval to issue shares and/ or to exclude the shareholders' pre-emptive rights and may thus hinder the financial flexibility of ASML.

Another standard and recurring agenda item is the authorization to repurchase ASML shares up to a maximum of 10 percent of the issued capital for valuable consideration, valid for a period of 18 months following the approval. A simple majority is required for the authorization and the Board of Management must obtain the approval of the Supervisory Board for the repurchase of ASML shares.

At the 2008 AGM, in line with the 2007 AGM, ASML requested shareholder approval of the proposal to repurchase and cancel three times 10 percent of the then issued share capital. In 2007, the intent of this proposal was to buy and cancel up to a total of approximately 27 percent of the then outstanding shares, in order to return excess cash to the shareholders and to mitigate dilution. However, because of the then applicable Netherlands tax regulations, the execution of share buyback programs when not used to cover for existing employee stock options was not the most efficient method to return cash to shareholders. Therefore, a capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback), was executed in the course of 2007. Notwithstanding the fact that the tax regulations had not changed drastically since the 2007 AGM, the reason that ASML requested approval for the same items in 2008 again, was to have optimal flexibility to be able to return capital to its shareholders if the timing was right. However, because of the deterioration of the macro-economy in 2008, ASML decided to not return capital to its shareholders by means of share buyback programs or other transactions, with exception of the distribution of dividend after the 2008 AGM. Implementation of additional share buyback programs depend on the recovery of the industry and the economy.

The Board of Management or Supervisory Board may convene Extraordinary General Meetings ("EGM's") as often as they deem necessary. Such meetings must be held if one or more shareholders and others entitled to attend the meetings jointly representing at least one-tenth of the issued share capital make a written request to that effect to the Board of Management and the Supervisory Board, specifying in detail the items to be discussed.

Logistics of the General Meeting of Shareholders

To facilitate the attendance of shareholders at ASML's General Meetings of Shareholders, ASML sets a record date. Shareholders registered at such date are entitled to attend the meeting and to exercise other shareholder rights during the meeting, notwithstanding the subsequent sale of their shares after the record date.

Following an amendment of law, effective January 1, 2007, the record date can be set to a maximum of 30 days before the AGM. ASML's goal is to set the record date between 21 and 30 days before the AGM. The custodians in The Netherlands will not apply blocking of the shares registered to attend the AGM, provided that a record date is set.

Convocation of the General Meeting of Shareholders shall take place, in accordance with Netherlands law and ASML's Articles of Association, at least 15 days before the meeting. To provide the shareholders with the opportunity to purchase shares before the record date in order to be able to attend the shareholders meeting, the publication of the convocation will be a few days earlier than the record date. The Board of Management and Supervisory Board shall provide the shareholders with the facts and circumstances relevant to the proposed resolutions, through an explanation to the agenda, as well as through other documents necessary and/or helpful for this purpose. All documents relevant to the General Meeting of Shareholders, including the agenda with explanations, shall be posted on both ASML's Investor Relations and Corporate Governance websites.

Resolutions passed at the General Meeting of Shareholders shall be recorded, if required, by a civil law notary and co-signed by the Chairman of the meeting and will thereafter be made available on ASML's website within two weeks after the AGM.

The draft minutes of the General Meeting of Shareholders are available via ASML's website, and also upon request via mail or e-mail, no later than three months after the meeting. Shareholders are given the opportunity to provide their comments in the subsequent three months, and thereafter the minutes are adopted by the Chairman and the secretary of the meeting. The adopted minutes are also available on ASML's website and, upon request, via regular mail or e-mail.

ASML shareholders may appoint a proxy who can vote on their behalf in the General Meeting of Shareholders. ASML also uses an internet proxy voting system to vote, thus facilitating the shareholder participation without having to attend in person. Shareholders who voted through internet proxy voting are required, however, to appoint a proxy to officially represent them at the General Meeting of Shareholders.

With respect to the depositary receipts for shares: ASML does not cooperate with the issuance of such depositary receipts.

Information to the Shareholders

To ensure fair disclosure, ASML distributes company information that may influence the share price to shareholders and other parties in the financial markets simultaneously and through means that are public to all interested parties. When ASML's annual and quarterly results are published by means of a press release, interested parties, including shareholders, can participate through conference calls, listen to a webcast and view the presentation of the results on ASML's website. The schedule for communicating the annual financial results 2008 was published through a press release and posted on ASML's website. In addition, ASML provides information to its shareholders at ASML's AGM. Also ASML publishes a Sustainability Report every year reporting on Environmental, Health, Social and Safety performance. This report is available at ASML's website.

It is ASML's policy to post the presentations given to analysts and investors at investor conferences throughout the year on its website. Information regarding presentations to investors and analysts and conference calls are announced in advance on ASML's website; reference is made to ASML's financial calendar as published on ASML's Investor Relations website. Meetings and discussions with investors and analysts shall, in principle, not take place shortly before publication of regular financial information. ASML does not assess, comment upon, or correct analysts' reports and valuations in advance, other than to comment on factual errors. ASML does not pay any fees to parties carrying out research for analysts' reports, or for the production or publication of analysts' reports and takes no responsibility for the content of such reports.

At the General Meeting of Shareholders, the Board of Management and the Supervisory Board provide shareholders with all requested information, unless this is contrary to an overriding interest of the Company. If this should be the case, the Board of Management and Supervisory Board will provide their reasons for not providing the requested information.

Furthermore, ASML's Corporate Governance website provides links to websites that contain information about ASML published or filed by ASML in accordance with applicable rules and regulations.

ASML's only anti-takeover device is the Preference Shares Foundation. The mechanisms of this Foundation are described in more detail in the next chapter on Required information Article 10 Takeover Directive and the 2008 Annual Reports.

Relationship with Institutional Investors

ASML finds it important that its institutional investors participate in ASML's General Meetings of Shareholders. To increase the participation rate, several measures have been taken in the past few years, including applying a record date, and providing internet proxy voting. In addition, ASML also actively approaches its institutional investors to discuss their participation at the General Meetings of Shareholders. The participation of shareholders at ASML's AGM and EGM increased drastically in the past years (almost 50 percent, compared to between 10 and 15 percent before). Besides the active approach, an important reason for the increased participation was the abolishment of the share blocking by the custodians in The Netherlands.

For future General Meetings of Shareholders, ASML is further investigating possible measures to encourage investors to participate in its General Meetings of Shareholders.

V. The Audit of Financial Reporting and the Position of the Internal and External Auditor Function

Financial Reporting

ASML has comprehensive internal procedures in place for the preparation and publication of Annual Reports, annual accounts, quarterly figures, and all other financial information. These internal procedures are frequently discussed in the Audit Committee and the Supervisory Board. The Disclosure Committee assists the Board of Management in overseeing ASML's disclosure activities and ensures compliance with applicable disclosure requirements arising under U.S. and Netherlands law and regulatory requirements.

The Audit Committee reviews and approves the external auditor's Audit Plan for the audits planned during the financial year. The Audit Plan also includes the external auditor's activities relating to the reporting of financial results other than the annual accounts, and as such the Audit Committee also approves these activities. The external auditor regularly updates the Audit Committee on the progress of the audits and other activities.

Appointment, Role, Assessment of the Functioning of the External Auditor, and the Auditor's Fee

In accordance with Netherlands law, ASML's external auditor is appointed by the General Meeting of Shareholders and is nominated for appointment by the Supervisory Board upon advice from the Audit Committee and the Board of Management. ASML's current external auditor, Deloitte Accountants B.V. ("Deloitte"), was appointed by the General Meeting of Shareholders in 1995 for an indefinite period of time.

In the first quarter of 2008, ASML's Board of Management and Audit Committee conducted a detailed and formal assessment of the quality of the performance of the external auditor over the financial year 2007, the results of which were presented in the AGM held on April 3, 2008. The Audit Committee and Board of Management concluded that they are satisfied with the performance of the external auditor, as well as with the fees charged. In addition, based on pre-approval of non-audit services, it was also concluded that the external auditor acts independently. The proportion non-audit fees (including tax fees and audit-related fees) of the total fees was 25 percent in the financial year 2007.

In the years that no formal evaluation is conducted, the external auditor's performance is continuously assessed by the Board of Management and the Audit Committee in the Audit Committee meetings, as well as in one-on-one sessions with ASML's Board of Management and Audit Committee respectively. So far, the external auditor has functioned to the satisfaction of both the Audit Committee and the Board of Management.

In accordance with the audit partner rotation requirements promulgated by the SEC, Mr. P. van de Goor will retire in 2009 as lead audit partner after a period of five years effective after finalization of the 2008 annual accounts. Mr. Van de Goor will be succeeded by Mr. G. Dekker.

Annually, the Board of Management and the Audit Committee report on the relationship with the external auditor to the Supervisory Board, including the required auditor independence (for example the provision of non-audit services by the external auditor or the desirability of rotating the responsible partner of the external auditor).

The external auditor is present at ASML's AGM to respond to questions, if any, from the shareholders about the auditor's report on the financial statements.

Based on the pre-approval policy, the Audit Committee, on behalf of the Supervisory Board, approves the remuneration of the external auditor as well as the non-audit services to be performed, after consultation with the Board of Management. It has been agreed among the members of the Supervisory Board and the Board of Management that the Audit Committee has the most relevant insight and experience to be able to approve both items, and therefore the Supervisory Board has delegated these responsibilities to the Audit Committee. Non-audit services (including tax fees and audit-related fees) performed by the external auditor comprised 30 percent of the external auditor's services in 2008.

In general, the external auditor attends all meetings of the Audit Committee, unless this is deemed not necessary by the Audit Committee. The findings of the external auditor are discussed at these meetings. The Audit Committee reports on all issues discussed with the external auditor to the Supervisory Board, including the external auditor's report with regard to the audit of the annual accounts as well as the content of the annual accounts. In the audit report, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters requiring communication under the auditing standards generally accepted in the Netherlands and in the United States.

Internal Audit Function

The internal audit function of ASML forms one of the key elements to address the topics of risk management and internal control over financial reporting as required under the Code and the Sarbanes-Oxley Act, respectively. To ensure the independence of this function, the Director Internal Audit reports to the Board of Management and the Audit Committee. The external auditor and the Audit Committee are involved in drawing up the work schedule and audit scope of the internal auditor, and taking into account the findings of the internal auditor.

VI. Required information Article 10 Takeover Directive

General

The EU Takeover Directive requires that listed companies publish additional information providing insight into defensive structures and mechanisms which they apply. The relevant provision has been implemented into Netherlands law by means of a decree of April 5, 2006. Pursuant to this decree, Netherlands companies whose securities have been admitted to trading on a regulated market have to include information in their annual report which could be of importance for persons who are considering taking an interest in the company.

This information comprises amongst other things:
- the capital structure of the company;
- restrictions on the transfer of securities and on voting rights;
- special powers conferred upon the holders of certain shares;
- the rules governing the appointment and dismissal of board members and the amendment of the articles of association;

- the rules on the issuing and the repurchasing of shares by the company; significant agreements to which the company is a party and which contain change of control rights (except where their nature is such that their disclosure would be seriously prejudicial to the company); and
- agreements between the company and its board members or employees providing for a “golden parachute”.

In this section the Board of Management and the Supervisory Board provide for an explanation to the information – if applicable to ASML – as required under the Resolution Article 10 of the Takeover Directive.

Share capital

ASML’s authorized share capital consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued.

The 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 (whether 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 the Annual General Meeting of Shareholders held on April 3, 2008, ASML’s shareholders were asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through October 3, 2009, representing up to a maximum of 5 percent of our issued share capital as of the date of authorization (April 3, 2008), plus an additional 5 percent of our issued share capital as of the date of authorization (April 3, 2008) that may be issued in connection with mergers and acquisitions. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply.

Holders of ASML ordinary shares have a pro rata preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or eliminated. 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 (whether by means of a resolution or by an amendment to the Company’s Articles of Association), the Board of Management has the power, with the approval of the Supervisory Board, to limit or eliminate the preemptive rights of holders of ordinary shares. A designation may be renewed. At the 2008 Annual General Meeting of Shareholders, the shareholders granted this authority through October 3, 2009. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply. In a separate agenda item, the shareholders will be asked to grant authority to the Board of Management to issue shares or options under the employee and Board of Management equity based arrangements. These authorizations will each be granted 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 Annual 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.

ASML is considering to propose in one of the future AGM’s to amend its Articles of Association to reflect the above described change in law.

Cumulative preference shares

In 1998, the Company granted to the 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 the Company 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 the Company has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares.

The objective of the Foundation is to protect the interests of the Company and the enterprises maintained by it. The cumulative preference shares are entitled to dividends on a preferential basis at a percentage based on EURIBOR-percentage for cash loans with a duration of twelve months – weighted by the amount of days for which this percentage counted – during the financial year for which the distribution is made, plus 2 percent.

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 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 would effectively dilute the voting power of the ordinary shares then outstanding by one-half.

If the right mentioned above is exercised and therefore 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 the said 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.

Limitations to transfers of shares in the share capital of ASML

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of ASML, as to the transfer of shares in the share capital of ASML.

Reporting obligations under the Act on the supervision of financial markets

Holders of our shares may be subject to reporting obligations under the Wft.

The disclosure obligations under the Wft 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 (the “EU”). 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 Wft 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 (Autoriteit Financiële Markten, the “AFM”) immediately.

According to AFM’s public registry (www.afm.nl/registers) on December 31, 2008, the following notifications of capital interest above 5 percent have been made pursuant to the Wft:

Capital Research and Management Company	5.2% voting rights, no capital interest
Artisan Investment Corporation	5.1% voting rights, no capital interest
Stichting Preferente Aandelen ASML	100% option rights

Special voting rights on the issued shares

There are no special voting rights on the issued shares in the share capital of ASML.

Limitation voting rights on shares

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of ASML, to hold or vote ordinary shares.

Appointment of Board of Management and Supervisory Board. Amendment of Articles of Association

Board of management

The rules governing the appointment and dismissal of members of the Board of Management are described in section II. above.

Supervisory board

The rules governing the appointment and dismissal of members of the Supervisory Board are described in section III. above.

Amendment of the Articles of Association

The General Meeting can resolve to amend the Articles of Association of the Company. The (proposed) amendment requires the approval of the Supervisory Board.

A resolution to amend the Articles of Association is adopted at a General Meeting at which more than one half of the issued share capital is represented and with at least three-fourths of the votes cast; if the required share capital is not represented at a meeting convened for that purpose, a subsequent meeting shall be convened, to be held within four weeks of the first meeting, at which, irrespective of the share capital represented, the resolution can be adopted with at least three-fourths of the votes cast. If a resolution to amend the Articles of Association is proposed by the Board of Management, the resolution will be adopted with an absolute majority of votes cast irrespective of the represented share capital at the General Meeting.

The complete proposals should be made available for inspection by the shareholders and the others entitled to attend meetings at the office of the Company and at a banking institution designated in the convocation to the general meeting of shareholders, as from the date of said convocation until the close of that meeting. Furthermore, the Company must consult Euronext Amsterdam, before the amendment is proposed to its shareholders.

Severance payments under agreements with members of Board of Management

The employment agreements with Messrs. Wennink and Van den Brink do not contain specific provisions regarding benefits upon termination of those agreements. Potential severance payments will be according to applicable law.

Employment agreements for members of the Board of Management appointed after March 31, 2004 contain specific provisions regarding severance payments. If ASML gives notice of termination of the employment agreement for reasons which are not exclusively or mainly found in acts or omissions of the board member concerned, a severance payment equal to one year base salary will be made available upon the effective date of termination. This severance payment will also be made available in case a board member gives notice of termination of the employment agreement in connection with a substantial difference of opinion between the respective executive and the Supervisory Board regarding her / his employment agreement, her / his function or the Company's strategy.

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.

Board members appointed after March 31, 2004 shall also be entitled to the aforementioned severance payments 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 such board member gives notice of termination 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.

VII. Deviations from the Code

For clarity purposes, ASML lists below its deviations from the Code and reasons for doing so. The deviations follow the order of the recommendations in the Code.

II.2.1/ II.2.2

Members of ASML's Board of Management receive conditional performance stock options, whereby the amount of performance stock options awarded depends on the achievement after one year of the quantitative ROAIC performance criterion (see the paragraph on the remuneration of the Board of Management). The conditionally granted options may not be exercised in the first three years after the date of conditional grant. The exercise price is the official price of the underlying stock on the day of publication of the annual results of the year to which the performance stock option plan relates.

The method as used by ASML is thus a mixture of the best practices II.2.I and II.2.2.: performance options are granted conditionally, subject to achievement of performance criteria and will not be exercised in the first three years after date of conditional grant.

II.2.3

Although ASML does not consider ASML's execution of this best practice a deviation from the Code, it could be interpreted as such.

Performance stock is awarded, for no financial consideration, after fulfillment of predetermined performance targets over a three-year period. Once the stock is released, the stock will be retained for a period of at least two years after the date of release or until at least the time of termination of employment, if this period is shorter. The date of release lies three years after the original date of target setting, and the members of the Board of Management have to retain the stock for at least two subsequent years. Accordingly, the total period before one obtains full rights to the stock will be five years. The Remuneration Committee believes that the total resulting period is in compliance with the Code. The AGM approved the performance stock option and share plans for the Board of Management on March 23, 2006.

II.2.7

The employment contracts of the members of the Board of Management appointed before March 31, 2004, being Messrs. Wennink and Van den Brink, are being honored, including all rights and obligations under these contracts. This implies that the appointment of Messrs. Wennink and Van den Brink as members of the Board of Management will be for an indefinite period of time, and that their potential severance payments will be according to applicable law. Although ASML does not consider this to be contrary to the recommendations in the Code, it may be considered a deviation from the Code.

II.2.8

ASML has not granted any personal loans, guarantees, or the like to members of the Board of Management. However, 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 and members of the Board of Management (being Messrs. Van den Brink and Wennink) subject to the Netherlands tax-regime. The loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option was 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.

II.2.10 e) and g)

ASML does provide the quantitative performance criteria as well as a summary of the methods to determine the achievement of the performance criteria, but cannot give the exact target data, as this concerns highly competitive information, such as market share and gross margin. The Supervisory Board therefore feels that in light of its competitive sensitivity, especially considering the limited amount of competitors in ASML's industry, it is justified not to publish more details of targeted or actual quantitative performance levels used in the target setting under the Board of Management's Remuneration Policy. Full disclosure is not in the interest of ASML, and therefore also not in the interest of the shareholders. It is the Supervisory Board's responsibility to set the actual targets for the variable part of the remuneration of the Board of Management taking into account the principle of reasonableness.

The external auditor shall audit the targets achieved, to provide additional assurance whether the performance targets set have been achieved.

The amended Code (as referred to in paragraph I) will only require a description of the performance criteria on which the performance-related component of the variable remuneration is dependent in so far as disclosure would not be undesirable because the information is competition sensitive.

The Board of Management and the Supervisory Board,
Veldhoven, February 17, 2009

Management Board Report

About ASML

ASML is the world's leading provider of lithography systems for the semiconductor industry, manufacturing complex machines that are critical to the production of integrated circuits ("ICs") or microchips. ASML designs, develops, integrates, markets and services these advanced systems, which continue to help our customers- the chipmakers- reduce the size and increase the functionality of microchips and consumer electronic equipment. As a result, ASML helps to create more powerful electronic systems for consumers and professionals.

ASML's 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.

In 2008, we generated net sales of EUR 2,954 million and operating income of EUR 370 million or 12.5 percent of net sales. Net income in 2008 amounted to EUR 377 million or 12.8 percent of net sales, representing EUR 0.87 per share.

As of December 31, 2008 we employed approximately 6,900 payroll and approximately 1,300 temporary employees (measured in full-time employees "FTEs"). 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.

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.

Summary

Risks Related to the Semiconductor Industry

- The semiconductor industry is highly cyclical and we may be adversely affected by any downturn;
- Our business will suffer if we do not respond rapidly to commercial and technological changes in the semiconductor industry; and
- We face intense competition;

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;
- A high percentage of net sales is derived from a few customers;
- We derive most of our revenues from the sale of a relatively small number of products;
- The pace of introduction of our new products is accelerating and is accompanied by potential design and production delays and by significant costs;
- Failure to adequately protect the intellectual property rights upon which we depend could harm our business;
- Defending against intellectual property claims by others could harm our business;
- We are subject to risks in our international operations;
- We are dependent on the continued operation of a limited number of manufacturing facilities;
- Because of labor laws and practices, any workforce reductions that we may wish to implement in order to reduce costs company-wide may be delayed or suspended;
- Fluctuations in foreign exchange rates could harm our results of operations;
- We may be unable to make desirable acquisitions or to integrate successfully any businesses we acquire; and
- Our business and future success depend on our ability to attract and retain a sufficient number of adequately educated and skilled employees.

Risks Related to Our Ordinary Shares

- The price of our ordinary shares is volatile; and
- Restrictions on shareholder rights may dilute voting power.

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 income statements 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 note 25 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.

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 a clean room facility located in Veldhoven, the Netherlands, and a 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.

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 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.

Financial risk management

ASML 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 potential adverse effects on the Company’s financial performance. See note 4 of the consolidated financial statements for further information.

Semiconductor Equipment Industry

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 (which include research and development costs and additions to other intangible assets regarding development expenditures) in 2008 by 8.9 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 cyclicality 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.

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;
- 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.

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 31 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.

ASML Operations Update

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 shipped / backlog)	**2007**[2,3] EUR		**2008** **EUR**	
Sales				
Market share (based on revenue)[1]	65%		**65%**	
Net sales	3,768		**2,954**	
Increase / (decrease) in net sales	5.2%		**(21.6)%**	
Systems shipped (value)	3,351		**2,517**	
Systems shipped (number)	260		**151**	
Average selling price	12.9		**16.7**	
Systems backlog (value)	1,697		**755**	
Systems backlog (number)	89		**41**	
Average selling price	19.1		**18.4**	
Technical achievement:				
Immersion systems shipped (number)	38		**56**	
Profitability				
Gross profit on sales	1,449	38.5%	**938**	**31.7%**
Operating income[2]	855	22.7%	**370**	**12.5%**
Net income	715	19.0%	**377**	**12.8%**
Liquidity				
Cash and cash equivalents	1,272		**1,109**	
Operating cash flow	845		**442**	

1 According to the latest available data up to and including November 2008 as reported by SEMI, an independent semiconductor industry organization.
2 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.

3 In 2008, subsequent to the filing of the 2007 statutory financial statements, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies'.

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.

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 operating income 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 operating income that are substantially below our minimum target level.

Operating income decreased from EUR 855 million or 22.7 percent of sales in 2007 to 370 million or 12.5 percent of sales in 2008. This EUR 485 million decrease was substantially the result of a decrease in gross profit on sales of EUR 512 million or 35.3 percent which was partially offset by a decrease in operating expenses of EUR 28 million or 4.7 percent.

Gross profit on sales decreased from EUR 1,449 million or 38.5 percent of net sales in 2007 to 938 million or 31.7 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 note 6 to our consolidated financial statements for the impact of the current global financial market crisis and economic downturn.

Operating expenses were EUR 28 million lower in 2008 compared to 2007 due to a decrease of selling, general and administrative costs by 29 million, or 12.0 percent, partly offset by an increase in net research and development costs by EUR 1 million, or 0.4 percent. The selling, general and administrative costs were reduced in anticipation of the lower sales level. We strived to be as efficient as possible in research and development spending. However, this did not have any impact on our spending on any of the strategic programs, in particular immersion, double patterning and EUV, in order to further develop our position as a technology leader.

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 377 million or 12.8 percent of sales, representing EUR 0.87 per share compared with net income of EUR 715 million or 19.0 percent of sales, representing EUR 1.55 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 442 million in 2008, which was offset by a cash outflow of EUR 166 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 439 million cash used in investing activities mainly related to capitalization of development expenditures, the capitalization of production facilities in Veldhoven and Taipei and, to a lesser extent, capitalization of 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. 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.

Results of Operations

Set forth below are our consolidated income statements data for the two years ended December 31, 2008:

Year ended December 31 (in millions)	**2007**[1,2] EUR	**2008** **EUR**
Total net sales	3,768.2	**2,953.7**
Cost of sales	2,318.7	**2,016.1**
Gross profit on sales	1,449.5	**937.6**
Research and development costs	367.6	**369.3**
Research and development credits	(14.6)	**(15.0)**
Selling, general and administrative costs	241.9	**212.9**
Operating income	854.6	**370.4**
Interest income (charges), net	19.4	**18.0**
Income before income taxes	874.0	**388.4**
Provision for income taxes	(158.9)	**(11.5)**
Net income	715.1	**376.9**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies' of the consolidated financial statements.

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.

	2007[1]			2008		
	First half year	Second half year	Full year	**First half year**	**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 (number)	146	114	260	**89**	**62**	**151**
Total new systems recognized (number)	131	104	235	**74**	**41**	**115**
Total used systems recognized (number)	15	10	25	**15**	**21**	**36**
Gross profit on sales (% of sales)	38.6	38.3	38.5	**38.4**	**21.9**	**31.7**
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**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 3 ‘Summary of Significant Accounting Policies’.

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 using the leased training facility in Tempe, United States, incurring costs for onerous contracts 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 income statement 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 income statement:

(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.

Consolidated sales and gross profit

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 on sales decreased from EUR 1,449 million or 38.5 percent of net sales in 2007 to 938 million or 31.7 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.

Research and development

Research and development efforts (which include research and development costs and additions to other intangible assets regarding development expenditures) increased by EUR 45 million or 8.9 percent from EUR 504 million in 2007 (EUR 368 million research and development costs and EUR 136 million addition to other intangible assets regarding development expenditures) to EUR 549 million (EUR 369 million research and development costs and EUR 180 million addition to other intangible assets regarding development expenditures) in 2008. This increase reflects continued investment in technology leadership in 2008 through investments in the development of enhancements of the next generation TWINSCAN systems based on immersion, double patterning and EUV.

Research and development credits are EUR 15 million in 2008 compared to EUR 15 million in 2007.

Selling, general and administrative costs

Selling, general and administrative costs decreased by 12.0 percent from EUR 242 million in 2007 to EUR 213 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 19 million in 2007 to EUR 18 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 2.9 percent of income before taxes in 2008, compared to 18.2 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.

Liquidity

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 20 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 (excluding capitalized development expenditures), a decrease of EUR 122 million compared to 2008. We expect that a significant part of the 2009 expenditures (excluding capitalized development expenditures) will be allocated to the finalization of the construction and upgrades of production facilities in the Netherlands. 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 buyback 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 20 to our consolidated financial statements.

Cash Flows from Operating Activities

We generated cash from operating activities of EUR 845 million and EUR 442 million in 2007 and 2008, respectively. The primary components of cash provided by operating activities in 2008 were net income (EUR 377 million) plus non-cash expenses (EUR 398 million) mainly related to depreciation, impairment charges and inventory obsolescence partially offset by a cash outflow of EUR 142 million due to investments in working capital. The investments in working capital mainly relate to higher accounts payable of EUR 94 million and higher inventories of EUR 98 million, partly offset by lower accounts receivable of EUR 132 million. The higher inventories relate to the increased complexity of our systems resulting in higher costs of components for our systems and higher ASPs.

Cash Flows from Investing Activities

We used EUR 499 million for investing activities in 2007 and EUR 439 million in 2008. The majority of the 2008 expenditures were spent on the capitalization of development expenditures, the finalization of the construction of production facilities in Veldhoven and Taiwan and, to a lesser extent, machinery and equipment and information technology investments. The 2007 expenditures included EUR 188 million for the Brion acquisition.

Cash Flows from Financing Activities

Net cash used by financing activities was EUR 723 million in 2007 compared to EUR 166 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 65 million from the issuance of shares in connection with the exercises of employee stock options. In 2007, cash used in 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.

2009 Perspectives

Operational outlook

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 has been received in February 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.

Financial outlook

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.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board is not dependent on the financial results of the Company. No member of the Supervisory Board personally maintains a business relationship with the Company other than as a member of the Supervisory Board. The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. For more details regarding the remuneration of the Supervisory Board we refer to Note 30 to the Consolidated Financial Statements 2008.

Remuneration of the Board of Management

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board based on the advice of the Remuneration Committee of the Supervisory Board. For more details regarding the remuneration of the Board of Management we refer to the Corporate Governance chapter of the Statutory Annual Report 2008 and Note 30 to the Consolidated Financial Statements 2008.

Sustainability Report 2008

In our fourth sustainability report, we provide information on our progress in Environmental, Health, Safety and Social areas. ASML maintained its ISO 14001 certification in 2008. Furthermore, no serious-injury incidents or violations occurred during 2008. For further information, we refer to the Sustainability Report 2008 that is available on our website. Below is a summary of the main developments in Environmental, Health, Safety and Social areas.

ASML is a moderate corporate consumer of energy. Within the European emission trade legislation, ASML does not exceed threshold values for greenhouse gases such as carbon dioxide and nitrogen oxide and is therefore not obliged to take part in the emission trade system.

ASML's total waste disposal decreased by 13.6 percent in 2008 despite the construction of new production facilities at our headquarters in Veldhoven, the Netherlands and in Linkou, Taiwan. Non-hazardous waste materials decreased again, by 17.3 percent in 2008 compared with 2007. The waste efficiency indicator, as a percentage of net sales, showed a slight increase due to construction activities. Chemicals used by ASML to test its machines are being trapped and recycled, while usage of heavy metals such as lead has been minimized.

Energy use increased in terms of absolute use and the energy efficiency indicator (energy use divided by net sales), decreased as a result of an increased workforce by 5.3 percent and expanded production facilities of approximately 25 percent while sales fell by more than 20 percent as a result of the current global financial market crisis and economic downturn. The new facilities are state of the art in terms of energy conservation. ASML traditionally continues to invest in new technology and production facilities during downturns in order to take maximum benefit from upturns.

Smarter, smaller and more energy efficient chips need to be made with more sophisticated ASML machines. It is inevitable that as the performance of ASML semiconductor lithography systems continues to increase, they need more energy to operate, due to the more advanced lasers and cooling systems required. However, the more advanced technology enables ASML clients to reduce their energy use, thereby increasing overall energy efficiency. For example, technological evolution in the KrF product family has resulted in a 40 percent lower energy use per wafer pass since 2003. It is relevant to emphasize that ASML's activities are restricted to the design, manufacture and support of lithography machines and that this process uses relatively limited amounts of energy, water and chemicals. To put this in perspective, ASML has calculated that the energy used by an ASML machine to produce a microprocessor is less than 0.01 percent of the energy used by that chip over its average five-year lifetime. The lithography steps in the chip manufacturing process make up less than 5 percent of the total energy consumption of a chip fabrication facility.

ASML started a company-wide initiative in 2008 to screen all company processes for potential reductions in their environmental impact. Energy conservation proved possible in the cleanrooms and offices. The measures differ per ASML location around the world, but energy-saving measures include reduction of light in hallways and common areas, switching off lights and shutting down monitors if no persons are present, as well as reducing the speed of exhaust fans by 50 percent at nights and weekends, turning off the coolant system at night and on Sundays and expanding the free cooling exchangers. Energy conservation efforts contributed to an 8 percent reduction of kilowatt hours at some sites.

ASML machines comply with standards set by SEMI, the global industry organization serving the advanced manufacturing supply chain, but potential beyond current industry standards will be investigated in 2009.

BSI Management Systems, an international auditing company, commented that "ASML implemented an effective environmental management system". Every quarter we compile an Environmental Health and Safety (EHS) report in which EHS figures and Key Performance Indicators (KPIs) are monitored. The month after the end of each quarter an ASML EHS meeting is organized, chaired by a member of the Board of Management, in which trends are discussed and actions are initiated.

ASML is successful as a result of its employees' commitment and creativity. ASML supports and encourages continuous learning and development. In 2008 more than 530 non-product-related training programs were attended by 7,000 employees, compared with 500 training programs attended by 6,300 employees in 2007. This number excludes several broadly implemented Computer Based Trainings, where large groups of employees participated in (Anti-Trust: 2,481 participants; Intellectual Property Awareness: 5,100 participants; Code of Conduct: 5,800 participants; in the USA, Sexual Harassment: 1,750 participants). In 2008, ASML spent approximately EUR 5.2 million on training, amounting to approximately EUR 750 per payroll employee. On average, each employee received 32 hours of training. The 2007 spending on training amounted to approximately EUR 4.4 million, almost EUR 700 per payroll employee (20 hours of training).

ASML also recognizes the contribution of its employees with a company-wide profit-sharing plan. Despite ASML's weaker 2008 results as a result of the global financial market crisis and economic downturn, eligible employees were set to receive a profit-sharing bonus of 6 percent of their annual salary, compared with 14 percent in 2007.

U.S. GAAP and Netherlands Statutory Annual Report

General

The Company prepares two sets of financial statements, one based on accounting principles generally accepted in the United States of America ("U.S. GAAP") and one for Netherlands statutory purposes based on Netherlands law and International Financial Reporting Standards ("IFRS"). By means of regulation 1606/2002, the European Commission has stipulated that all listed companies within the European Union member states are required to prepare their consolidated financial statements under IFRS as from January 1, 2005.

The consolidated financial statements included in this statutory annual report are based on IFRS. For internal and external reporting purposes, ASML follows U.S. GAAP. U.S. GAAP is ASML's primary accounting standard for the Company's setting of financial and operational performance targets.

ASML's U.S. GAAP report, based on Form 20-F, may contain additional information next to its Netherlands Statutory Annual Report. A copy of our U.S. GAAP Annual Report, quarterly releases and other information can be obtained at the offices of ASML. Since the second quarter of 2005, ASML also publishes quarterly IFRS financial figures. The U.S. GAAP Annual Report and the U.S. GAAP and IFRS quarterly releases are also available on ASML's website at www.asml.com. For the periods presented in this statutory annual report, the main differences between IFRS and U.S. GAAP for ASML relate to the following:

Year ended December 31 (in thousands)	2007[1,2] EUR	2008 EUR
Net income under U.S. GAAP	671,001	**322,370**
Capitalization of development expenditures	50,089	**80,708**
Impairment of capitalized development expenditures	—	**(18,292)**
Share-based payments	(582)	**(2,528)**
Convertible subordinated notes	(6,661)	**—**
Income taxes	1,204	**(5,360)**
Net income under IFRS	715,051	**376,898**

As of December 31 (in thousands)	2007[1,2] EUR	2008 EUR
Equity under U.S. GAAP	1,891,004	**1,988,769**
Capitalization of development expenditures	138,424	**201,717**
Share-based payments	787	**(6,537)**
Income taxes	8,852	**4,794**
Equity under IFRS	2,039,067	**2,188,743**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies' of the consolidated financial statements.

Capitalization of Development expenditures

Under IFRS, ASML applies IAS 38, "Intangible Assets". In accordance with IAS 38, capitalized development expenditures are amortized over the expected useful life of the related product generally ranging between one and three years. Amortization starts when the developed product is ready for volume production. In 2008, we recognized an impairment charge for an amount of EUR 18.3 million.

Under U.S. GAAP, ASML applies SFAS No. 2, "Accounting for Research and Development Costs". In accordance with SFAS No. 2, ASML charges costs relating to research and development to operating expense as incurred.

Share-Based Payments

Under IFRS, ASML applies IFRS 2, "Share-based Payments" beginning from January 1, 2004. In accordance with IFRS 2, ASML records as an expense the fair value of its share-based payments with respect to stock options and stock granted to its employees after November 7, 2002. Under IFRSs, a deferred tax asset is computed on the basis of the tax deduction for the share-based payments every period under the applicable tax law and is recognized to the extent it is probable that future taxable profit will be available against which these deductible temporary differences will be utilized. Therefore, changes in the Company's share price do affect the deferred tax asset at period-end and result in adjustments to the deferred tax asset.

As of January 1, 2006, ASML applies SFAS No. 123(R) "Share-Based Payment" which is a revision of SFAS No. 123. SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those instruments. FAS 123(R)'s general principle is that a deferred tax asset is established as the Company recognizes compensation costs for commercial purposes for awards that are expected to result in a tax deduction under existing tax law. Under U.S. GAAP, the deferred tax recorded on share-based compensation is computed on the basis of the expense recognized in the financial statements. Therefore, changes in the Company's share price do not affect the deferred tax asset recorded in the Company's financial statements.

Convertible Subordinated Notes

Under IFRS, ASML applies IAS 32, “Financial instruments: Disclosure and presentation” and IAS 39, “Financial instruments: Recognition and measurement” beginning from January 1, 2005. In accordance with IAS 32 and IAS 39, ASML accounts separately for the equity and liability component of its convertible notes (“Bifurcation”). The equity component relates to the grant of a conversion option to shares to the holder of the bond. The liability component creates a financial liability that is measured at amortized costs. This split accounting or bifurcation results in additional interest charges.

Under U.S. GAAP, ASML accounts for its convertible notes as a liability at the principal amount outstanding. The Convertible Subordinated Notes have been converted in the course of 2007. As of December 31, 2007 and 2008 ASML has no Convertible Subordinated Notes outstanding.

Income taxes

Under IFRS, ASML applies IAS 12, “Income Taxes” beginning from January 1, 2005. In accordance with IAS 12 unrealized net income resulting from intercompany transactions that are eliminated from the carrying amount of assets on consolidation, give rise to a temporary difference for which deferred taxes must be recognized on consolidation. The deferred taxes are calculated based on the tax rate applicable in the purchaser’s tax jurisdiction.

Under U.S. GAAP, the elimination of unrealized net income from intercompany transactions that are eliminated from the carrying amount of assets on consolidation, give rise to a temporary difference for which prepaid taxes must be recognized on consolidation. Contrary to IFRS, the prepaid taxes under U.S. GAAP are calculated based on the tax rate applicable in the seller’s tax jurisdiction.

Great People at ASML

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, 2007, the total number of payroll employees in FTEs was 6,582. In addition, as of December 31, 2008, the total number of temporary employees in FTEs was 1,329. As of December 31, 2007, the total number of temporary employees in FTEs was 1,725. For a more detailed description of payroll employee information, including a breakdown of our employees in FTEs by sector, see Notes 23 and 29 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.

Our successes were achieved thanks to ASML’s people in every part of our organization. Our world renowned experts in nano-scale lithography have cumulative experience that is second to none. Our culture thrives on very strong commitment to leadership, achievements and customer satisfaction. Our people have not only driven ASML’s reputation to the highest levels: they have also positioned ASML well to meet the ever increasing technical requirements of our customers.

The Board of Management,
Veldhoven, February 17, 2009

Managing Directors' Statement

The Board of Management hereby declares that, to the best of its knowledge, the statutory financial statements prepared in accordance with IFRS and Title 9 of Part 2 of the Netherlands Civil Code provide a true and fair view of the assets, liabilities, financial position and profit or loss of ASML Holding N.V. and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review concerning the position as per the balance sheet date, the development and performance of ASML Holding N.V. and the undertakings included in the consolidation taken as a whole, together with the principal risk and uncertainties that they face.

The Board of Management,

Eric Meurice, President, Chief Executive Officer
Peter T.F.M. Wennink, Executive Vice President, Chief Financial Officer
Martin A. van den Brink, Executive Vice President Marketing and Technology

Veldhoven, February 17, 2009

In Control Statement

As the Board of Management of ASML Holding N.V. ("ASML" or the "Company"), we hereby state that we are responsible for the design, implementation and operation of the Company's internal risk management and control systems. The purpose of these systems is to adequately and effectively manage the significant risks to which the Company is exposed. Such systems can never provide absolute assurance regarding achievement of corporate objectives, nor can they provide an absolute assurance that material errors, losses, fraud and the violation of laws or regulations will not occur.

Financial reporting risks

To comply with our duties in the area of internal risk management and control systems with respect to financial reporting risks, we use various measures among which:
- monthly operational review meetings of the Board of Management with ASML's senior management on financial performance and realization of operational objectives and responses to emerging issues;
- bi-annual financial planning meetings of the Board of Management with ASML's senior management;
- monthly meetings with ASML's Chief Executive Officer, Chief Financial Officer and senior finance management focusing on monthly financial figures and internal control evaluations;
- monthly and quarterly financial reporting, mainly to ASML's senior management;
- letters of representation that are signed by ASML's key senior management members on an annual basis in which they confirm that for their responsible area based upon their knowledge (i) an effective system of internal controls and procedures is maintained and (ii) the financial reports fairly present the financial position, results of operations and cash flows;
- assessments by ASML's Disclosure Committee with respect to the timely review, disclosure, and evaluation of periodic (financial) reports;
- assessments by ASML's Internal Control Committee with respect to internal controls in light of among other things the requirements under SOX and the Dutch Corporate Governance Code;
- discussions on management letters and audit reports provided by the Company's internal and external auditors within our Board of Management and Supervisory Board;
- ASML's Business Control Principles;
- ASML's Internal Guidelines on Ethical Business Conduct, including the Complaints Procedure and Whistleblower's Procedure; and
- ASML's Anti-Fraud Policy, which facilitates the development of controls which will aid in prevention, deterrence and detection of fraud against ASML.

We acknowledge the importance of internal control and risk management systems. Therefore, in 2004, ASML started the SOX Project to establish a framework to properly manage internal controls over financial reporting, which is required per section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"). The results of ASML's assessment of the effectiveness of this framework, which is based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") model, as well as significant changes and improvements, are regularly reported to and discussed with ASML's Audit Committee and external auditors. The Audit Committee reports about these subjects to the Supervisory Board on a regular basis. In addition, once a year, the Board of Management discusses the implementation of this internal control framework, as well as significant changes and major improvements in internal controls, with the Audit Committee and the full Supervisory Board.

Summary

Based on the outcome of the above-mentioned measures and to the best of its knowledge and belief, the Board of Management states that:

(i) the above-mentioned measures provide a reasonable level of assurance that ASML's financial statements as of and for the year ended December 31, 2008 fairly present in all material respects the financial condition, results of operations and cash flows of the Company and that ASML's financial statements as of and for the year ended December 31, 2008 do not contain any material inaccuracy;

(ii) the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and have worked adequately in 2008; and

(iii) there are no indications that the Company's internal controls over financial reporting will not operate effectively in 2009.

ASML's Board of Management is currently not aware of any change in the Company's internal control over financial reporting that occurred during 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Operational/strategic risks and legal and compliance risks

To comply with our duties in the area of internal risk management and control systems with respect to operational/strategic risks and legal and compliance risks, we use various measures among which:

- strategic evaluations of ASML's business by the Board of Management in consultation with the Supervisory Board;
- semi-annual senior management meetings, which are conducted to assess ASML's corporate initiatives which are launched in order to execute ASML's strategy;
- monthly operational review meetings of the Board of Management with ASML's senior management on financial performance and realization of operational objectives and responses to emerging issues;
- bi-annual financial planning meetings of the Board of Management with ASML's senior management;
- monthly (internal) and quarterly (public) financial reporting;
- letters of representation that are signed by ASML's key senior management members on an annual basis in which they confirm their responsibility for assessing business risks and ensuring appropriate risk mitigation for their responsible area based upon their knowledge;
- introduction of a formal Risk Management cycle, including a risk workshop during which the key risks of ASML are being discussed amongst ASML's senior management;
- ASML's Business Control Principles;
- ASML's Internal Guidelines on Ethical Business Conduct, including the Complaints Procedure and Whistleblower's Procedure; and
- ASML's Anti-Fraud Policy, which facilitates the development of controls which will aid in prevention, deterrence and detection of fraud against ASML.

The establishment of ASML's internal control and risk management systems is based on the identification of external and internal risk factors that could influence the operational and financial objectives of the Company and contains a system of monitoring, reporting and operational reviews. All material risk management activities have been discussed with the Audit Committee and the Supervisory Board. For more information on our risk management activities and our internal control and risk management systems, we refer to Internal Risk Management and Control Systems, External Factors included in ASML's chapter on Corporate Governance. For a summary of ASML's Risk Factors, we refer to our Management Board Report in the Statutory Annual Report.

The Board of Management,

Eric Meurice, President, Chief Executive Officer
Peter T.F.M. Wennink, Executive Vice President, Chief Financial Officer
Martin A. van den Brink, Executive Vice President Marketing and Technology

Veldhoven, February 17, 2009

Statutory Financial Statements

Consolidated Financial Statements

Consolidated Income Statements

Notes	Year ended December 31 (in thousands, except per share data)	2007[1,2] EUR	2008 EUR
28	Net system sales	3,351,281	**2,516,762**
	Net service and field option sales	416,904	**436,916**
28	**Total net sales**	3,768,185	**2,953,678**
	Cost of system sales	2,044,070	**1,709,104**
	Cost of service and field option sales	274,676	**306,997**
29	**Total cost of sales**	2,318,746	**2,016,101**
	Gross profit on sales	1,449,439	**937,577**
29	Research and development costs	367,585	**369,299**
	Research and development credits	(14,643)	**(15,043)**
29	Selling, general and administrative costs	241,928	**212,927**
	Operating income	854,569	**370,394**
	Interest income	81,773	**73,138**
	Interest charges	(62,384)	**(55,179)**
	Income before income taxes	873,958	**388,353**
26	Provision for income taxes	(158,907)	**(11,455)**
	Net income	715,051	**376,898**
8	Basic net income per ordinary share	1.55	**0.87**
	Diluted net income per ordinary share	1.51	**0.87**
	Number of ordinary shares used in computing per share amounts (in thousands):		
	Basic	462,406	**431,620**
	Diluted	484,309	**434,205**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 “Adoption of new and revised International Financial Reporting Standards’.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 “Summary of Significant Accounting Policies’.

Consolidated Statements of Recognized Income and Expense

Year ended December 31 (in thousands)	2007[1] EUR	2008 EUR
Net income	715,051	**376,898**
Foreign currency translation, net of taxes:		
Gains / (losses) on the hedge of a net investment[2]	18,808	**1,902**
Gains / (losses) on translation of foreign operations	(42,732)	**(12,455)**
Derivative financial instruments, net of taxes:		
Fair value gains / (losses) in the year	(5,757)	**(51,168)**
Transfers to net income	869	**7,589**
Total recognized income	686,239	**322,766**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 "Adoption of new and revised International Financial Reporting Standards'.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 "Summary of Significant Accounting Policies'.

Consolidated Balance Sheets

(Before appropriation of net income)

Notes	As of December 31 (In thousands)	2007[1] EUR	2008 EUR
	Assets		
9	Property, plant and equipment	380,894	**550,921**
10	Goodwill	136,246	**139,626**
11	Other intangible assets	216,908	**289,530**
26	Deferred tax assets	226,239	**225,544**
12, 13	Finance receivables	—	**31,030**
14	Derivative financial instruments	20,930	**53,206**
15	Other assets	32,828	**29,449**
	Total non-current assets	1,014,045	**1,319,306**
16	Inventories	1,102,210	**999,150**
26	Current tax assets	—	**87,560**
14	Derivative financial instruments	12,319	**39,240**
12, 13	Finance receivables	—	**6,225**
17	Accounts receivable	637,975	**463,273**
15	Other assets	193,415	**170,680**
18	Cash and cash equivalents	1,271,636	**1,109,184**
	Total current assets	3,217,555	**2,875,312**
	Total assets	4,231,600	**4,194,618**
	Equity and liabilities		
19	**Equity**	2,039,067	**2,188,743**
20	Long-term debt	595,783	**661,483**
14	Derivative financial instruments	—	**19,743**
26	Deferred and other tax liabilities	257,325	**260,360**
21	Provisions	—	**15,495**
22	Accrued liabilities and other liabilities	7,935	**50,293**
	Total non-current liabilities	861,043	**1,007,374**
	Accounts payable	282,953	**193,690**
22	Accrued liabilities and other liabilities	927,841	**732,043**
26	Current tax liabilities	109,415	**20,039**
14	Derivative financial instruments	11,281	**48,051**
21	Provisions	—	**4,678**
	Total current liabilities	1,331,490	**998,501**
	Total equity and liabilities	4,231,600	**4,194,618**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 "Adoption of new and revised international financial reporting standards'.

Consolidated Statements of Changes in Equity

(in thousands)	Issued and outstanding shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings[6,7] EUR	Treasury Shares at cost EUR	Other Reserves[3,6,7] EUR	Net Income[6,7] EUR	Total EUR
Balance at December 31, 2006	477,099	10,051	1,640,496	342,844	(401,000)	50,608	635,984	**2,278,983**
Effect of change in accounting policy[6]	—	—	—	(2,310)	—	—	(6,142)	**(8,452)**
Balance at January 1, 2007	477,099	10,051	1,640,496	340,534	(401,000)	50,608	629,842	**2,270,531**
Appropriation of net income	—	—	—	629,842	—	—	(629,842)	**—**
Components of statement of recognized income and expense:								
Net income	—	—	—	—	—	—	715,051	**715,051**
Foreign currency translation, net of taxes	—	—	—	—	—	(23,924)	—	**(23,924)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(4,888)	—	**(4,888)**
Net income recognized directly in equity	—	—	—	—	—	(28,812)	715,051	**686,239**
Cancellation of treasury shares	—	(509)	(48,563)	(351,928)	401,000	—	—	**—**
Share-based payments	—	—	18,120	—	—	—	—	**18,120**
Purchase of shares in conjunction with conversion rights of bond holders and share-based payment plans[2]	(17,000)	—	—	—	(359,856)	—	—	**(359,856)**
Issuance of shares in conjunction with convertible bonds	26,232	718	289,085	(60,846)	130,317	—	—	**359,274**
Capital repayment[4]	(55,093)	29,748	(1,041,605)	—	—	—	—	**(1,011,857)**
Issuance of shares and stock options	4,388	168	51,803	(5,031)	29,676	—	—	**76,616**
Development expenditures	—	—	—	(59,309)	—	59,309	—	**—**
Balance at December 31, 2007	435,626	40,176	909,336	493,262	(199,863)	81,105	715,051	**2,039,067**
Appropriation of net income	—	—	—	715,051	—	—	(715,051)	**—**
Components of statement of recognized income and expense:								
Net income	—	—	—	—	—	—	376,898	**376,898**
Foreign currency translation, net of taxes	—	—	—	—	—	(10,553)	—	**(10,553)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(43,579)	—	**(43,579)**
Net income recognized directly in equity	—	—	—	—	—	(54,132)	376,898	**322,766**
Share-based payments	—	—	8,839	—	—	—	—	**8,839**
Purchase of shares in conjunction with share-based payment plans	(5,000)	—	—	—	(87,605)	—	—	**(87,605)**
Dividend payment[5]	—	—	—	(107,841)	—	—	—	**(107,841)**
Issuance of shares and stock options	1,448	131	(2,718)	(16,508)	32,612	—	—	**13,517**
Development expenditures	—	—	—	(81,692)	—	81,692	—	**—**
Balance at December 31, 2008	432,074	40,307	915,457	1,002,272	(254,856)	108,665	376,898	**2,188,743**

1 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 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 bought back which were partly reissued in order to cover exercised stock options and to satisfy the conversion rights of holders of our 5.50 percent Convertible Subordinated Notes. We paid EUR 360 million in cash for these shares in total. See Note 19 for further information.

3 Other reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. See Note 19 for further information.

4 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 19 for further information.

5 In 2008, ASML paid out a dividend of EUR 108 million to its shareholders, see note 19 for further information.

6 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 “Adoption of new and revised International Financial Reporting Standards’.

7 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 “Summary of Significant Accounting Policies’.

Consolidated Statements of Cash Flows

Year ended December 31 (in thousands)	2007[1,2,3] EUR	2008[3] EUR
Cash Flows from Operating Activities		
Net income	715,051	**376,898**
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	201,324	**197,298**
Loss on disposals of property, plant and equipment	14,210	**4,257**
Impairment charges	9,022	**43,401**
Share-based payments	15,939	**12,809**
Convertible financial expenses	22,229	**—**
Allowance for doubtful debts	178	**188**
Allowance for obsolete inventory	79,592	**139,628**
Deferred income taxes	79,701	**(46)**
Accounts receivable	42,653	**132,147**
Inventories	(438,147)	**(98,086)**
Other assets	(61,552)	**(78,981)**
Accrued liabilities and other liabilities	320,430	**(2,843)**
Accounts payable	(38,345)	**(94,375)**
Income taxes payable	88,931	**11,359**
Cash generated from operations	1,051,216	**643,654**
Interest received	301	**6,396**
Interest paid	(38,936)	**(40,247)**
Income taxes paid	(167,268)	**(167,360)**
Net cash provided by operating activities from operations	845,313	**442,443**
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(179,152)	**(259,770)**
Proceeds from sale of property, plant and equipment	5,011	**—**
Purchase of intangible assets	(136,521)	**(179,563)**
Acquisition of subsidiary (net of cash acquired)	(188,011)	**—**
Net cash used in investing activities from operations	(498,673)	**(439,333)**
Cash Flows from Financing Activities		
Capital repayment	(1,011,857)	**—**
Purchase of shares in conjunction with conversion rights of bond holders and stock options	(359,856)	**(87,605)**
Dividend payment	—	**(107,841)**
Net proceeds from issuance of shares and stock options	64,532	**11,475**
Net proceeds from issuance of bond	593,755	**—**
Net proceeds from other long-term debt	—	**19,975**
Redemption and/or repayment of debt	(9,718)	**(2,411)**
Net cash used in financing activities from operations	(723,144)	**(166,407)**
Net cash flows	(376,504)	**(163,297)**
Effect of changes in exchange rates on cash	(7,717)	**845**
Net decrease in cash and cash equivalents	(384,221)	**(162,452)**
Cash and cash equivalents at beginning of the year	1,655,857	**1,271,636**
Cash and cash equivalents at end of the year	1,271,636	**1,109,184**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 “Adoption of new and revised International Financial Reporting Standards’.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 “Summary of Significant Accounting Policies’.

3 In 2008, ASML changed the presentation of the consolidated statements of cash flows to improve the understanding of the consolidated statements of cash flows. The comparative figures for the year 2007 have been adjusted to reflect this change in presentation. See note 3 for further information.

Notes to the Consolidated Financial Statements

1. General information

ASML Holding N.V., with its corporate seat 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.

ASML'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 ASML'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").

The financial statements of the Company were authorized for issue by the Board of Management on February 17, 2009 and will be filed at the Trade Register of the Chamber of Commerce in Eindhoven, the Netherlands within eight days after adoption by the General Meeting of Shareholders, scheduled on March 26, 2009.

2. Adoption of new and revised International Financial Reporting Standards

The financial statements for the years ended December 31, 2007 and 2008 have been prepared on the basis of IFRS as adopted by the European Union (EU). New Standards and Interpretations, which became effective in 2008, did not have a material impact on ASML's consolidated financial statements.

Interpretations effective in 2008

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after March 1, 2007). This interpretation addresses the issue whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2. The second issue where IFRIC 11 is dealing with, concerns share-based payment arrangements that involve two or more entities within the same group. Because ASML already accounted for share-based payment arrangements in accordance with IFRIC 11, the adoption of this interpretation did not have any impact on the Company's consolidated financial statements.

Standards and amendments early adopted by the Company

The accounting policies applied in financial year 2008 are unchanged compared to 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. ASML decided to early adopt IFRIC 13, "Customer loyalty programmes" which applies to the afore-mentioned award credits.

Until December 31, 2007 ASML accounted for award credits offered to its customers based on the cost accrual model. Under the cost accrual model the estimated future costs of the award credit were recognized as a liability until the award credits were delivered to the customer. As of January 1, 2008 ASML accounts for sales transactions that give rise to the award credits in accordance with the deferred revenue model. Under the deferred revenue model the consideration received for the sales transaction is allocated between the award credits and the other components of the sales transaction. The consideration allocated to the award credit is recognized as deferred revenue until the award credits are delivered to the customer.

We early adopted IFRIC 13 because we believe that the deferred revenue model 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 better reflects 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 2007 have been adjusted to reflect the change in accounting policy. The shareholders' equity of January 1, 2007 was negatively impacted with EUR 8.5 million. The impact on the 2007 and 2008 consolidated income statements and the per-share amounts is as follows:

Year ended December 31 (in millions, except for per share data)	**2007**[1,2] EUR	**2008** **EUR**
Net system sales	(41)	**56**
Cost of system sales	(30)	**36**
Income from operations	(11)	**20**
Net income	(8)	**16**
Basic net income per ordinary share	(0.02)	**0.04**
Diluted net income per ordinary share	(0.02)	**0.04**

At the date of authorization of these financial statements, the following Standards and Interpretations have been issued however are not yet effective and have not yet been adopted

IAS 1 (Amendment) "Presentation of Financial Statements" (effective for annual periods beginning on or after January 1, 2009). The amendment intends to improve user's capability of analyzing and comparing the information in financial statements. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. ASML anticipates that the adoption of the amendment of IAS 1 will have no material impact on the Company's consolidated financial statements.

IAS 32 (Amendment), "Financial instruments: Presentation", and IAS 1 (Amendment), "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after January 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. ASML will apply IAS 32 and IAS 1(Amendment) as from January 1, 2009 and anticipates that the adoption of IAS 32 will have no material impact on the Company's consolidated financial statements.

IAS 39 (Amendment), "Financial instruments: Recognition and measurement" (effective for annual periods beginning on or after January 1, 2009). The amendment of IAS 39 has not yet been endorsed by the EU. This amendment ensures further clarification of the following aspects:

- Movements into and out of the fair value through profit and loss category
- The definition of financial asset or financial liability at fair value through profit and loss as it relates to items that are held for trading
- Hedge accounting to be applied at segment level
- Remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting. ASML anticipates that the adoption of this amendment will have no material impact on the Company's consolidated financial statements.

IFRS 2 (Amendment), "Share-based payment" (effective for annual periods beginning on or after January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are non- vesting conditions. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. ASML will apply IFRS 2 (Amendment) as from January 1, 2009. ASML is currently in the process of determining the impact of adopting the amended standard on the Company's consolidated financial statements.

IFRS 3 (Revised), "Business combinations" (effective for annual periods beginning on or after July 1, 2009). The revised standard has not yet been endorsed by the EU. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. ASML is currently in the process of determining the impact of adopting the revised standard on the Company's consolidated financial statements.

IFRS 8, "Operating Segments" (effective for annual periods beginning on or after January 1, 2009). IFRS 8 sets out requirements for disclosure of information about entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. ASML anticipates that the adoption of this interpretation will have no material impact on the Company's consolidated financial statements.

IFRIC 16, "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after October 1, 2008). This interpretation has not yet been endorsed by the EU. IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, "The effects of changes in foreign exchange rates", do apply to the hedged item. ASML is currently in the process of determining the impact of adopting the interpretation on the Company's consolidated financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

The accompanying consolidated financial statements are stated in thousands of euros ("EUR") unless otherwise indicated. These financial statements, prepared for statutory purposes, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU – accounting principles generally accepted in the Netherlands for companies quoted on Euronext Amsterdam. For internal and external reporting purposes, ASML follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is ASML's primary accounting standard for the Company's setting of financial and operational performance targets.

The financial statements have been prepared on historical cost convention unless stated otherwise. The principal accounting policies adopted are set out below.

In accordance with article 402 Part 9 Book 2 of the Netherlands Civil Code the Company income statement is presented in abbreviated form.

Prior period error

In December 2007, an agreement was reached 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 in 2007 was incorrectly recognized under the provision for income taxes in the consolidated income statement instead of in currency translation reserve, within equity. In 2008, subsequent to the filing of the 2007 statutory annual report, 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. The correction had a positive impact on the currency translation reserve within 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 IFRS as adopted by the EU 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.

Basis 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. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. 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 individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in euros, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange rate differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the income statement for the period. Exchange rate differences arising on the retranslation of non-monetary items carried at fair value are recognized in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange rate component of that gain or loss is also recognized directly in equity.

In order to hedge its exposure to certain foreign exchange rate risks, the Company enters into forward contracts and currency options; see below for details of the Company's accounting policies in respect of such derivative financial instruments.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign subsidiaries (including comparatives) are expressed in euros using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange rate differences arising, if any, are classified as equity and transferred to the Company's currency translation reserve. Such translation differences are recognized in the income statement in the period in which the foreign operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of foreign subsidiaries and translated at closing rate.

Property, plant and equipment
Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost 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
Leasehold improvements	5 – 10 years
Furniture, fixtures and other equipment	3 – 5 years

Land is not depreciated.

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.

The estimated useful lives and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Goodwill

Goodwill represents the excess of the costs of an acquisition over the fair value of Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Other intangible assets include internally-generated intangible assets, acquired intellectual property rights, developed technology, customer relationships, in-process research and development and other intangible assets.

Internally-generated intangible assets – research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. IFRS requires capitalization of development expenditures provided if, and only if, certain criteria can be demonstrated.

An internally-generated intangible asset arising from the Company's development is recognized only if the Company can demonstrate all of the following conditions:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the probability that the asset created will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

For certain development programs, it was not possible to separate development activities from research activities (approximately EUR 84 million and EUR 24 million for the years 2007 and 2008, respectively). Consequently, ASML was not able to reliably determine the amount of development expenditures incurred for these programs.

Internally-generated intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from one to three years. Where no internally-generated intangible asset can be recognized, development expenditure is charged to the income statement in the period in which it is incurred.

The estimated useful lives and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

Intellectual Property Rights, developed technology, customer relationships and other intangible assets

Acquired intellectual property rights, developed technology, customer relations and other intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

In-process research and development

In-process research and development relates to the fair value of the technology regarding products that were in development at the time of acquisition. In-process research and development is subsequently stated at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful life. The estimated useful lives and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

The following table presents the estimated useful lives of ASML's other intangible assets:

Category	Estimated useful life
Development expenditure	1 – 3 years
Intellectual property rights	3 – 10 years
Developed technology	6 years
Customer relationships	8 years
In-process research and development	4 years
Other intangible assets	2 – 6 years

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

Financial assets are classified as at fair value through profit or loss and loans and receivables. Assets in this category are categorized as current assets.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is designated as at fair value through profit or loss. Assets in this category are categorized as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current receivables, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise accounts receivable, finance receivables and other non-current and current assets and cash and cash equivalents in the balance sheet.

Loans and receivables are measured at their approximate fair value.

ASML assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial liabilities and equity instruments issued by the Company

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities that are classified as at fair value through profit or loss are categorized as current liabilities. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss are stated at fair value with any resultant gain or loss recognized in the income statement.

Derivative financial instruments and hedging activities

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 of variability in the cash flows of a recognized asset or liability, 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.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 13 en 14. Movements in the hedging reserve within equity are shown in Note 19. The fair value part of a derivative that has a remaining term of less or equal to 12 months is classified as current asset or liability. When the fair value part of a derivative has a term of more than 12 months it is classified as non-current.

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 income statement. The Company designates foreign currency hedging instruments as a hedge of the fair value of a recognized asset or liability in non-functional currencies. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to the income statement from that date.

The gain or loss relating to the ineffective portion of foreign currency hedging instruments is recognized in the income statement 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 income statement as “interest income” or “interest charges”.

Cash flow hedge

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recorded in the hedging reserve, within equity, until underlying hedged transaction is recognized in the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in the income statement.

Foreign currency hedging instruments that are being used to hedge cash flows relating 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 income statement in “net 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 change in fair value is intended to offset the change in the fair value of the underlying assets, which is recorded accordingly in equity as hedging reserve. The maximum length of time of cash flow hedges is the time elapsed from the moment the exposure is generated until the actual settlement. The gain or loss relating to the ineffective portion of interest rate swaps hedging the variability of future interest receipts is recognized in the income statement “interest income” or “interest charges”.

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 and are treated similarly to cash flow hedges. The effective portion of changes in the fair value of a derivative that is designated and qualifies as a net investment hedge is recorded in the currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as “interest income” or “interest charges”. Gains and losses accumulated in equity are recognized in the income statement when the foreign operation is partially disposed or sold.

Inventories

Inventories are stated at the lower of cost (first-in-first-out method) or net realizable value. The costs of inventories comprise of net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventory provisions are recognized for slow moving, obsolete or unsaleable inventory.

Accounts receivable

Accounts receivable are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method, less allowance for doubtful debts. An allowance for doubtful debts of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial restructuring and default or delinquency in payments are considered indicators that the accounts receivable are impaired. The allowance recognized is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of income taxes, from the proceeds.

Treasury shares are deducted from equity for the consideration paid, including any directly attributable incremental costs (net of income taxes), until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursements will be received and the amount of the receivable can be measured reliably.

Onerous contracts
Present obligations arising under onerous contracts are recognized and measured as provisions. Onerous contracts are considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under the contract.

Employee contract termination benefits
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 and has raised a valid expectation to those affected that it will carry out the plan by starting to implement the plan or announcing its main features to those affected by it. The measurement of a provision for employee contract termination benefits includes only the direct expenditures arising from the termination.

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

Revenue recognition
In general, ASML recognizes the revenue from the sale of a system upon shipment and the revenue from the installation of a system upon completion of that installation at the customer site. Each system undergoes, prior to shipment, a “Factory Acceptance Test” in our 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, we have 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 two 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 until delivery of these elements. 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 award credits are accounted for as a separately identifiable component of the sales transaction in which the award credits are granted. The fair value of the consideration received for the sales transaction is allocated between the award credits and the other components of the sales transaction. The consideration allocated to the award credit is recognized as deferred revenue until the 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 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.

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

Costs of system sales comprise direct product costs such as materials, labor, cost of warranty, depreciation, amortization, 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time that the assets are substantially ready for their intended use or sale.

Government grants

Government grants are not recognized until there is reasonable assurance that ASML will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that ASML should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the balance sheet and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to ASML with no future related costs are recognized in the income statement in the period in which they become receivable.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company recognizes a liability for uncertain tax positions when it is probable that an outflow of economic resources will occur. Measurement of the liability for uncertain tax positions is based on management's best estimate of the amount of tax benefit that will be realized upon settlement.

The income statement effect of interest and penalties relating to liabilities for uncertain tax positions are presented based on their nature, as part of interest charges and as part of selling, general and administrative costs, respectively.

Current and deferred tax are recognized as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Contingencies and litigation

We are party to various legal proceedings generally incidental to our business, as disclosed in Note 25 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 2007 and 2008 income statements. Significant 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 it believes it 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 income statements at the time when the related legal services are actually provided to us.

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 the 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 ASML's estimate of the equity instruments that will eventually vest. At each balance sheet date, ASML 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 income statement in the period in which the revision is determined, with a corresponding adjustment to equity. The policy described above is applied to all equity-settled share-based payments that were granted after November 7, 2002 that vested after January 1, 2005. No amount has been recognized in the financial statements in respect of other equity-settled share-based payments.

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

Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. ASML accounts for its multi-employer defined benefit plan as if it were a defined contribution plan as the pension union managing the plan is not able to provide ASML with the required Company-specific information to enable ASML to account for the plan as a defined benefit plan.

Consolidated statements of cash flows

The consolidated statements of cash flows have been prepared based on the indirect method. Cash flows in foreign currencies have been translated at average exchange rates. Exchange rate difference on cash and cash equivalents are shown separately in the consolidated cash flow statement. Acquisitions of subsidiaries are presented net of cash balances acquired.

In 2008, ASML changed the presentation of the consolidated statements of cash flows to improve the understanding of the consolidated statements of cash flows. The main changes compared to prior year relate to the separate disclosure of:
- interest paid and interest received;
- income taxes paid;
- loss on disposal of property, plant and equipment.

The comparative figures for the year 2007 have been adjusted to reflect this change in presentation.

4. Financial Risk Management

Financial risk factors

ASML 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 potential adverse effects on the Company's financial performance. ASML uses derivative financial instruments to hedge certain risk exposures, mainly relating to foreign currency exchange rate risks and interest rate risks. None of the transactions are entered into for trading or speculative purposes.

Risk management is carried out by the central treasury department under policies approved by the Board of Management. The treasury department reports information with regard to financial risks and measures to reduce these risks periodically.

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

Compared to last year, there have been no significant changes in our financial risk management policies.

Foreign currency exchange rate 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 four sales transactions were postponed, and from that time no longer qualified for hedge accounting, 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, the hedging reserve, net of taxes, includes EUR 49.2 million loss (2007: EUR 3.8 million loss) representing the total anticipated loss to be charged to sales, and EUR 1.4 million gain (2007: EUR 3.1 million loss) representing the total anticipated gain to be charged to cost of sales over the next 18 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 foreign currency translation amounts (net of taxes) included in the currency translation reserve relating to net investment hedges for the years ended December 31, 2007 and 2008 were EUR 10.1 million gain and EUR 1.9 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. The following table summarizes the notional amounts and estimated fair values of the Company's financial instruments as of December 31, 2007 and 2008:

	2007		**2008**	
As of December 31 (in thousands)	Notional Amount EUR	Fair Value EUR	**Notional Amount EUR**	**Fair Value EUR**
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 valuation technique used to determine the fair value of forward contracts approximates the net present value of future cash flows.

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. We use the Black-Scholes option-valuation model to determine the fair value of currency options.

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. We use the zero coupon method to determine the fair value of interest rate swaps.

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. 10 percent represents management's assessment of the reasonably possible change in foreign exchange rates. 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 before income taxes and equity.

	2007		**2008**	
(in thousands)	Impact on income before income taxes EUR	Impact on equity EUR	**Impact on income 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 the currency translation reserve, within equity. The movements of currency rates therefore show a relatively large effect on the currency translation reserve, within equity. The effect on the hedging reserve, within shareholders' equity 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 the hedging reserve, within equity. The main reason for the decreased effect in equity 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 income statements. The effect on operating income 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 these 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 operating income before income taxes and the hedging reserve, within shareholders' equity. 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 the hedging reserve, within shareholders' equity.

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 before income taxes and the hedging reserve, within equity. One percent represents management's assessment of the reasonably possible change in interest rates. For a one percent decrease in interest rates there would approximately be an equal and opposite effect on the income before income taxes and the hedging reserve, within equity. A positive amount indicates an increase in income before income taxes and the hedging reserve, within equity.

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

The positive effect on the hedging reserve, 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 equity and income before income taxes has increased, due to the lower notional amounts in the outstanding interest rate swaps in 2008.

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 financial 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 billion 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.

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. As of December 31, 2008 the cash and cash equivalents amounted to EUR 1.1 billion. 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.

The Company's liquidity analysis consists of the following contractual obligations:

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
Derivative Financial Instruments					
Forwards/swaps	**29,485**	15,425	14,060	—	—
Interest rate swaps	**(71,554)**	(11,165)	(19,762)	(11,944)	(28,683)
Financial instruments	**(42,069)**	4,260	(5,702)	(11,944)	(28,683)
Long-term debt obligations, including interest expenses[1]	**924,933**	41,159	82,316	69,000	732,458
Other					
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
Liability for uncertain tax positions	**124,202**	5,247	34,900	14,324	69,731
Other liabilities[2]	**1,131**	1,131	—	—	—
Total	**2,138,901**	1,008,248	197,028	110,274	823,351

1 We refer to Note 20 to the consolidated financial statements for the amounts excluding interest expenses.
2 Other liabilities relate to a finance lease agreement regarding software.

Fair value estimation
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The carrying value less impairment provision of accounts receivable and accounts payable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty
In the process of applying the Company's accounting policies, which are described in Note 3, management has made some judgments that have significant effect on the amounts recognized in the financial statements. These also include key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue Recognition
We refer to Note 3.

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.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

During 2008, we recorded impairment charges of EUR 24.6 million in property, plant and equipment and EUR 18.8 million in other intangible assets of which we recorded EUR 20.8 million in cost of sales, EUR 21.0 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 and capitalized development expenditures of EUR 18.3 million. The impairment of machinery and equipment is the result from 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. We refer to note 6 for more information. The impairment charges were determined based on the difference between the assets' recoverable amount (being EUR 5.4 million) and their carrying amount. The impairment of capitalized development expenditures is mainly due to development expenditures regarding metrology tools which management no longer believes can be sold as they do not meet the expected future technology requirements. In determining the recoverable amount 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.

Capitalization of development expenditures

In determining the development expenditures to be capitalized, ASML makes estimates and assumptions based on expected future economic benefits generated by products that are the result of these development expenditures. Other important estimates and assumptions in this assessment process are the required internal rate of return, the distinction between research and development and the estimated useful life.

Accounts receivable

A majority of our accounts receivable are derived from sales to 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 debts is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. The allowance for doubtful debts 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. 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. We have not incurred any material accounts receivable credit losses during the past three years. However, we sell a substantial number of systems to a limited number of customers. 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.

An unanticipated 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 16 million is reflected in finance receivables and EUR 21 million is reflected in accounts receivable. ASML believes that the 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 onerous contracts are recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under the contract.

Provision for employee contract termination benefits mainly relates 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 onerous contracts relates to an operating lease contract for a building for which no economic benefits are expected. Refer to note 6 for further information.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The cost of inventories comprise net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventory provisions are recognized 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 provisions, 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 provisions for excess or obsolete inventory may be required, which could have a material adverse effect on our business, financial condition and results of operations.

Contingencies and Litigation

We refer to Note 3.

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 option valuation 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. We also refer to Note 23 “Employee Benefits” for further details re the assumptions used in the pricing model.

The total gross amount of recognized expenses associated with share-based payments was EUR 12.8 million in 2008 (2007: EUR 15.9 million).

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

Income taxes

We also refer to Note 3. We operate in various tax jurisdictions in the United States, Europe and Asia and must comply with the tax laws 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 probable that the carrying amounts of deferred tax assets will not be realized, a valuation allowance will be recorded to reduce the carrying amounts of those assets.

We assess our ability to realize our deferred tax assets resulting from net operating loss carry forwards on an ongoing basis. 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. Based on management's analysis, we believe that it is probable 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 before income tax, possible tax planning alternatives available to us, and a realignment of group assets that we affected 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 additional income recognized by ASML US, Inc., which we believe, taken together with projected future taxable income, 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, 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 advance pricing agreements 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 26 to our consolidated financial statements).

The calculation of our tax liabilities involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is highly judgmental. However, we believe that we have adequately provided for uncertain tax positions. Settlement of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations, financial condition and cash flows. The liability for uncertain tax positions mainly relates to transfer pricing positions, operational activities in countries where we are not tax registered and tax deductible costs. The Company recognizes a liability for uncertain tax positions when it is probable that an outflow of economic resources will occur. Measurement of the liability for uncertain tax positions is based on management's best estimate of the amount of tax benefit that will be realized upon settlement. We provide for the uncertain tax positions for the duration of the statute of limitations which differs per tax jurisdiction and generally ranges up to seven years, or in case of an earlier settlement, when the uncertain tax position is settled with the tax authorities before the statute of limitations period lapses.

As of December 31, 2008 the liability for this liability for uncertain tax positions amounts to EUR 124.2 million (December 31, 2007: EUR 110.3 million) and are included in deferred and other tax liabilities on the consolidated balance sheets.

There were three main topics on which we reached agreement with the fiscal authorities in 2008 that have affected our effective tax rate.

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 in 2008. As a result, ASML booked a tax income of approximately EUR 70 million.

6. 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 income statement 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 for 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 using the leased training facility in Tempe, United States, incurring costs regarding onerous contracts of EUR 20.0 million in 2008.

These costs are recognized as follows in the income statement:

(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**

7. Business combinations

On March 7, 2007, ASML 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 to be used on ASML systems and otherwise. These improvements in turn are expected to extend the practical resolution limits of ASML ArF immersion products. ASML also expects Brion's computational lithography capability will enable ASML to offer products that further improve the set-up and control of ASML lithography systems.

The total purchase 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 regarding 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 is part of the total purchase 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	(24,643)	(1,058)
Subtotal	41,017	(6,855)
Goodwill on acquisition	152,252	—
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 for EUR 26.8 million of developed technology, for EUR 9.0 million of customer relationships, for EUR 23.1 million of in-process research and development and for EUR 2.4 million of other intangible assets.

In-process research and development relates to the fair value of the technology regarding products that were in development at the time of acquisition.

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

As part of a retention package employees and executives of Brion have been granted a cash retention bonus, stock awards, performance stock awards and the existing stock options of Brion have been converted to ASML stock options (see Note 23).

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

8. Earnings per share

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)	**2007**[1,2] EUR	**2008** **EUR**
Basic EPS computation:		
Net income available to holders of common shares	715,051	**376,898**
Weighted average number of shares outstanding (after deduction of treasury stock) during the year	462,406	**431,620**
Basic earnings per share	1.55	**0.87**
Diluted EPS computation:		
Net income available to holders of common shares	715,051	**376,898**
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	18,512	**—**
Net income available to holders of common shares plus effect of assumed conversions	733,563	**376,898**
Weighted average number of shares:	462,406	**431,620**
Plus shares applicable to:		
Stock options	3,235	**2,585**
Convertible subordinated notes	18,668	**—**
Dilutive potential common shares	21,903	**2,585**
Adjusted weighted average number of shares	484,309	**434,205**
Diluted earnings per share	1.51	**0.87**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ‘Adoption of new and revised International Financial Reporting Standards’.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 ‘Summary of Significant Accounting Policies’.

9. 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**	**117,374**	**12,319**	**30,625**	**332,320**
Disposals	**(382)**	**(91,024)**	**(8,037)**	**—**	**(99,443)**
Effect of exchange rates	**752**	**399**	**425**	**570**	**2,146**
Balance, December 31, 2008	**355,531**	**493,679**	**153,824**	**288,297**	**1,291,331**
Accumulated depreciation					
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 amount[1]					
December 31, 2007	136,110	129,941	56,278	58,565	**380,894**
December 31, 2008	**301,622**	**140,211**	**52,722**	**56,366**	**550,921**

1 Assets under construction are included as of December 31, 2008 and 2007 for buildings and constructions of EUR 122.1 million and EUR 79.6 million, 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, respectively.

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 net realizable 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) and are recognized in the income statement. 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 risk that certain non-leading edge 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 recoverable amount of the relevant assets has been determined on the basis of their fair value less cost to sell, which is higher than the value in use. The impairment charges were determined based on the difference between the assets' recoverable amount (being EUR 5.4 million) and their carrying amount. In determining the fair value less cost to sell 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 clean room and central utilities which are currently under construction. The impairment was determined based on the difference between the building's recoverable amount (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 did not meet current technology requirements anymore as a result of new technology introductions. The impairment charges were determined based on the difference between the assets' recoverable amount (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.

During 2008, we capitalized borrowing costs of EUR 6.8 million (2007: EUR 2.2 million). The capitalization rate used in determining the borrowing costs in 2008 is 5.75 percent (2007: 5.75 percent).

10. Goodwill

Changes in goodwill are summarized as follows:

(in thousands)	2007 EUR	**2008 EUR**
Cost		
Balance, January 1	—	**136,246**
Acquisition subsidiary	152,252	**—**
Effect of exchange rates	(16,006)	**3,380**
Balance, December 31	136,246	**139,626**
Carrying amount, December 31	136,246	**139,626**

The goodwill relates to the acquisition of Brion in March 2007. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit Brion.

The recoverable amount of the cash-generating unit is calculated based on value in use, which is higher than the fair value less cost to sell. These calculations use pre-tax cash flow projections based on the strategic plan approved by management covering a six-year period. Based on the cash flow projections, taking into account the start-up nature of the cash-generating unit, Brion is expected to reach its maturity phase in the sixth year. Cash flows beyond the six-year period are extrapolated using the estimated growth rate stated below. The weighted average growth rate does not exceed the long-term average growth rate for the lithography business in which the cash-generating unit operates.

The key assumptions used for the value in use calculations for the cash-generating unit are a weighted average growth rate of 3.0 percent (2007: 3.0 percent) and a discount rate of 12.9 percent (2007: 15.5 percent). The discount rate decreased compared to prior year due to the further integration of Brion which has lead to a decrease of the Company's risk premium. The discount rate is pre-tax and reflects the risk of ASML as a whole. Based on the calculations performed, ASML concluded that there were no reasons for impairment charges. The values assigned by ASML to each of the key assumptions are consistent with past experience and market developments.

ASML also performed sensitivity analyses and concluded that any reasonably possible change in the key assumptions on which the recoverable amount is based will not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. A one percent increase in the discount rate leads to a 42 percent decrease of the amount by which the aggregate recoverable amount exceeds the cash-generating units' carrying amount. A one percent decrease in the growth-rate leads to a 26 percent decrease of the amount by which the aggregate recoverable amount exceeds the cash-generating units' carrying amount.

11. Other intangible assets

(in thousands)	Development expenditures EUR	Intellectual property EUR	Developed Technology EUR	Customer relationships EUR	In-process R&D EUR	Other EUR	Total EUR
Cost							
Balance, January 1, 2007	192,174	47,215	—	—	—	—	**239,389**
Additions	136,521	—	—	—	—	—	**136,521**
Acquisition subsidiary	—	—	26,708	9,010	23,148	2,393	**61,259**
Effect of exchange rates	(4,220)	—	(2,807)	(947)	(2,433)	(252)	**(10,659)**
Balance, December 31, 2007	324,475	47,215	23,901	8,063	20,715	2,141	**426,510**
Additions	**179,528**	**35**	**—**	**—**	**—**	**—**	**179,563**
Effect of exchange rates	**1,304**	**—**	**593**	**200**	**514**	**54**	**2,665**
Balance, December 31, 2008	**505,307**	**47,250**	**24,494**	**8,263**	**21,229**	**2,195**	**608,738**
Accumulated depreciation							
Balance, January 1, 2007	70,337	29,139	—	—	—	—	**99,476**
Amortization	98,332	8,069	3,551	898	—	775	**111,625**
Impairment charges	—	589	444	—	—	—	**1,033**
Effect of exchange rates	(2,192)	—	(230)	(59)	—	(51)	**(2,532)**
Balance, December 31, 2007	166,477	37,797	3,765	839	—	724	**209,602**
Amortization	**74,374**	**5,780**	**3,840**	**1,005**	**3,734**	**867**	**89,600**
Impairment charges	**18,292**	**—**	**552**	**—**	**—**	**—**	**18,844**
Effect of exchange rates	**782**	**—**	**249**	**50**	**39**	**42**	**1,162**
Balance, December 31, 2008	**259,925**	**43,577**	**8,406**	**1,894**	**3,773**	**1,633**	**319,208**
Carrying amount							
December 31, 2007	157,998	9,418	20,136	7,224	20,715	1,417	216,908
December 31, 2008	**245,382**	**3,673**	**16,088**	**6,369**	**17,456**	**562**	**289,530**

Development expenditures relate to the capitalized expenditures regarding certain development programs such as XT4 new generation TWINSCANN, the extreme ultraviolet (EUV) platform based on a new light source, the new platform for TWINSCANN called NXT and integrated metrology.

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 U.S. dollar 60 million in 2004 and further payments of U.S. dollar 9 million in 2005, 2006 and 2007.

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 income statement 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. See Note 7 for more information.

During 2008, we recorded impairment charges in the income statement for an amount of EUR 18.8 million, mainly relating to capitalized development expenditures for metrology tools which management no longer believes can be sold as they do not meet the expected future technology requirements.

The recoverable amount of the relevant assets has been determined on the basis of their fair value less cost to sell, which is higher than the value in use. The impairment charges were determined based on the difference between the assets' recoverable amount (being EUR 0.0 million) and their carrying amount. In determining the recoverable amount 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.

During 2008, we recorded amortization charges of EUR 89.6 million (2007: EUR 111.6 million) of which we recorded EUR 89.6 million in cost of sales (2007: EUR 111.3 million) and EUR 0.0 million in research and development costs (2007: EUR 0.3 million).

During 2008, we capitalized borrowing costs of EUR 7.7 million (2007: EUR 3.4 million). The capitalization rate used in determining the borrowing costs in 2008 is 5.75 percent (2007: 5.75 percent).

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

2009	77,135
2010	119,033
2011	83,480
2012	6,964
2013	1,697
Thereafter	1,221
Total	**289,530**

12. Finance receivables

Finance receivables consist of the net investment in finance leases. The finance 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**

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 16 million is reflected in finance receivables and EUR 21 million is reflected in accounts receivable. 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.

At December 31, 2008, the collection of gross finance receivables for 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**

13. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below and represent the fair value of these financial instruments:

As of December 31, 2008 (in thousands)	Loans and receivables EUR	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Total EUR
Assets as per balance sheet date				
Derivative financial instruments	—	23,257	69,189	**92,446**
Accounts receivable	463,273	—	—	**463,273**
Finance receivables	37,255	—	—	**37,255**
Other non-current and current assets	168,815	—	—	**168,815**
Cash and cash equivalents	1,109,184	—	—	**1,109,184**
Total	1,778,527	23,257	69,189	**1,870,973**

As of December 31, 2008 (in thousands)	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Other financial liabilities EUR	Total EUR
Liabilities as per balance sheet date				
Long-term debt	—	—	661,483	**661,483**
Derivative financial instruments	4,265	63,529	—	**67,794**
Total	4,265	63,529	661,483	**729,277**

As of December 31, 2007 (in thousands)	Loans and receivables EUR	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Total EUR
Assets as per balance sheet date				
Derivative financial instruments	—	2,989	30,260	**33,249**
Accounts receivable	637,975	—	—	**637,975**
Other non-current and current assets	191,828	—	—	**191,828**
Cash and cash equivalents	1,271,636	—	—	**1,271,636**
Total	2,101,439	2,989	30,260	**2,134,688**

As of December 31, 2007 (in thousands)	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Other financial liabilities EUR	Total EUR
Liabilities as per balance sheet date				
Other long-term debt	—	—	595,783	**595,783**
Derivative financial instruments	2,989	8,292	—	**11,281**
Total	2,989	8,292	595,783	**607,064**

There are no significant concentrations of credit risk for loans and receivables designated at fair value through profit or loss as of December 31, 2008. The amounts reflected above represent the Company's maximum exposure to credit risk for such loans and receivables.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the following:

Financial instruments contain an element of risk that the counterparties are 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. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the balance sheet.

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 reserve 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. 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.

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 16 million is reflected in finance receivables and EUR 21 million is reflected in accounts receivable. 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.

14. Derivative financial instruments

As of December 31 (in thousands)	2007 Assets EUR	Liabilities EUR	2008 Assets EUR	Liabilities EUR
Interest rate swaps – cash flow hedges	3,900	3,996	**—**	**1,644**
Interest rate swaps – fair value hedges	17,358	709	**64,817**	**—**
Forward foreign exchange contracts – cash flow hedges	1,575	3,587	**6,030**	**65,753**
Forward foreign exchange contracts – net investment hedges	723	—	**2,034**	**—**
Forward foreign exchange contracts – other hedges (no hedge accounting)	4,806	2,989	**19,565**	**397**
Foreign exchange option contracts – cash flow hedges	4,887	—	**—**	**—**
Total	33,249	11,281	**92,446**	**67,794**
Less non-current portion:				
Interest rate swaps – cash flow hedges	3,572	—	**—**	**1,087**
Interest rate swaps – fair value hedges	17,358	—	**53,206**	**—**
Forward foreign exchange contracts – cash flow hedges	—	—	**—**	**18,656**
Total non-current portion	20,930	—	**53,206**	**19,743**
Total current portion	12,319	11,281	**39,240**	**48,051**

The fair value part of a hedging derivative that has a remaining term of less or equal to 12 months is classified as current asset or liability. When the fair value part of a hedging derivative has a term of more than 12 months it is classified as non-current.

No ineffectiveness was recognized in the income statement in 2008 arising from fair value hedges, EUR 18.0 million ineffectiveness (loss) was recognized in the income statement in 2008 arising from cash flow hedges (2007: EUR 0.0 million and EUR 0.2 million, gain, from fair value hedges and cash flow hedges, respectively). There was no ineffectiveness recognized in the income statement in 2008 arising from hedges of net investments in foreign entities.

Forward foreign exchange contracts and foreign exchange options

The notional principal amounts of the outstanding forward foreign exchange contracts and foreign exchange options in the main currencies U.S. dollar and Japanese yen at December 31, 2008 are U.S. dollar 352.0 million and Japanese yen 89.1 billion (2007: U.S. dollar 306.3 million and Japanese yen 32.5 billion).

The hedged highly probable forecasted transactions denominated in foreign currency are expected to occur at various dates during the next 18 months. Gains and losses recognized in the hedging reserve in equity on forward foreign exchange contracts as of December 31, 2008 are recognized in the income statement in the period or periods during which the hedged forecasted transaction affects the income statement. This is generally within 18 months from the balance sheet date.

We recognized a net amount of EUR 19.2 million gain (2007: EUR 26.1 million gain) in the income statement resulting from exchange differences excluding those arising on financial instruments measured at fair value through profit or loss.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts as of December 31, 2008 were EUR 641.5 million (2007: EUR 1,030 million).

Hedge of net investment in foreign entities

A proportion of the Company's U.S. dollar-denominated forward foreign exchange contracts amounting to U.S. dollar 166.0 million (2007: U.S. dollar 182.5 million) are designated as hedges of the foreign currency exposures of the net investment in the Company's United States subsidiary.

15. Other assets

The other non-current assets consist of the following:

As of December 31 (in thousands)	2007 EUR	**2008 EUR**
Loan to Micronic	13,000	**13,000**
Compensation plan assets[1]	7,929	**7,103**
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	32,828	**29,449**

1 For further details on compensation plan refer to Note 23.
2 For further details on loan granted to lessor in respect of Veldhoven headquarters refer to Note 24.

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.

The 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**
VAT	34,459	**18,693**
Prepaid expenses	34,415	**31,314**
Other	24,429	**16,875**
Total other current assets	193,415	**170,680**

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.

The carrying amount of the other non-current and current assets approximates the fair value. The other non-current and current assets do not contain impaired assets.

16. 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**
Provision 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 provision for obsolescence is as follows:

As of December 31 (in thousands)	2007 EUR	**2008** **EUR**
Balance at beginning of year	(115,418)	**(129,045)**
Addition of 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 of 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 non-leading edge used systems and downward pressure on sales prices.

The cost of inventories recognized as expense and included in cost of sales amounted to EUR 1.4 billion (2007: EUR 1.8 billion).

17. Accounts receivable

The 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.

Accounts receivable are impaired and provided for on an individual basis. Impaired receivables are mostly related to customers who experienced difficulties due to economic down turns. As of December 31, 2008, accounts receivable of EUR 15.9 million (2007: EUR 45.9 million) were past due but not impaired. These balances relate to customers for whom there is no recent history of default. The table below shows the ageing analysis of the accounts receivable that are up to three months past due and over three months past due. Accounts receivable are past due when the payment term has expired.

As of December 31 (in thousands)	2007 EUR	2008 EUR
Accounts receivable:		
Up to three months past due	40,768	**12,022**
Over three months past due	5,157	**3,843**
Total	45,925	**15,865**

In 2008, ASML provided extended payment terms to some of its customers. The average days outstanding increased from 38 days in 2007 to 93 days in 2008.

The main part of the carrying value of accounts receivable consists of euro and U.S. dollar balances.

Movements in the allowance for doubtful debts are as follows:

(in thousands)	2007 EUR	2008 EUR
Balance, January[1]	(2,388)	**(1,385)**
(Addition)/ release of the year[1]	178	**(188)**
Receivables written off during the year as uncollectible	825	**143**
Balance, December 31	(1,385)	**(1,430)**

1 (Addition)/ release of 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. See note 12 for more information.

18. 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.

19. Equity

Share Capital

ASML's authorized share capital amounts to EUR 126,000,200 and is divided into:
- 3,150,005,000 cumulative preference shares with a nominal value of EUR 0.02 each;
- 700,000,000 ordinary shares with a nominal value of EUR 0.09 each; and
- 10,000 ordinary shares with a nominal value of EUR 0.01 each.

Currently, only 432,073,534 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid in. The number of issued shares was 444,480,095, which includes the number of repurchased ("treasury") shares of 12,406,561.

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. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply.

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. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply. In a separate agenda item, the shareholders will be asked to grant authority to the Board of Management to issue shares or options under the employee and Board of Management equity based arrangements. These authorizations will each be granted 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 Annual 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 objective of the Foundation is to protect the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated to 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 objective 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 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.

Other reserves

Changes in other reserves during 2007 and 2008 were as follows:

	Legal reserves			
(in thousands)	**Hedging reserve** EUR	**Currency translation reserve** EUR	**Capitalized development expenditures** EUR	**Total EUR**
Balance at January 1, 2007	163,926	(235,155)	121,837	**50,608**
Components of statements of recognized income and expense:				
Foreign currency translation, net of taxes:				
Gains / (losses) on the hedge of a net investment[1]	—	18,808	—	**18,808**
Gains / (losses) on translation of foreign operations	—	(42,732)	—	**(42,732)**
Derivative financial instruments, net of taxes:				
Fair value gains / (losses) in the year	(5,757)	—	—	**(5,757)**
Transfers to net income	869	—	—	**869**
Development expenditures	—	—	59,309	**59,309**
Balance at December 31, 2007	159,038	(259,079)	181,146	**81,105**
Components of statements of recognized income and expense:				
Foreign currency translation, net of taxes:				
Gains / (losses) on the hedge of a net investment	—	1,902	—	**1,902**
Gains / (losses) on translation of foreign operations	—	(12,455)	—	**(12,455)**
Derivative financial instruments, net of taxes:				**—**
Fair value gains / (losses) in the year	(51,168)	—	—	**(51,168)**
Transfers to net income	7,589	—	—	**7,589**
Development expenditures	—	—	81,692	**81,692**
Balance at December 31, 2008	115,459	(269,632)	262,838	**108,665**

1 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies'.

Exchange rate differences relating to the translation from the Company's foreign subsidiaries into euro are recognized in the currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the currency translation reserve.

Derivative financial instruments represent hedging gains and losses on the effective portion of cash flow hedges. The cumulative gain or loss on the hedge is recognized in net income when the hedge transaction impacts net income.

ASML is a company incorporated under Netherlands Law. In accordance with the Netherlands Civil Code, legal reserves have to be established in certain circumstances. The legal reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. Legal reserves are not for distribution to ASML's shareholders. If the currency translation reserve or the hedging reserve has a negative balance, distributions to ASML's shareholders are restricted to the extent of the negative balance.

Appropriation of net income

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.

Share buyback programs

The following table provides a summary of shares repurchased by the Company:

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 buyback programs will depend on the recovery of the industry and economy.

20. Long-term debt

The Company's obligations to make principal repayments under the Eurobond and other borrowing arrangements as of December 31, 2008, for the next five years and thereafter and excluding interest expense, are as follows:

2009	6,659
2010	6,658
2011	6,658
2012	—
2013	—
Thereafter	600,000
Total	619,975
Transaction costs	(5,542)
Non-current portion of long-term debt	**614,433**

Eurobond

The following table summarizes the carrying amount of the Company's outstanding Eurobond, including transaction costs and the 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**
Transaction costs	(6,233)	**(5,542)**
Fair value hedge adjustment[1]	(436)	**47,050**
Total	593,331	**641,508**

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)	2007 Principal Amount EUR	Carrying Amount EUR	Fair Value EUR	2008 Principal Amount EUR	Carrying Amount EUR	Fair Value EUR
5.75 percent Eurobond	600,000	593,331	532,260	**600,000**	**641,508**	**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.

21. 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: current portion of provisions	2,265	2,413	**4,678**
Non-Current 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 costs for onerous contracts. 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 onerous contracts relates to an operating lease contract for a building for which no economic benefits are expected. The provision for onerous contracts is expected to be utilized by 2017.

The restructuring costs are recognized as follows in the income statement:

(in thousands)	Restructuring costs EUR
Cost of sales	**21,492**
Selling, general and administrative costs	**905**
Total	**22,397**

22. 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	**252,515**
Costs to be paid	189,925	**190,225**
Advances from customers	163,759	**169,250**
Personnel related items	152,444	**130,651**
Warranty	73,198	**35,225**
Other	1,233	**4,470**
Total accrued liabilities and other	935,777	**782,336**
Less: non-current portion of accrued liabilities and other	7,936	**50,293**
Current portion of accrued liabilities and other	927,841	**732,043**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ’Adoption of new and revised International Financial Reporting Standards’.

Deferred revenue mainly consists of prepaid service contracts, prepaid extended optic warranty contracts and credit awards regarding free or discounted products or services.

Costs to be paid mainly relate to temporary labor and interest.

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.

We provide standard warranty coverage on our systems for twelve months and an additional lens warranty generally for 48 months, 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.

23. Employee Benefits

Deferred Compensation Plans

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 2007 and 2008, participants' accounts were credited at 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 2007 and 2008, the expense incurred under this plan was 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 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 Metalektro") 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 accounts for its multi-employer defined benefit plan as if it were a defined contribution plan as PME informed ASML that its internal administrative systems are not organized to provide ASML with the required Company-specific information to enable ASML to account for the plan as a defined benefit plan.
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 90 percent as of December 31, 2008 (December 31, 2007: 135 percent), resulting in an increase in pension premiums. In order to improve the coverage ratio, 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 Netherlands government bond swap rates.

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 two years ended December 31, 2008 were:

Year ended December 31 (in thousands)	2007 EUR	2008 EUR
Pension plan based on multi-employer union plan	26,485	**30,579**
Pension plans based on defined contribution	6,993	**8,466**
Total	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 sheet 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)	2007 EUR	2008 EUR
Bonus expenses	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 2007 and 2008 was 14 percent and 6 percent, respectively. This profit-sharing bonus is accrued for in the income statement 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 15.9 million in 2007 and EUR 12.8 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 2007 and 2008 was 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).

Information with respect to stock options outstanding at December 31, 2008 is as follows:

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)
0.19 — 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)	2007	2008
Aggregate intrinsic value of stock options exercised (EUR)	33,273	**5,894**
Total fair value of shares vested during the year (EUR)	127	**4,288**
Aggregate remaining contractual term of currently exercisable options (years)	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 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 model is based on the following assumptions:

As of December 31	2007	2008
Weighted average share price (in EUR)	24.0	**12.5**
Volatility (in percentage)	29.0	**54.5**
Expected life (in years)	4.9	**4.9**
Risk free interest rate	4.4	**4.4**
Expected dividend yield (in EUR)	—	**1.15**
Forfeiture rate[1]	—	**—**

1 As per year end 2008 we estimate forfeitures 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.

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.

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 operating income 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.

24. 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 Special Purpose Entity

The Company leases equipment and buildings under various operating leases. Operating leases are charged to expense on a straight-line basis. See Tabular Disclosure of Contractual Obligations below.

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 determined that it is not appropriate to consolidate the lessor entity as we do not control the entity. This conclusion is based on the following:

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. Furthermore, we have no potential voting rights, we are not in the ability to sell, lease, or otherwise dispose of the entity's assets, to enter into contracts or commitments on behalf of the entity or to establish or take any action that could change the operating or capital policies of the entity, and finally, the entity is not an integral part of our business. Finally, to make the determination of control, the expected losses and expected residual returns of the lessor were allocated to each holder of the lessor entity 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 special 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 the shareholders of the lessor entity will absorb the majority of the lessor's expected losses, and as a result, ASML does not control the entity.

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]	**924,933**	41,159	82,316	69,000	732,458
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
Liability for uncertain tax positions	**124,202**	5,247	34,900	14,324	69,731
Other liabilities[2]	**1,131**	1,131	—	—	—

1 We refer to Note 20 to the consolidated financial statements for the amounts excluding interest expenses.
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 20 to the consolidated financial statements.

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

Tax unity

ASML Holding N.V. forms a tax unity together with its Netherlands subsidiaries, except for ASML Real Estate B.V., for purposes of Netherlands tax laws and are as such jointly and severally liable for the tax debts of the unity.

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.
ASML provides guarantees to third parties in connection with transactions entered into by its Netherlands subsidiaries in the ordinary course of business from time to time.

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 16 million is reflected in finance receivables and EUR 21 million is reflected in accounts receivable. 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.

25. 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 income statement at the time when the related legal services are actually provided to ASML.

Patent cross-license 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.

Patent litigation 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.

26. Income Taxes

The components of income before income taxes are as follows:

Year ended December 31 (in thousands)	2007[1] EUR	2008 EUR
Domestic	488,567	**220,923**
Foreign	385,391	**167,430**
Total	873,958	**388,353**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ‘Adoption of new and revised International Financial Reporting Standards’.

In addition to the income tax expense charged to the consolidated income statement, current and deferred tax of EUR 23.0 million (gain) have been recognized in equity in 2008 related to stock option plans and derivative financial instruments (2007: EUR 4.5 million, gain).

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 income taxes shown in the consolidated income statement, based on the effective tax rate, and expense based on the domestic tax rate, is as follows:

Year ended December 31	**2007**[1,2]		**2008**	
(in thousands)	EUR	%	**EUR**	**%**
Income before income taxes	873,958	100.0	**388,353**	**100.0**
Income tax expense based on domestic rate	222,859	25.5	**99,030**	**25.5**
Change in statutory tax rate	(6)	—	**—**	**—**
Different tax rates	(12,729)	(1.4)	**(26,935)**	**(6.9)**
Other credits and non-taxable items	(51,217)	(5.9)	**(60,640)**	**(15.6)**
Provision for income taxes shown in the income statement	158,907	18.2	**11,455**	**2.9**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ’Adoption of new and revised International Financial Reporting Standards’.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 ‘Summary of Significant Accounting Policies’.

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.

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 (application of the “Royalty Box”), 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	**2007**[1,2]	**2008**
(in thousands)	EUR	**EUR**
Current		
Domestic	96,751	**(45,164)**
Foreign	86,962	**16,502**
Deferred		
Domestic	(14,520)	**40,225**
Foreign	(10,286)	**(108)**
Total	158,907	**11,455**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ‘Adoption of new and revised International Financial Reporting Standards’.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 ‘Summary of Significant Accounting Policies’.

The deferred tax positions and liability for uncertain tax positions recorded on the balance sheet are as follows:

As of December 31 (In thousands)	2007[1] EUR	2008 EUR
Deferred tax position	79,260	**89,386**
Liability for uncertain tax positions	(110,346)	**(124,202)**
Total	(31,086)	**(34,816)**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards'.

The calculation of our tax positions involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position 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.

The liability for uncertain tax positions mainly relates to transfer pricing positions, operational activities in countries where we are not tax registered and tax deductible costs. We provide for these for uncertain tax positions for the duration of the statute of limitations period, which differs per tax jurisdiction and generally ranges up to seven years, or in case of an earlier settlement, when the uncertain tax position is settled with the tax authorities before the statute of limitations period lapses. As of December 31, 2008 the liability for uncertain tax positions amounted to EUR 124.2 million and is included in deferred and other tax liabilities in the consolidated balance sheet.

The Company estimates that the total liability for uncertain tax positions will change with EUR 5.2 million within the next 12 months. The estimated changes to the liability for uncertain tax positions within the next 12 months are mainly due to expected settlements and expiration of the statute of limitations period for uncertain tax positions which might 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. As of December 31, 2007 no liability for uncertain tax positions was recognized for these three main topics and their related tax positions.

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.

The deferred tax position classified in the consolidated financial statements is as follows:

As of December 31 (in thousands)	2007 EUR	2008 EUR
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	102,257	**120,399**
Deferred tax asset to be recovered within 12 months	123,982[1]	**105,145**
Deferred tax liabilities		
Deferred tax liability to be settled after more than 12 months	(106,650)	**(95,977)**
Deferred tax liability to be settled within 12 months	(40,329)	**(40,181)**
Total	79,260	**89,386**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards'.

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**
Capitalized development expenditures	(11,910)	**(17,795)**
Inventories and work-in-process	44,689	**33,298**
Unrealised profits resulting from intercompany transactions	37,647	**24,446**
Restructuring and impairment	—	**12,840**
Temporary depreciation investments	(120,987)	**(72,587)**
Other temporary differences	39,882[1]	**30,496**
Total	79,260	**89,386**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards'.

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 2009 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. 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 operating income, 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 operating income 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, 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.

In 2007 and 2008, the capitalized development expenditures for commercial purposes are higher than the tax base of the capitalized development expenditures for tax purposes. This taxable temporary difference resulted in a deferred tax liability as of December 31, 2007 and 2008.

The most important components of our deferred tax position 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.

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 non-current deferred tax liability in the Company's financial statement.

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.

27. Subsidiaries

Details of the Company's material subsidiaries at December 31, 2008 are as follows:

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 (Turnhout)

28. Segment Disclosure

ASML operates in one reportable segment for the development, manufacture, marketing and servicing of lithography equipment. 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 2007 and 2008 were as follows:

Year ended December 31 (in thousands)	**2007**[1] EUR	**2008** **EUR**
300 millimeter new systems	3,154,802	**2,297,109**
200 millimeter new systems	99,396	**49,228**
used systems	97,083	**170,425**
Total net system sales	3,351,281	**2,516,762**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards'.

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**[1] EUR	**Identifiable assets**[1] EUR	**Capital expenditures** EUR
2007			
Japan	270,068	39,666	785
Korea	1,019,733	21,888	3,996
Singapore	204,673	4,989	85
Taiwan	794,113	53,534	14,895
Rest of Asia	283,076	824,524	1,076
Europe	344,013	2,577,107	319,757
United States	852,509	356,738	28,134
Total	3,768,185	3,878,446	368,728
2008			
Japan	**437,202**	**239,746**	**1,069**
Korea	**909,941**	**12,204**	**305**
Singapore	**72,245**	**5,174**	**337**
Taiwan	**361,808**	**62,509**	**23,928**
Rest of Asia	**252,713**	**374,285**	**258**
Europe	**280,040**	**2,734,220**	**463,610**
United States	**639,729**	**337,324**	**22,376**
Total	**2,953,678**	**3,765,462**	**511,883**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See See note 2 'Adoption of new and revised International Financial Reporting Standards'.

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.
ASML's three largest customers accounted for 42.2 percent of accounts receivable at December 31, 2008 and 40.1 percent of accounts receivable at December 31, 2007.

Substantially all our sales were export sales in 2007 and 2008.

29. Personnel

Personnel expenses for all payroll employees were:

Year ended December 31 (in thousands)	2007 EUR	2008 EUR
Wages and salaries	469,214	**477,374**
Social security expenses	35,905	**37,877**
Pension and early retirement expenses	33,478	**39,045**
Share-based payments	15,939	**12,809**
Total	554,536	**567,105**

The average number of payroll employees in FTEs during 2007 and 2008 was 6,191 and 6,840 respectively. The total number of payroll personnel employed in FTEs per sector was:

As of December 31	2007	2008
Research and development	1,831	**2,042**
Goodsflow	1,699	**1,936**
Customer Support	2,475	**2,346**
General	468	**488**
Sales	109	**118**
Total	6,582	**6,930**

As of December 31, 2007 and 2008, a total of 1,725 and 1,329 temporary employees in FTEs, respectively, were employed in the Company's continuing operations.

In 2007 and 2008, a total of 3,112 and 3,510 (on average) payroll employees in FTEs (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 has been approved in February 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.

30. 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	2007 EUR	**2008 EUR**
Salaries	2,010,000	**2,073,000**
Bonuses	940,781	**988,236**[1,2]
Pension cost	221,958	**249,072**
Other benefits[3]	245,968	**266,625**
Total	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.

In February 2009, in view of the exceptional circumstances, the Remuneration Committee determined that payment of the short-term performance cash bonus earned over the year 2008 will be made partly in the form of shares and partly in cash.

The 2008 vested pension benefits[1] of individual members of the Board of Management was as follows:

	2008
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 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 income statement 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 2009 for 2008 actual achievement
E. Meurice	42,448
P.T.F.M. Wennink	26,277
M.A. van den Brink	27,894
K.P. Fuchs	23,101

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 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 income statement 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	2007[1] 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**

1 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 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 to each Supervisory Board member, and EUR 2,400 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.

31. 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 28. Business failure of one of our main customers may result in adverse effects on our business, financial condition and results of operations.

32. Principal Accountant Fees and Services

Deloitte Accountants B.V. has served as our independent auditor for each of the two 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 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 and Company financial statements set forth in our Statutory Annual Report and our Consolidated 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 and IFRS.

Audit-related fees

Audit-related fees mainly comprise 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.

Veldhoven, the Netherlands
February 17, 2009

Prepared by
The Board of Management:
Eric Meurice
Peter T.F.M. Wennink
Martin A. van den Brink

Company Financial Statements

Company Financial Statements

Company Balance Sheets

(Before appropriation of net income)

As of December 31 (in thousands)	2007 EUR	**2008 EUR**
Non-current assets		
Investments in subsidiaries[1]	2,958,048	**2,557,728**
Deferred tax assets	79,126	**76,922**
Derivative financial instruments	20,809	**53,206**
Total non-current assets	3,057,983	**2,687,856**
Current assets		
Amounts due from subsidiaries	14,801	**285,413**
Current tax assets	—	**79,551**
Derivative financial instruments	2,952	**16,701**
Other assets	3,477	**395**
Cash and cash equivalents	33,114	**1,923**
Total current assets	54,344	**383,983**
Total assets	3,112,327	**3,071,839**
Equity		
Cumulative Preference Shares, EUR 0.02 nominal value; 3,150,005,000 shares authorized; none outstanding at December 31, 2007 and 3,150,005,000 shares authorized; none outstanding at December 31, 2008	—	**—**
Ordinary Shares, EUR 0.09 and EUR 0.01 nominal value at December 31, 2007, respectively 700,000,000 and 10,000 shares authorized; respectively 435,625,934 and none outstanding at December 31, 2007 and EUR 0.09 and EUR 0.01 nominal value at December 31, 2008, respectively 700,000,000 and 10,000 shares authorized; respectively 432,073,534 and none outstanding at December 31, 2008	40,176	**40,307**
Share premium	909,336	**915,457**
Retained earnings[1]	493,262	**1,002,272**
Treasury shares at cost	(199,863)	**(254,856)**
Legal reserves[2]	81,105	**108,665**
Net income	715,051	**376,898**
Total equity	2,039,067	**2,188,743**
Non-current liabilities		
Loans from subsidiaries	166,859	**52,001**
Long-term debt	593,331	**641,508**
Deferred and other tax liabilities	185,905	**187,547**
Total non-current liabilities	946,095	**881,056**
Current liabilities		
Accrued liabilities and other liabilities	17,949	**2,040**
Current tax liability	102,159	**—**
Derivative financial instruments	7,057	**—**
Total current liabilities	127,165	**2,040**
Total equity and liabilities	3,112,327	**3,071,839**

1 As of January 1, 2008 ASML early adopted IFRIC 13 “Customer Loyalty Programmes” and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 ‘Adoption of new and revised International Financial Reporting Standards’ of the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 ‘Summary of Significant Accounting Policies’ of the consolidated financial statements.

Abbreviated Company Income Statements

As of December 31 (in thousands)	2007[1,2] EUR	2008 EUR
Net income from subsidiaries	741,118	**413,316**
Loss after taxes	(26,067)	**(36,418)**
Net income	715,051	**376,898**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.

2 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies' of the consolidated financial statements.

Notes to the Company Financial Statements

1. General Information

The description of the Company's activities and the Company structure, as included in the Notes to the consolidated financial statements, also apply to the Company financial statements.

In accordance with article 362 sub 8 Part 9 of Book 2 of the Netherlands Civil Code, ASML has prepared its Company financial statements in accordance with accounting principles generally accepted in the Netherlands applying the accounting principles as adopted in the consolidated financial statements. Investments in subsidiaries are stated at net asset value as the Company effectively exercises influence of significance over the operational and financial activities of these investments. The net asset value is determined on the basis of the IFRS accounting principles applied by the Company in its consolidated financial statements.

In accordance with article 402 Part 9 of Book 2 of the Netherlands Civil Code the Company income statement is presented in abbreviated form.

2. Summary of Significant Accounting Policies

Significant accounting policies

The accounting policies used in the preparation of the Company financial statements are the same as those used in the preparation of the consolidated financial statements (in accordance with article 362 sub 8 Part 9 of Book 2 of the Netherlands Civil Code). See the Notes to the consolidated financial statements. In addition to those accounting policies, the following accounting policy applies to the Company financial statements.

Investments in subsidiaries

Investments in subsidiaries are stated at net asset value as the Company effectively exercises influence of significance over the operational and financial activities of these investments. The net asset value is determined on the basis of the accounting principles applied by the Company.

3. Investments in Subsidiaries

Changes in investments in subsidiaries during 2007 and 2008 were as follows:

As of December 31 (in thousands)	**2007**[1] EUR	**2008** **EUR**
Balance, January 1	1,677,336	**2,958,048**
Capital contributions (reductions)	937,623	**39,378**
Dividends received	(354,016)	**(791,203)**
Net income from subsidiaries	741,118	**413,316**
Effect of exchange rates	(42,727)	**(11,444)**
Other changes	(1,286)	**(50,367)**
Balance, December 31	2,958,048	**2,557,728**

1 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.

4. Equity

Changes in equity during 2007 and 2008 were as follows:

(in thousands)	Issued and outstanding shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings[6,7] EUR	Treasury Shares at cost EUR	Legal Reserves[3,6,7] EUR	Net Income[6,7] EUR	Total EUR
Balance at December 31, 2006	477,099	10,051	1,640,496	342,844	(401,000)	50,608	635,984	**2,278,983**
Effect of change in accounting policy[6]	—	—	—	(2,310)	—	—	(6,142)	**(8,452)**
Balance at January 1, 2007	477,099	10,051	1,640,496	340,534	(401,000)	50,608	629,842	**2,270,531**
Appropriation of net income	—	—	—	629,842	—	—	(629,842)	—
Components of statement of recognized income and expense:								
Net income	—	—	—	—	—	—	715,051	**715,051**
Foreign currency translation, net of taxes	—	—	—	—	—	(23,924)	—	**(23,924)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(4,888)	—	**(4,888)**
Net income recognized directly in equity	—	—	—	—	—	(28,812)	715,051	**686,239**
Cancellation of treasury shares	—	(509)	(48,563)	(351,928)	401,000	—	—	—
Share-based payments	—	—	18,120	—	—	—	—	**18,120**
Purchase of shares in conjunction with conversion rights of bond holders and share-based payment plans[2]	(17,000)	—	—	—	(359,856)	—	—	**(359,856)**
Issuance of shares in conjunction with convertible bonds	26,232	718	289,085	(60,846)	130,317	—	—	**359,274**
Capital repayment[4]	(55,093)	29,748	(1,041,605)	—	—	—	—	**(1,011,857)**
Issuance of shares and stock options	4,388	168	51,803	(5,031)	29,676	—	—	**76,616**
Development expenditures	—	—	—	(59,309)	—	59,309	—	—
Balance at December 31, 2007	435,626	40,176	909,336	493,262	(199,863)	81,105	715,051	**2,039,067**
Appropriation of net income	—	—	—	715,051	—	—	(715,051)	—
Components of statement of recognized income and expense:								
Net income	—	—	—	—	—	—	376,898	**376,898**
Foreign currency translation, net of taxes	—	—	—	—	—	(10,553)	—	**(10,553)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(43,579)	—	**(43,579)**
Net income recognized directly in equity	—	—	—	—	—	(54,132)	376,898	**322,766**
Share-based payments	—	—	8,839	—	—	—	—	**8,839**
Purchase of shares in conjunction with share-based payment plans	(5,000)	—	—	—	(87,605)	—	—	**(87,605)**
Dividend payment[5]	—	—	—	(107,841)	—	—	—	**(107,841)**
Issuance of shares and stock options	1,448	131	(2,718)	(16,508)	32,612	—	—	**13,517**
Development expenditures	—	—	—	(81,692)	—	81,692	—	—
Balance at December 31, 2008	432,074	40,307	915,457	1,002,272	(254,856)	108,665	376,898	**2,188,743**

1 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 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 bought back which were partly reissued in order to cover exercised stock options and to satisfy the conversion rights of holders of our 5.50 percent Convertible Subordinated Notes. We paid EUR 360 million in cash for these shares in total. See Note 19 for further information.

3 Other reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. See Note 19 for further information.
4 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 19 for further information.
5 In 2008, ASML paid out a dividend of EUR 108 million to its shareholders, see Note 19 for more information.
6 As of January 1, 2008 ASML early adopted IFRIC 13 "Customer Loyalty Programmes" and 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 year 2007 have been adjusted to reflect this change in accounting policy. See note 2 'Adoption of new and revised International Financial Reporting Standards' of the consolidated financial statements.
7 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies'.

Share Capital

ASML's authorized share capital amounts to EUR 126,000,200 and is divided into:

- 3,150,005,000 cumulative preference shares with a nominal value of EUR 0.02 each;
- 700,000,000 ordinary shares with a nominal value of EUR 0.09 each; and
- 10,000 ordinary shares with a nominal value of EUR 0.01 each.

Currently, only 432,073,534 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid in. The number of issued shares was 444,480,095, which includes the number of repurchased ("treasury") shares of 12,406,561.

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 the Annual General Meeting of Shareholders held on April 3, 2008, ASML's shareholders were asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through October 3, 2009, representing up to a maximum of 5 percent of our issued share capital as of the date of authorization (April 3, 2008), plus an additional 5 percent of our issued share capital as of the date of authorization (April 3, 2008) that may be issued in connection with mergers and acquisitions. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply.

Holders of ASML ordinary shares have a pro rata preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or eliminated. 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 (whether by means of a resolution or by an amendment to the Company's Articles of Association), the Board of Management has the power, with the approval of the Supervisory Board, to limit or eliminate the preemptive rights of holders of ordinary shares. A designation may be renewed. At the 2008 Annual General Meeting of Shareholders, the shareholders granted this authority through October 3, 2009. As the authorization will expire on October 3, 2009, our shareholders will be asked at the 2009 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 26, 2009 through September 26, 2010. As a result thereof the previous authorization will cease to apply. In a separate agenda item, the shareholders will be asked to grant authority to the Board of Management to issue shares or options under the employee and Board of Management equity based arrangements. These authorizations will each be granted 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 Annual 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.

ASML is considering to propose in one of the future AGM's to amend its Articles of Association to reflect the above described change in law.

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 objective of the Foundation is to protect 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 objective 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 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.

Legal reserves

Changes in legal reserves during 2007 and 2008 were as follows:

(in thousands)	Hedging reserve EUR	Currency translation reserve EUR	Capitalized development expenditures EUR	Total EUR
Balance at January 1, 2007	163,926	(235,155)	121,837	**50,608**
Components of statements of recognized income and expense:				
Foreign currency translation, net of taxes:				
Gains / (losses) on the hedge of a net investment[1]	—	18,808	—	**18,808**
Gains / (losses) on translation of foreign operations	—	(42,732)	—	**(42,732)**
Derivative financial instruments, net of taxes:				
Fair value gains / (losses) in the year	(5,757)	—	—	**(5,757)**
Transfers to net income	869	—	—	**869**
Development expenditures	—	—	59,309	**59,309**
Balance at December 31, 2007	159,038	(259,079)	181,146	**81,105**
Components of statements of recognized income and expense:				
Foreign currency translation, net of taxes:				
Gains / (losses) on the hedge of a net investment	—	1,902	—	**1,902**
Gains / (losses) on translation of foreign operations	—	(12,455)	—	**(12,455)**
Derivative financial instruments, net of taxes:				—
Fair value gains / (losses) in the year	(51,168)	—	—	**(51,168)**
Transfers to net income	7,589	—	—	**7,589**
Development expenditures	—	—	81,692	**81,692**
Balance at December 31, 2008	115,459	(269,632)	262,838	**108,665**

1 In 2008, subsequent to the filing of the 2007 statutory annual report, 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 income statement under provision for income taxes instead of in equity under other reserves. The 2007 figures have been adjusted to reflect this correction. See note 3 'Summary of Significant Accounting Policies'.

Exchange rate differences relating to the translation from the Company's foreign subsidiaries into euro are recognized in the currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the currency translation reserve.

Derivative financial instruments represent hedging gains and losses on the effective portion of cash flow hedges. The cumulative gain or loss on the hedge is recognized in net income when the hedge transaction impacts net income.

ASML is a company incorporated under Netherlands Law. In accordance with the Netherlands Civil Code, legal reserves have to be established in certain circumstances. The legal reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. The hedging reserve and the reserve for capitalized development expenditures are not for distribution to ASML's shareholders.

Appropriation of net income

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.

Share buyback programs

The following table provides a summary of shares repurchased by the Company:

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

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 buyback programs will depend on the recovery of the industry and economy.

5. Personnel

The average number of employees employed by the ASML Holding N.V. at year-end 2008 was 4 (2007: 4) and comprised of members of the Board of Management. For information regarding the remuneration of the Board of Management reference is made to Note 30 of the consolidated financial statements.

6. Commitments and Contingencies

ASML Holding N.V. has assumed joint and several liabilities in accordance with article 403 Part 9 of Book 2 of The Netherlands Civil Code with respect to the following subsidiaries of the Company in the Netherlands: ASML Netherlands B.V., ASML MaskTools B.V. and ASML Real Estate B.V.

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.

ASML Holding N.V. forms a tax unity together with its Netherlands subsidiaries, excluding ASML Real Estate B.V., for purposes of Netherlands tax laws and are as such jointly and severally liable for the tax debts of the unity.

Veldhoven, the Netherlands
February 17, 2009

Prepared by
The Board of Management:
Eric Meurice
Peter T.F.M. Wennink
Martin A. van den Brink

Other Information

The additional information below includes a brief summary of the most significant provisions of the Articles of Association of the Company. See also Note 19, as included in the Notes to the consolidated financial statements.

Adoption of Financial Statements

The Board of Management will submit the Company's statutory annual report, together with a certificate of the auditor in respect thereof, to the General Meeting of Shareholders for adoption.

Statements Appropriation and Determination of Net Income

Dividends may be payable out of net income for shown in the Financial Statements of the Company as adopted by the General Meeting of Shareholders of the Company, after payment first of (accumulated) dividends on any outstanding cumulative preference shares. At its discretion, however, subject to statutory provisions, the Board of Management may, with the prior approval of the Supervisory Board, distribute one or more interim dividends on the ordinary shares before the Financial Statements for any financial year have been adopted by the General Meeting of Shareholders. The Board of Management, with the approval of the Supervisory Board, may decide that all or part of the Company's net income should be retained and not be made available for distribution to shareholders, except for dividends on the cumulative preference shares. Those net incomes that are not retained may be distributed to shareholders pursuant to a shareholders' resolution, provided that the distribution does not reduce equity below the amount of reserves required by Netherlands law. Existing reserves that are distributable in accordance with Netherlands law may be made available to the General Meeting of Shareholders for distribution upon a proposal by the Board of Management, subject to prior approval of the Supervisory Board. As regards cash payments, the rights to dividends and distributions shall lapse if such dividends or distributions are not claimed within five years following the day after the date on which they were made available.

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.

Voting Rights

The Company is subject to the relevant provisions of Netherlands law applicable to large corporations (the "structuurregime"). These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of the Supervisory Board. Members of the Board of Management are appointed by the Supervisory Board. The Supervisory Board shall notify the General Meeting of Shareholders of intended appointments to the Board of Management. General Meetings of Shareholders will be held at least once a year. The Company does not solicit from or nominate proxies for its shareholders. However, shareholders and other persons entitled to attend General Meetings of Shareholders may be represented by proxies.

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

Resolutions are adopted at General Meetings of Shareholders by an absolute majority of the votes cast (except where a different proportion of votes are required by the Articles of Association or Netherlands law) and there are generally no quorum requirements applicable to such meetings. The number of votes that may be cast by a shareholder equals the multiple of one eurocent (EUR 0.01) included in the aggregate nominal amount of his shares.

Auditor's report

To the Supervisory Board and Shareholders of ASML Holding N.V.:

Report on the financial statements

We have audited the accompanying financial statements for the year 2008 of ASML Holding N.V., Veldhoven. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2008, income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2008, the company income statement for the year then ended and the notes.

Management's responsibility

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

Auditor's responsibility

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ASML Holding N.V. as at December 31, 2008, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of ASML Holding N.V. as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

/s/ P.J.M.A. van de Goor

Eindhoven, The Netherlands
February 17, 2009

Information and Investor Relations

Financial calendar

March 26, 2009
General meeting of Shareholders
Auditorium, ASML Building 7,
De Run 6665
Veldhoven, the Netherlands

April 15, 2009
Announcement of First Quarter results for 2009

July 15, 2009
Announcement of Second Quarter results for 2009

October 14, 2009
Announcement of Third Quarter results for 2009

January 20, 2010
Announcement of Fourth Quarter results for 2009 and Annual Results for 2009.

Fiscal Year
ASML's fiscal year ends on December 31, 2009

Listing
The ordinary shares of the Company are listed on the official market of the Euronext Amsterdam N.V. and in the United States on NASDAQ (NASDAQ Global Select Market), under the symbol "ASML". ASML's ordinary shares may also trade on other stock exchanges from time to time, although ASML has not applied for listings on those exchanges and does not endorse and may not be notified of such trading.

Investor Relations
ASML Investor Relations will supply information or copies of the Annual Report on Form 20-F filed with the US Securities and Exchange Commission and the Statutory Annual Report. These Annual Reports, quarterly releases and other information are also available on the ASML website (www.asml.com).

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