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# Statutory Annual Report 2007



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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.

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# Message to our Shareholders

Dear Shareholder,

2007 has been a year of records for ASML. We achieved record net sales and net income, while at the same time we were investing a record amount in research and development for our new products. With our immersion lithography machines, which can image the world's smallest features on semiconductors in large volumes, we managed the fastest transition to a new chip manufacturing technology in history. Our TWINSCAN™ XT:1900i immersion system has set a new standard and it has helped us to win two new customers, making us a supplier to 18 of the world's top 20 chip manufacturers – another record achievement.

To you, our shareholders, we returned close to EUR 1.4 billion in cash during 2007, which was another record made possible by our business success. Through 2007, the number of issued and outstanding ASML shares fell to 436 million from 477 million, a reduction of 41 million shares. We are confident about our continued ability to generate cash above operational needs in 2008, and we will consider all available opportunities to return this cash to shareholders, including share buybacks, dividend and capital repayment.

The ASML success story has a long way to go, as we see many opportunities to drive the next waves of electronic applications and devices, creating more value for chip makers and consumers around the globe. This is made possible by our very talented employees who have continued to show dedication and commitment to our customers and their success.

I would like to thank you for your support of ASML, a key contributor to the digital age we all live in.

Eric Meurice  
President, Chief Executive Officer and  
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  
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  
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 2008  
Dutch nationality

### **OB Bilous (1938)**

Former General Manager and  
VP Worldwide Manufacturing of IBM's Microelectronics Division  
First appointed 2005  
Current term until 2009  
US 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 2008  
German nationality

### **Jos W.B. Westerburgen (1942)**

Former Company Secretary and  
Head of Tax of Unilever  
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  
US nationality

### **Rolf Deusinger (1957)**

Executive Vice President Human Resources of ICI  
First appointed 2007  
Current term until 2011  
German 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 2007, as prepared by the Board of Management and included in this Annual Report. Deloitte has duly examined the Company's financial statements, and their Independent Auditors' 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 in performing its management tasks and setting the direction of ASML's business. Major management decisions, such as ASML's strategy and the 2007 capital restructuring, 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, proposes the remuneration policy for the Board of Management to the Annual General Meeting of Shareholders ("AGM" or "Annual General Meeting of Shareholders"), and decides on the remuneration for the individual members of the Board of Management. In addition, the Supervisory Board also nominates new Supervisory Board candidates to the AGM, 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. For a more detailed description on corporate governance we refer to the Corporate Governance Chapter of the Annual Report.

## Meetings and activities of the Supervisory Board

The Supervisory Board held six meetings in 2007. All of the members who were in office during the full year of 2007, participated in at least five meetings. In addition to these meetings, the Supervisory Board interacted intensively with the Board of Management through consultations, conference calls and regular reports. During the various meetings, the Supervisory Board discussed ASML's business risks, budget, corporate targets and intellectual property strategy, among other matters.

In 2007, the Supervisory Board spent considerable time discussing ASML's corporate and technology strategy, including the integration and development of Brion Technologies Inc., which ASML acquired in the first quarter of 2007. The Company's 2007 capital restructuring, comprising the share buyback programs, the bond issue as well as the capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback), was also extensively discussed.

Members of the Board of Management were always present at the meetings of the Supervisory Board, except where the Supervisory Board discussed, among other things, the relationship with and the composition and performance of the Board of Management and its individual members, as well as the composition and functioning of the Supervisory Board and its individual members. This evaluation meeting resulted in several suggestions, such as having more frequent and extended Supervisory Board meetings to ensure sufficient time to discuss all relevant items, also in view of increasing responsibilities of the Supervisory Board over the past years. In addition, it was agreed to schedule time after each Supervisory Board meeting without the Board of Management to discuss the topics as mentioned above, instead of one long meeting annually. Another suggestion was that the Chairman of the Supervisory Board should meet more frequently with individual members of the Board of Management and individual Supervisory Board members. Appropriate feedback has been given to the Board of Management concerning this evaluation meeting.

The Supervisory Board also visited ASML's offices in Taiwan to understand and familiarize itself with the industrial environment and ASML's activities in Asia.

In addition to the regularly scheduled meetings, in 2007 there were ad hoc meetings and conference calls among several Supervisory Board members on specific topics and frequent consultations between the Supervisory Board and the Board of Management.

Members of the Supervisory Board also held two regular meetings with the Works Council in the Netherlands during 2007. The Supervisory Board's relationship with the Works Council is characterized by continuous cooperation and professionalism.

## **Composition of the Supervisory Board**

Mr. H. Bodt retired by rotation on March 28, 2007, after completion of his 12 year tenure on ASML's Supervisory Board. We express our gratitude to Mr. H. Bodt for his excellent chairmanship and contribution throughout the past 12 years.

Mr. A. Van der Poel succeeded Mr. H. Bodt as Chairman of ASML's Supervisory Board.

To fill the vacant position caused by Mr. H. Bodt's retirement, the Supervisory Board nominated Mr. W. Siegle, who was appointed at the general shareholders meeting on March 28, 2007.

Mr. A. Van der Poel and Mr. F. Fröhlich will retire by rotation on April 3, 2008 and have made their availability for reappointment known.

In 2006, the Works Council had the enhanced right to make a recommendation for the appointment of one member of the Supervisory Board. On July 17, 2007 this member, Mr. R. Deusinger, was appointed at an extraordinary shareholders meeting.

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 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 the Supervisory Board members.

Decisions and recommendations of the four committee meetings are reviewed in plenary meetings of the Supervisory Board. This enables members of different committees to contribute their findings and conclusions in the full Supervisory Board.

In 2007, each committee also evaluated its composition and function, resulting in various suggestions and actions, which will be given further consideration.

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 2007, the Audit Committee met five times and held two conference calls. The current members of our Audit Committee are Mr. F. Fröhlich (Chairman), Mr. J. Dekker, and Mr. A. Van der Poel. The members of the Audit Committee are all independent, non-executive members of the Supervisory Board.

During 2007, 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. Special attention was given to the activities of the internal audit department with respect to ASML's internal controls and risk management systems, including continuous testing of 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 reviewing regular updates on the activities of the Company's Disclosure Committee. Significant attention was given this year to ASML's capital restructuring and the resulting transactions, comprising the share buyback programs, the capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback), as well as the bond issue.



### **Remuneration Committee**

In 2007, the Remuneration Committee met five times. The current members of our Remuneration Committee are Mr. J. Westerburgen (Chairman), Ms. H. Van den Burg and Mr. R. Deusinger.

During 2007, the main subjects of the meetings of the Remuneration Committee were the remuneration 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, the proposal for the new remuneration for the Supervisory Board members as approved in the 2007 AGM, and discussions of ASML's stock-based Equity Plans for 2007 and 2008.

### **Selection and Nomination Committee**

The Selection and Nomination Committee met twice formally and several additional times on an ad hoc basis in 2007, specifically to discuss the selection and nomination of the two newly Supervisory Board appointed members, Messrs. W. Siegle and R. Deusinger. The current members of our Selection and Nomination Committee are Mr. J. Westerburgen (Chairman), Mr. OB. Bilous and Mr. A. Van der Poel.

The main subjects of the meetings of the Selection and Nomination Committee were the composition of the Supervisory Board and the Board of Management. These subjects included discussions about the possible extension of Mr. E. Meurice's employment agreement. The Committee members also met with the Works Council to discuss the selection of a Supervisory Board member to be recommended by the Works Council based on its strengthened recommendation right.

### **Technology and Strategy Committee**

The Technology and Strategy Committee met three times in 2007. The current Supervisory Board members of our Technology and Strategy Committee are Mr. J. Dekker (Chairman), Mr. OB. Bilous, Mr. A. Van der Poel and Mr. W. 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 2007, the Technology and Strategy Committee reviewed specific ASML technology matters together with the Company's experts. This practice increases the full Supervisory Board's understanding of ASML technology matters and enables it to supervise the strategic choices facing ASML.

The main subjects of the meetings of the Technology and Strategy Committee in 2007 were the Company's technology roadmap, including maskless lithography, Extreme Ultra Violet ("EUV") lithography, immersion technology, Brion and diversified lithography.

### **Remuneration of the Supervisory Board**

The remuneration of the Supervisory Board members is described in Note 27 to the Statutory Financial Statements 2007. 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.

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 four members.

For further details and a biography of the members of the Board of Management, see Item 6.A. 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 compensation and benefits for members of the Board of Management. Furthermore, the Remuneration Committee reviews and proposes the general compensation and benefit programs for the Board of Management.

### **Amount and Composition**

In proposing to the Supervisory Board the actual remuneration elements and levels applicable to the members of the Board of Management, the Remuneration Committee considers, among other factors, the Remuneration Policy 2004 as adopted by the 2004 General Meeting of Shareholders, which was last amended, and adopted, in 2006 to reflect the further developments and insights gained in this area. The amendments mainly led to a move from the third quartile (75th percentile) to the market median (50th) percentile level in benchmarking, to greater emphasis on the long-term (stock) component and the possibility to reward overachievement. 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 2007 remuneration report**

The outlines of the remuneration report of the Supervisory Board for the financial year 2007 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: 100-50-25-50, where base salary is 100; the maximum performance bonus is 50; performance stock options are 25 and performance stock is 50;
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 27 to the Statutory Financial Statements 2007. The remuneration of the Board of Management in the year 2007 was in accordance with the 2006 Remuneration Policy. The entire remuneration report of the Supervisory Board concerning the remuneration policy of the Company in 2007 and the 2006 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 December 2007 recommendations of the Monitoring Committee Corporate Governance Code (Commissie Frijns) in 2008.

### **Indemnification**

The 2004 General Meeting of Shareholders 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 also acknowledge the professional contributions made by those associated with the Company throughout 2007, and in particular, we express our appreciation and gratitude to the employees of ASML. Our employees operate in an enormously demanding market with continuous pressure to develop leading-edge technology to stay ahead of the competition. We appreciate their knowledge, commitment to ASML and personal sacrifices to support ASML in being the world's leading provider of lithography systems for the semiconductor industry.

## 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	69
profession	former General Manager and VP Worldwide Manufacturing of IBM's Microelectronics Division
principal position	Chairman of the Board of Directors of International Sematech
nationality	American
other relevant positions	Board member Nantero, Inc.
first appointed	2005
current term until	2009

### H.C.J. Van den Burg

gender	female
age	55
profession	member of the European Parliament
principal position	member of the European Parliament
nationality	Dutch
other relevant positions	none
first appointed	2005
current term until	2009

### J.A. Dekker

gender	male
age	68
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

### R. Deusinger

gender	male
age	50
profession	Executive Vice President HR of ICI plc.
principal position	Executive Vice President HR of ICI plc.
nationality	German
other relevant positions	none
first appointed	2007
current term until	2011

### F.W. Fröhlich

gender	male
age	65
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	2008

**A.P.M. Van der Poel**

gender	male
age	59
profession	former member of the Board of Management of Royal Philips Electronics
principal position	Chairman of the Dutch Innovation Program Point-One
nationality	Dutch
other relevant positions	member of the Board of Directors of Gemalto Holding N.V., a director of the Public Utility Fund (PUF-NRE) and member of the Supervisory Boards of PSV N.V. and DHV Holding B.V.
first appointed	2004
current term until	2008

**W.T. Siegle**

gender	male
age	68
profession	Former Senior Vice President and Chief Scientist of AMD, Inc.
principal position	member of the Advisory Board of Toppan Photomask Inc.
nationality	American
other relevant positions	member of the Advisory Board of Acorn Technologies, Inc.
first appointed	2007
current term until	2011

**J.W.B. Westerburgen**

gender	male
age	65
profession	former Company Secretary and Head of Tax of Unilever
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 Appointed	R.F. Roelofs 2002
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Deputy Company Secretary Appointed	G.C.M. Keizer 2002
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The Supervisory Board,  
Veldhoven, February 15, 2008

# 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 NYSE Euronext Amsterdam N.V. (“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. As 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 for discussion on the agenda of its AGM.

## II. Board of Management

### Role and Procedure

ASML has a two-tier board structure. 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”), and is supervised by the Supervisory Board. The current Board of Management comprises four members.

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.

In the execution of its tasks and responsibilities, the Board of Management is supervised by the Supervisory Board. The Board of Management provides the Supervisory Board with all information, in writing or otherwise, necessary for the Supervisory Board to fulfill its duties. This includes the distribution of a monthly Management Report, containing updated information on 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 Annual Report 2007 (as defined below), ASML discusses the sensitivity of its results to both external as well as internal factors and variables.

The Board of Management’s Rules of Procedure contain the responsibilities for the full Board of Management, for its individual members, as well as the procedures for meetings, minutes, and resolutions. For a more detailed overview of these items, reference is made to the Rules of Procedure 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 March 31, 2004 amendment of the Articles of Association, are appointed for a period of four years. Their employment contracts can be extended for consecutive four-year terms. Mr. E. Meurice and Mr. K. Fuchs are both appointed for a period of four years. Prior to March 31, 2004, members of the Board of Management were appointed for indefinite periods.

Currently, discussions are underway by the Selection and Nomination Committee with respect to the possible extension of Mr. E. Meurice’s employment agreement which was entered into on October 1, 2004 and which agreement will expire on September 1, 2008.

The existing employment agreements of Messrs. P. Wennink and M. Van den Brink, who were appointed before March 31, 2004, will be honored, including all rights and obligations under these contracts. Members of the Board of Management serve until the end of the term of their appointment, voluntary retirement, or suspension or dismissal by the Supervisory Board. The Supervisory Board may suspend and dismiss members of the Board of Management. However, members cannot be dismissed without a hearing at the General Meeting of Shareholders.

Board of Management members may only accept a membership of a Supervisory Board of another listed company upon 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 all 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 introduced in 2006 a formal Risk Management approach. This approach consist of a set of risks definitions (Risk Universe) that is discussed amongst senior management of ASML in a yearly Risk Workshop. Risks are ranked based on likelihood and impact and actions are initiated based on this risk assessment to further enhance ASML’s risk mitigation.

ASML publishes two annual reports in respect of the financial year 2007 (“Annual Reports 2007”): a Statutory Annual Report in accordance with the Netherlands legal requirements based on 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 Annual Reports 2007 include risk factors that are specific to the semiconductor industry, ASML and its shares. In addition, in its Annual 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 of, and potential variability, of ASML’s earnings and cash flow. In its “In Control Statement”, as included in the Statutory Annual Report 2007, the Board of Management addresses ASML’s internal risk management and control systems.

Pursuant to the Sarbanes-Oxley Act, ASML’s management conducted 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, 2007 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 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 as well as ASML's CFO, reports to and assists ASML's CEO and CFO in the maintenance and evaluation of disclosure controls and procedures. The Disclosure Committee's main responsibility is to ensure compliance with applicable disclosure requirements arising under US and Netherlands law and applicable stock exchange rules. The Audit Committee is informed about the outcome of the Disclosure Committee meetings.

In order to assist the Disclosure Committee in preparing its advice to ASML's CEO and CFO in their assessment of ASML's disclosure controls and procedures and internal control over financial reporting, we also have an Internal Control Committee, comprising among others three members of the Disclosure Committee.

## **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's Complaints Procedure provides for 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, whereby both ASML employees as well as third parties can report alleged irregularities of a financial nature to ASML's Internal Auditor and/or to the Chairman of the Supervisory Board, depending on the issue. 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 addressed in the Audit Committee.

The Code of Conduct, Complaints Procedure, and Whistleblower's Procedure are posted on ASML's Corporate Governance website.

## **Remuneration of the Board of Management**

### **Amount and Composition**

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 2006 Remuneration Policy as adopted by ASML's General Meeting of Shareholders on March 23, 2006;
- the desired levels of remuneration;
- particular aspects of ASML's short- and long-term financial performance; and
- its current compensation and benefits structures and levels benchmarked against relevant peer companies.

The 2004 AGM adopted the Remuneration Policy 2004, which was last amended, and adopted, in 2006 to reflect the further developments and insights gained in this area. The amendments mainly led to a move from the third quartile (75th percentile) to the market median (50th percentile) level in the benchmarking, to put more emphasis on the long-term (share-based) component and the possibility to reward overachievement.

In 2008, the Remuneration Committee will consider further alignment of the Board of Management Remuneration Policy with the December 2007 recommendations of the Monitoring Committee Corporate Governance Code (Commissie Frijns).

The 2006 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 2006 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 2006 Remuneration Policy, members of the Board of Management are eligible to a cash performance bonus with a maximum of 50 percent of their base salary. The annual bonus payout is dependent on pre-determined short-term performance criteria, which are drivers of Return on Invested Capital ("ROIC") long-term performance. The bonus pay-outs are pro-rated on a linear basis to the level of achievement of targets. The performance criteria will be based on the achievement of five measurable results. The weighting of each of these criteria is in principle equal. The target setting and measuring period is semi-annual and the pay-out is annual. The short-term performance criteria, which are drivers of ROIC long-term performance, are in principle:

- Market Share;
- Operating Income;
- Working Capital;
- Technical Achievement Target;
- Qualitative targets based on agreed key objective.

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 ROIC. 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.

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 2006 AGM approved the performance stock option and stock plans for the Board of Management for 2006 and subsequent years.

Under the 2006 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 maximum number of performance stock options for achieving the 2007 targets in relation to this amount was determined on the day of publication of the 2006 annual results (January 19, 2007), whereas the actual number of performance stock options awarded for achieving the 2007 targets are determined on the day of publication of the 2007 annual results (January 17, 2008).

Furthermore, members of the Board of Management are eligible for a maximum conditional performance stock award, under the conditions set forth in the 2006 Remuneration Policy, with a value equal to 87.5 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 ROIC position compared to its



peer group at the end of the three years. The peer group which is used for the measurement of ROIC consists of KLA-Tencor, Varian Semiconductor, Applied Materials, Novellus, Cymer, Lam Research, MKS Instruments, Advanced Energy, Asyst and ASML.

The number of performance stock will be awarded relative to the targeted ROIC position and the ultimately achieved ROIC position at the end of the three-year performance period. The maximum number of shares of performance stock for 2007 in relation to this amount was determined on the day of publication of the 2006 annual results (on January 19, 2007). The value of the performance stock option 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 2007 performance stock on the basis of the Cox Ross Rubinstein method equals EUR 9.36 per share. The ultimately awarded number of shares of performance stock for 2007 will be determined in the 2010 financial year conditional upon achievement of performance targets relating to ROIC over this three-year period.

With respect to trading in ASML securities, ASML employees, including Board of Management members, are bound by ASML's Insider Trading Rules, which are published on the Company's website. The ASML Insider Trading Rules stipulate that, among others, 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 those 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 described above.

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 2006 Remuneration Policy and the Remuneration Report for the 2007 financial year (both published on ASML's website), the Report of the Supervisory Board and other parts of ASML's Annual Reports 2007.

### **Determination and Disclosure of Remuneration**

As previously stated, the 2006 AGM adopted ASML's 2006 Remuneration Policy. The Report of the Supervisory Board as included in ASML's 2007 Statutory Annual Report, contains the main items of the Remuneration Report of the Supervisory Board concerning the application of the 2006 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 the description of the performance criteria and to provide 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 2006 Remuneration Policy. The 2006 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 2007 Annual Reports.

### **Conflicts of Interest**

During the year 2007, no transactions occurred that could have given the appearance of conflicts of interest or that effectively involved conflicts of interest. In addition, during 2007 no transactions of material significance were entered into between ASML and a shareholder holding 10 percent or more shares in ASML's capital.

## **III. Supervisory Board**

### **Role and Procedure**

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. Because ASML complies with the Netherlands company law requirements to have a two-tier structure, the Supervisory Board is a separate and independent body from the Board of Management and from ASML. Under Netherlands law, Supervisory Board members cannot be members of the Board of Management and cannot be officers or employee 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 2007, the Audit Committee and Supervisory Board frequently discussed the corporate strategy, the risks of the business, and the internal risk management and control systems. ASML's corporate strategy was approved by the Supervisory Board. 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 full Supervisory Board meetings, as well as in the committee meetings. The items discussed 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 items as deemed relevant, such as ASML's financial position and strategy, and ASML's investor relations program. The report also contains personal data of the members of the Supervisory Board.

The Rules of Procedure of the Supervisory Board reflect requirements of the Code as well as requirements based on the Sarbanes-Oxley Act. They contain corporate governance practices that the Supervisory Board has developed over the past years. Items included are meetings, minutes, appointment, meeting attendance of Supervisory Board members, as well as the rotation schedule for the Supervisory Board members. The Rules of Procedure also address the Supervisory Board's relationship with ASML's Board of Management, ASML's Works Council, and the General Meeting of Shareholders. The Rules of Procedure also contain rules with respect to obtaining information from the Board of Management and from the external auditor, necessary to be able to perform its tasks and responsibilities as a supervising body. The Supervisory Board may also obtain information from officers and external advisors of ASML, and shall be assisted herein by 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, 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 Rules of Procedure of the Supervisory Board 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.

### **Independence**

The Supervisory Board is of the opinion that its current members are all independent as defined by the Code. The Rules of Procedure of ASML's Supervisory Board include the independence definition prescribed by the Code. However, in the future when it is considered necessary to nominate the most suitable candidate for the Supervisory Board, the Supervisory Board may need to deviate from the Code's independence definition, for example in a case of a candidate who has particular knowledge of and experience in the semiconductor – and related – industries which is very important to ASML's Supervisory Board to be able to perform its supervising function. Since this industry has relatively few players, ASML may want to nominate candidates for the Supervisory Board 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 the appointment on July 17, 2007 of Mr. R. Deusinger, the Supervisory Board currently consists of eight 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. The profile is also considered in case of re-appointment of Supervisory Board members. 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 from nominations of the Supervisory Board. Nominations must be explained and made available to the General Meeting of Shareholders and the Works Council simultaneously. Before the Supervisory Board presents its nominations, both the General Meeting of Shareholders and the Works Council may make recommendations (which the Supervisory Board may reject). In addition, the Works Council has an enhanced right to make recommendations for at least one-third of the members of the Supervisory Board, which recommendations may only be rejected by the Supervisory Board: (i) if the relevant person is unsuitable or (ii) if the Supervisory Board would not be duly composed if the recommended person were appointed as 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.

In 2005, Ms. H. Van den Burg was nominated by the Supervisory Board in accordance with the enhanced recommendation right of the Works Council and was subsequently appointed by the General Meeting of Shareholders on March 24, 2005. On July 17, 2007, an extra-ordinary shareholders meeting appointed the second candidate nominated with ASML's Works Council's enhanced recommendation right, Mr. R. Deusinger.

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.

The Chairman of the Supervisory Board and the Chairman of the Selection and Nomination Committee ensure that newly appointed Supervisory Board members will follow an introduction program, containing an overview of ASML's history, organization and business in general, ASML operations, market, industry and technology, ASML's financial and legal affairs, and ASML's human resources organization and strategy. Furthermore, the Supervisory Board members determine annually the need for further training, such as for example in the area of corporate governance or technology.

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 as adopted by the Supervisory Board, and may be re-appointed, provided that their entire term of office does not exceed 12 years. The rotation schedule is available on ASML's Corporate Governance website.

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.

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

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). Following Mr. F. Fröhlich's resignation as member of the Gamma Holding N.V Supervisory Board in the course of 2007, he is now in compliance with this requirement.

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

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, taking into consideration the items that are required to be discussed, either by law or by corporate governance recommendations. 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 their introduction and training program;
- the members of the Supervisory Board receive all information that is 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 once a year; and
- the Supervisory Board has proper contact with the Board of Management and the Works Council.

Effective per the resignation of Mr. H. Bodt on March 28, 2007, Mr. A. Van der Poel is the Supervisory Board's Chairman. Mr. J. Dekker is the Supervisory Board's Vice Chairman.

Neither the Chairman nor any other member of the Supervisory Board is a former member of ASML's Board of Management.

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 contains a summary of the composition of the committees, the meetings, and items discussed in those meetings.

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 committees distribute their minutes to all members of the Supervisory Board, 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.

Annually, each committee performs a 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 2007, the Audit Committee met five times and held two conference calls. Throughout the year, the Audit Committee focused intensely on ASML's internal controls and risk management systems, and 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 2007. Much attention was also given to the capital restructuring as executed in 2007 (comprising the share buybacks, the bond issue and the capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback)). The Audit Committee also focused on the role and activities of the internal

and external auditor, including the progress on the execution of the internal and external Audit Plan, as well as the internal and external auditor's recommendations and observations.

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 others, information on the application of accounting standards in the Netherlands, IFRS, the choice of accounting policies, information about the handling of estimated items in the annual accounts, and the work of internal and external auditors. The Audit Committee also discusses and reviews ASML's tax planning policy, financing strategy, and the information and communication technology policy at least once a year.

The Audit Committee, on behalf of the Supervisory Board, reviews and approves the fees of the external auditor. The Audit Committee shall 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, which was approved by the Audit Committee, and which is posted on ASML's Corporate Governance website. As a general rule, the external auditor is present at meetings of the Audit Committee. In general, after each Audit Committee where the external auditor is present, the Audit Committee meets with the external auditor without the Board of Management present, 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 that need to be addressed.

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.

The Chairman of the Audit Committee is neither the Chairman of the Supervisory Board nor a former member of ASML's Board of Management.

#### **Remuneration Committee**

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

In 2007, the Remuneration Committee met five times to discuss the above items, and especially proposals for the targets and the remuneration package for the members of the Board of Management, the remuneration for the Supervisory Board, the Stock Option plans, and the 2007 Remuneration Report. Independent experts in the field of remuneration for members of Boards of Management in Netherlands listed companies assist the Remuneration Committee in its activities.

Based on the 2006 Remuneration Policy, the Remuneration Committee proposed new remuneration packages for the individual Board of Management members for the year 2007. These proposals were adopted by the Supervisory Board. The proposals contain the following elements: the structure of the remuneration, base salary, variable parts of the remuneration, the shares or rights to shares to be granted, cash bonus, the performance criteria linked to the variable part of the remuneration, as well as the pension rights.

The Remuneration Committee prepared the 2007 Remuneration Report 2007 on ASML's Corporate Governance website. This report contains a section of the manner in which the 2006 Remuneration Policy was implemented and executed in 2007.

The Chairman of the Remuneration Committee is neither the Chairman of the Supervisory Board, 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 2007, the Committee members met twice formally and several additional times on an ad hoc basis, from time to time also with the Works Council, to discuss the selection of a Supervisory Board member to be recommended by the Works Council based on its enhanced recommendation right. 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: as mentioned earlier, upon retirement of Mr. H. Bodt as member and Chairman of the Supervisory Board, Mr. A. Van der Poel was selected by the other members of the Supervisory Board to succeed Mr. Bodt. In addition, Messrs. F. Fröhlich and A. Van der Poel will retire by rotation on April 3, 2008 and have made their availability for re-appointment known.

### **Technology and Strategy Committee**

The Technology and Strategy Committee meets at least twice a year, and more frequently when deemed necessary. In 2007, the Committee met three times. 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. Both 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 as advisors.

This practice increases 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 2007 were the Company's technology roadmap, including maskless lithography, Extreme Ultra Violet ("EUV") lithography, immersion technology, Brion and diversified lithography.

### **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 2007, no transactions occurred that could have given the appearance of conflicts of interest or that effectively involved conflicts of interest.

### **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 2007 AGM also approved the Supervisory Board's proposal, prepared by the Remuneration Committee, to amend the remuneration for the Supervisory Board and Supervisory Board committee members to reflect the current market position, and increased potential liability of members, responsibilities and activities over the past years. While preparing this proposal, the Remuneration Committee was assisted by experts in this field.

ASML shares, or rights to acquire ASML shares, are not a component of the remuneration of the Supervisory Board, and 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 2007 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.

The ASML Insider Trading Rules stipulate that – among others – 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. The Insider Trading Rules, and the Rules of Procedure for the Supervisory Board, also contain provisions related to ownership of and transactions in securities of other companies, as well as reporting requirements for members of the Supervisory Board of changes in ownership of securities issued by other Netherlands listed companies. Such changes should be reported to ASML's Compliance Officer on a quarterly basis. The regulations are drafted observing best practice provision III.7.3. of the Code. This requirement is not applicable for those 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 Eindhoven or 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 (rights to) shares in ASML's capital; and 2) the authorization to exclude pre-emptive rights in relation to the above share issue.

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.

To bring this item more in line with shareholders' interests, as expressed by them in ASML's communications with shareholders, ASML reduced the request for authorization to issue shares and to limit the shareholders pre-emption rights in its 2007 AGM from two times 10 percent to two times 5 percent.

Another standard and recurring agenda item is the authorization to repurchase ASML shares up to a maximum of 10 percent of the outstanding 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 2007 AGM, ASML requested shareholder approval of the proposal to repurchase and cancel three times 10 percent of the then outstanding share capital. The intent of this proposal was to buy and cancel up to a total of 30 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.

The Board of Management or Supervisory Board may convene Extraordinary General Meetings 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, for the past years ASML has set 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. However, as the record date was only a maximum of seven days before the AGM, the custodians in The Netherlands applied a blocking period for the shares registered to attend the meeting, to facilitate the internal administrative processes.

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 have decided to abolish the 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 the opportunity to purchase shares before that date in order to be able to attend the shareholders meeting, the publication of the convocation will be at least 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 for which an approval right is granted to the General Meeting of Shareholders, 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. In 2007, ASML published within seven days after both the AGM and Extra-ordinary Shareholders Meeting ("EGM") a breakdown of the votes cast on its website, and will continue to do so in the future.

The draft minutes of the General Meeting of Shareholders are available, upon request, 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. In addition, ASML shall send by mail the draft minutes and/or the adopted minutes to those shareholders who have requested to receive them.

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 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 strives to distribute 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 and can view the presentation of the results on ASML's website. The schedule for communicating the annual financial results 2007 was published through a press release and posted on ASML's website. In addition, ASML provides information to its shareholders at ASML's AGM.

It is ASML's policy to post on its website the presentations given to analysts and investors at investor conferences throughout the year. 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.

In November 2007, ASML held an Investor's event in London to provide a long term view of the growth perspectives of ASML. This event was organized for professional investors and analysts and was accessible through a live webcast for all parties interested.



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. In the case of an overriding interest, the Board of Management and Supervisory Board provide their arguments to the fullest extent possible.

Furthermore, ASML's Corporate Governance website provides links to websites that contain information about ASML that ASML published or filed 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 2007 Annual Reports.

### **Relationship with Institutional Investors**

ASML considers it to be in its interest for institutional investors to increase their participation at the General Meetings of Shareholders. Several measures have been taken in the past few years to increase the participation rate, including applying a record date, and providing internet proxy voting. In addition, since the 2006 AGM, ASML has taken on an active approach to its institutional investors to increase their participation at the General Meetings of Shareholders. To assist ASML in increasing and facilitating the communication with its institutional investors, ASML has engaged the services of a proxy solicitation organization. Also because the custodians have abolished the blocking period as of 2007, the participation of shareholders on ASML's AGM and EGM increased to almost 50 percent, compared to between 10 and 15 percent in the years after Koninklijke Philips N.V. sold its ASML participation and before 2006.

For future General Meetings of Shareholders, ASML is further investigating possible measures to encourage investors to participate in General Meetings of Shareholders. The 2007 AGM approved the proposed amendment of ASML's Articles of Association allowing the Board of Management, also depending on the practical and legal implications of such a system, to use electronic means to participate in and vote at ASML's shareholder meetings, without having to appoint a proxy.

## **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.

With respect to the approval by the Audit Committee of the activities of the external auditor in relation to the financial reports other than the annual accounts, the Audit Committee reviews and approves the external auditor's Audit Plan for the audits planned during the financial year. The activities of the external auditor relating to the content and publication of financial reports besides the annual accounts are also part of the Audit Plan, and as such the Audit Committee determines the role of the external auditor in the activities relating to the reporting of financial results other than the annual accounts.

### **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 will conduct a detailed and formal assessment of the quality of the performance of the external auditor over the financial year 2007, and will present its conclusions to the AGM to be held on April 3, 2008. 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 is currently functioning 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. J. Buné retired as audit partner after a period of five years effective as of the AGM held on March 28, 2007 and was succeeded by Mr. P. Van de Goor.

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 performed by the external auditor (mainly tax-services) comprised 14 percent of the external auditor's services in 2007.

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 Auditor 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 March 28, 2007, 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 September 28, 2008, representing up to a maximum of 5 percent of our issued share capital as of the date of authorization (March 28, 2007), plus an additional 5 percent of our issued share capital as of the date of authorization (March 28, 2007) that may be issued in connection with mergers and acquisitions.

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 General Meeting of Shareholders held on March 28, 2007, the shareholders granted this authority through September 28, 2008. At ASML's General Meeting of Shareholders to be held on April 3, 2008, the shareholders will be asked to grant this authority through October 3, 2009. In addition to this standard agenda item, the shareholders will be asked in a separate agenda item 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 provided the aggregate nominal value of the ordinary shares held by ASML or a subsidiary at any time amounts to no more than one-tenth of our issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (whether by means of a resolution or by an amendment to our Articles of Association) of shareholders at the 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 September 28, 2008 up to a maximum of three (3) times 10 percent of ASML's issued share capital as of the date of authorization (March 28, 2007) 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. Prior to repurchasing a second tranche of 10 percent of the issued share capital as of the date of authorization, the repurchased shares should be cancelled. The same is applicable to a possible repurchase of the third tranche of the issued share capital. As discussed above, ASML has not made use of all these authorizations. However, to maintain flexibility in this respect and also to be able to cover employee stock (option) plans, at our General Meeting of Shareholders to be held on April 3, 2008, our shareholders will be asked to grant the authority to repurchase and cancel shares through October 3, 2009.

### **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 further amendment to the option agreement between the Foundation and the Company was made in 2007. The object 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 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. If preference shares have been issued by virtue of a resolution to issue shares, adopted by the Board of Management but without prior approval or other cooperation of the general meeting of shareholders, the Board of Management is obliged to convene a general meeting of shareholders within two years after such issuance and to submit to said general meeting a proposal regarding the purchase or cancellation of said issued 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.

### **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 Wft

Holders of our shares may be subject to reporting obligations under the Act on the supervision of financial markets (Wet op het financieel toezicht, the "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](http://www.afm.nl/registers)) on December 31, 2007, the following notifications of capital interest above 5 percent have been made pursuant to the Wft:

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Barclays Global Investors	5.2% shares
Capital Research and Management Company	5.2% shares
Stichting Preferente Aandelen ASML	100% option rights

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## 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. P. Wennink and 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 agreements with Messrs. E. Meurice and K. Fuchs 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 Mr. E. Meurice or Mr. K. Fuchs, a severance amount 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 Mr. E. Meurice or Mr. F. Fuchs 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 his employment agreement, his function or the Company's strategy.

Furthermore, Messrs. E. Meurice and F. Fuchs shall also be entitled to the aforementioned severance amounts 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. E. Meurice or Mr. F. Fuchs gives notice of termination, which 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.

## **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 ROIC 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.2.1 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. P. Wennink and M. Van den Brink, are being honored, including all rights and obligations under these contracts. This implies that the appointment of Messrs. P. Wennink and M. 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. 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 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 Board of Management and the Supervisory Board,  
Veldhoven, February 15, 2008

# 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 or chips. ASML technology transfers circuit patterns onto silicon wafers to make integrated circuits. This technology is key to making integrated circuits smaller, faster and cheaper. Our technology is known as optical lithography. ASML systems are called steppers and Step & Scan tools (scanners). They use a photographic process to image nanometric circuit patterns onto a silicon wafer, much like a camera prints an image on film. Most of the major semiconductor manufacturers are ASML customers. We are committed to providing customers with the right technology that is production-ready at the right time. Doing so enables our customers and their customers to sustain their competitive edge. ASML's largest business focuses on lithography systems for 200- and 300-millimeter diameter wafer manufacturing.

ASML's corporate headquarters is in Veldhoven, the Netherlands. The Company has lithography research, development and manufacturing operations in Wilton, Connecticut (United States) and Veldhoven (the Netherlands). Training and application facilities are located in Asia, Europe and the United States. ASML operates in 16 countries and over 63 sales and service locations. We have experts located at customer sites, backed by a global pool of ASML engineers and other professionals. ASML's largest business focuses on lithography systems for 200- and 300-millimeter wafer manufacturing. ASML's primary competitors are Nikon Corporation ("Nikon") and Canon Kabushika Kaisha ("Canon"). Nikon and Canon are the leading suppliers in Japan, which accounts for a significant portion of worldwide semiconductor production.

The ASML TWINSCAN™ lithography system exemplifies our technology leadership. We were the world's first producer of dual-stage design (TWINSCAN) systems. Another example of ASML technology leadership is our immersion lithography system. It replaces the air over the wafer with fluid to enhance focus and shrink circuit dimensions. These technologies mean greater productivity for our customers.

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;
- improving the reliability and uptime of our installed system base; and
- providing re-marketing 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.

Carl Zeiss SMT AG ("Zeiss") is our sole external supplier of main optical systems and one of the suppliers of other components. In 2007, approximately 40 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 2007, we were in some cases constrained by the number of lenses that Zeiss could produce.

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.

## **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.

### **Summary**

#### **Risks Related to the Semiconductor Industry**

- The semiconductor industry is highly cyclical and we may be adversely affected by any future downturns;
- Our business will suffer if we do not respond rapidly to commercial and technological changes in the semiconductor industry;
- We face intense competition; and
- Industry alliances may not select our equipment.

#### **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;
- The pace of introduction of our new products is accelerating and is accompanied by potential design and production delays and by significant costs;
- We derive most of our revenues from the sale of a relatively small number of products;
- 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 Future Downturns***

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; and
- general economic conditions.

Changes in demand for our products as a result of these business cycles have been affected by the timing and amounts of customers' capital equipment purchases and investments in new technology. 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 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.

Conversely, in an industry downturn, our ability to maintain profitability will depend substantially on whether we are able to lower our costs and break-even level, which is the number of lithography systems we must sell in a year to achieve net income. If we are unable to lower costs in an industry downturn, 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, which has had in the past, and could have in the future, a material adverse effect on our business, financial condition and results of operations.

#### ***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 may invest 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 income statement and materially and adversely affect 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; and
- the strength and breadth of our portfolio of patents and other intellectual property rights.

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 22 to our consolidated financial statements.

The costs to develop new systems, in particular photolithography systems, are extremely high and accordingly, the photolithography equipment industry is characterized by fierce competition among a few suppliers. ASML's primary competitors are Nikon and Canon. Nikon and Canon are the leading 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 decrease in the value of the Japanese yen in relation to the euro or the US 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.

#### ***Industry Alliances May Not Select our Equipment***

Increasingly, our customers are entering into alliances or other forms of cooperation with one another to expedite the development of processes and other manufacturing technologies. One of the results of such a form of cooperation may be the definition of a system or particular tool set for a certain function or a series of process steps that use a specific set of manufacturing equipment. These decisions could work to our disadvantage if a competitor's equipment becomes the standard equipment for such function or process. Even if ASML's equipment was previously used by a customer, that equipment may be displaced in current and future applications by the equipment standardized by the form of cooperation. These forms of cooperation may have 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 have been able to produce has occasionally been limited by the production capacity of 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 2007, sales to our largest customer accounted for EUR 833 million, or 21.9 percent of net sales, compared to EUR 730 million, or 20 percent of net sales, in 2006. 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 40.1 percent of accounts receivable at December 31, 2007, compared to 35.0 percent at December 31, 2006. 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.

***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 canceling orders for our technology enhancements, which could negatively impact 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 (260 units in 2007; 266 units in 2006), with an average selling price (“ASP”) in 2007 of EUR 13.0 million (EUR 14.0 million for new systems and EUR 3.9 million for used systems) and an ASP in 2006 of EUR 12.1 million (EUR 14.0 million for new systems and EUR 3.2 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 other 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 business 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 would have a material adverse effect on our operating results for that period.

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

***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;
- patent rights will expire;
- 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 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 21 percent of our 2007 revenues and approximately 20 percent of our 2006 revenues were derived from customers in Taiwan. Taiwan has a unique international political status. The People's Republic of China asserts sovereignty over Taiwan and does not recognize the legitimacy of the Taiwan government. Changes in relations between Taiwan and the People's Republic of China, Taiwanese government policies and other factors affecting Taiwan's political, economic or social environment could have a material adverse effect on our business, financial condition and results of operations.

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

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

#### ***Because of Labor Laws and Practices, Any Workforce 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 workforce 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 workforce reductions. For example, in the Netherlands, if our Works Council renders adverse advice in connection with a proposed workforce 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 US 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 US dollars and Japanese yen.

In addition, a substantial portion of our assets and liabilities and operating results are denominated in US dollars, and a small portion of our assets, liabilities and operating results are denominated in currencies other than the euro and the US 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 lead to intensified 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.

ASML is exposed to a variety of financial risks. 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. Risk management is carried out by the central treasury department under policies approved by the Board of Management. We refer to note four, Financial Risk Management, of the Statutory Financial Statements for more information.

### ***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.

## **Semiconductor Equipment Industry**

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 has 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 the world’s leading provider of lithography equipment with a market share based on revenue of 65 percent in 2007 up from 63 percent in 2006 according to the latest available data up to and including November 2007 as reported by SEMI, an independent semiconductor industry organization.

Nikon and Canon are the leading 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 2007, we further strengthened our long term market development strategy in Japan, and our net system sales there grew from EUR 139 million in 2006 to EUR 269 million.

Total lithography equipment shipped by the industry as a whole in the five years ended December 31, 2006 is set forth in the following table:

Year ended December 31	2002	2003	2004	2005	2006
Total units shipped	413	456	694	536	633
Total value (in millions USD)	2,817	3,229	5,268	4,988	6,386

(Source: Gartner Dataquest)

In 2007, the semiconductor industry experienced another year of growth due to growth in semiconductor units by 11 percent and the continuing technology drive of our customers among other things resulting in continued strong capacity build-up by our customers, especially in memory. During this period, our customers began ramp-up of volume manufacturing for 45 nm Flash and 55 nm DRAM with our advanced immersion systems.

## Business Strategy

Our business strategy is based on achieving and reinforcing technological leadership in semiconductor lithography, resulting in the delivery of superior value of ownership for our customers while achieving top financial performance in our segment. We implement this strategy through customer focus, aggressive 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 the various semiconductor market segments, including memory, integrated device manufacturers, and foundries or made-to-order chip contractors.

Of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditure, 18 are our customers. We also have a significant market share of customers below the top 20. We strive for continued growth in both segments.

In 2007, we achieved top customer satisfaction ratings among large suppliers of semiconductor wafer processing 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 fifth year in a row.

In July 2007, we announced a new KrF lithography system that significantly reduces operating costs for our customers. The ASML TWINSCAN XT:1000 scanner extends cost efficient KrF technology to resolutions that previously required more expensive ArF technology. Customers can realize savings of 30 percent or more per layer as a result of the lower operating costs for KrF technology, particularly its use of less expensive lasers and lower material costs for KrF resists and other materials.

We are making additional investments in Japan, where historically the leading positions have been held by our competitors and where ASML is increasing sales and customers.

From time to time, we seek to expand our business scope as ASML pursues hardware technologies and new product opportunities in fields adjacent or complementary to our core semiconductor lithography competence. In March 2007, ASML completed the acquisition of Brion Technologies, Inc., a leading provider of semiconductor design and wafer manufacturing optimization solutions for advanced lithography.

### Aggressive investment in research and development

Our product range for steppers and advanced Step & Scan systems spans all the industry's current wavelengths for both 200- and 300-mm wafers.

Supported by our financial performance, research and development efforts (which include research and development costs and additions to other intangible assets regarding development expenditures) in 2007 increased by 25.7 percent compared with 2006,

as we accelerated new developments and advanced our development of immersion and EUV technologies. This operating decision was made possible by leveraging our outsourcing strategy, which continues to enable us to rapidly and efficiently adjust our cost structure throughout a 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 that will be exposed next. ASML's strong leadership in this capability has allowed it 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.

In the third quarter of 2007, we shipped our first new TWINSCAN XT:1900i system, the only immersion lithography machine in the world capable of imaging chip features down to 40 nm. Our innovative immersion lithography replaces air over the wafer with fluid, enhancing focus on enabling circuit line-width to shrink to even smaller dimensions. ASML experienced strong demand for this machine, driven initially by memory chip makers that need more cost effective technology transitions to the 4x and 5x nm nodes that are enabled by immersion systems. With more than 70 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 parallel, we are developing EUV technology. We received four orders for preproduction tools during 2007, the first of which is scheduled for shipment in late 2009. We have two Alpha Demo Tools at research and development institutions located in Albany, New York (United States) and Leuven (Belgium), where potential customers can conduct early stage research and development, and where the first 30 nm images with a Sn light source were produced.

### **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 time 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 necessary flexibility to adapt to the cyclical nature of the world market for semiconductor lithography systems.

ASML has a flexible labor model in its manufacturing facilities located in Veldhoven which 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.

We continuously strive to improve efficiencies in our operations: addressing our cost structure and strengthening our capability to generate cash. We have been successful at progressively enhancing the value of ownership of our products while increasing margins and boosting cash generation through gains in manufacturing productivity and reductions in cycle time.

## ASML Operations Update – Another Year of Great Execution in 2007

### 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)	2006 EUR		2007 EUR	
<b>Growth</b>				
Market share (based on revenue) <sup>1</sup>	63%		65%	
Net sales	3,597		3,809	
Increase in net sales	42.2%		5.9%	
Systems shipped (value)	3,229		3,392	
Systems shipped (number)	266		260	
Average selling price	12.1		13.0	
Systems backlog (value)	2,146		1,697	
Systems backlog (number)	163		89	
Average selling price	13.2		19.1	
Technical achievement: Immersion systems shipped (number)	23		38	
<b>Profitability</b>				
Gross profit	1,414	39.3%	1,460	38.3%
Income from operations	919	25.6%	865	22.7%
Net income	636	17.7%	732	19.2%
<b>Liquidity</b>				
Cash and cash equivalents	1,656		1,272	
Operating cash flow	574		807	

<sup>1</sup> According to the latest available data up to and including November 2007 as reported by SEMI, an independent semiconductor industry organization.

### Growth

We are seeking to grow to a net sales level of EUR 5.0 billion in 2010, based on three growth drivers: market growth, market share growth and a broadening of our product and services scope.

In 2007, we achieved growth in net sales of 5.9 percent to EUR 3,809 million from EUR 3,597 million in 2006. The increase in net sales mainly resulted from a continued high demand for lithography equipment with higher ASPs in 2007 ultimately driven by a continuing increase in unit demand for semiconductors of 11 percent (2006: 9 percent). In addition we achieved market share growth from 63 percent in 2006 to 65 percent in 2007 (according to the latest available data up to and including November 2007 as reported by SEMI, an independent semiconductor industry organization) as a result of our sustained technological leadership.

The ASP of our systems increased by 7.4 percent from EUR 12.1 million in 2006 to EUR 13.0 million in 2007. 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. This increase was partly offset by a growing number of i-line systems, with relatively low ASPs, sold in 2007, reflecting our market share gains in this segment of the market.

As of December 31, 2007, our order backlog was valued at EUR 1,697 million and included 89 systems with an ASP of EUR 19.1 million. As of December 31, 2006, the order backlog was valued at EUR 2,146 million and included 163 systems with an ASP of EUR 13.2 million. The increase in ASP of 44.8 percent was mainly due to a high number of leading-edge ArF-immersion systems in the backlog of 2007 pursuant to the continued ramp-up of volume manufacturing with our leading-edge immersion systems in 2008. The decrease in the total value of backlog was primarily the result of increased uncertainty about future global economic market conditions and the impact on the semiconductor industry.

### Profitability

We seek to achieve an average income from operations to net sales of 17 percent over the industry's business cycle with 10-15 percent at the downturn point and 20-25 percent at the upturn point.



Operating income decreased by 5.9 percent from EUR 919 million or 25.6 percent of sales in 2006 to 865 million or 22.7 percent of sales in 2007. This EUR 54 million decrease was substantially the result of the increase in operating expenses of EUR 100 million or 20.3 percent which was partially offset by an increase of gross profit of EUR 46 million or 3.3 percent.

Gross profit on sales increased compared to 2006, showing a growth of 3.3 percent from EUR 1,414 million or 39.3 percent of net sales in 2006 to EUR 1,460 million or 38.3 percent of net sales in 2007. The higher gross profit was principally attributable to an increase in net sales (see above), which was partly offset by an increase in the cost of sales as a percentage of net sales.

Operating expenses were EUR 100 million higher in 2007 compared to 2006 due to an increase of both research and development costs (including research and development credits) by EUR 62 million, or 21.6 percent and selling, general and administrative costs by EUR 38 million, or 18.4 percent.

Net income in 2007 amounted to EUR 732 million, representing EUR 1.58 per ordinary share compared with net income of EUR 636 million or EUR 1.34 per ordinary share in 2006.

### Liquidity

We seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 billion and 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 intend to return excess cash to our shareholders. As of December 31, 2007 our cash and cash equivalents amounted to EUR 1.3 billion.

Our cash and cash equivalents decreased from EUR 1,656 million as of December 31, 2006 to EUR 1,272 million as of December 31, 2007. We generated cash from operations of EUR 807 million in 2007, which was offset by a cash outflow of EUR 699 million from financing activities, mainly as a result of our 2007 share buyback programs (EUR 1,372 million) which was offset by the net proceeds from issuance of a Eurobond in June 2007 (EUR 594 million), and EUR 484 million cash used in investing activities mainly related to the acquisition of Brion (EUR 188 million), production facilities in Veldhoven and, to a lesser extent, equipment and information technology.

In an ongoing commitment to return excess cash to shareholders, ASML returned EUR 1,372 million in cash to its shareholders in 2007. The cumulative amount returned to shareholders between May 2006 and December 2007 was EUR 2,050 million.

### Results of Operations

Set forth below are our consolidated statements of operations data for the two years ended December 31, 2007:

	Year ended December 31 (in millions)	2006 EUR	2007 EUR
Total net sales		3,597	3,809
Cost of sales		2,183	2,349
Gross profit on sales		1,414	1,460
Research and development costs		307	368
Research and development credits		(17)	(15)
Selling, general and administrative costs		204	242
Operating income		919	865
Interest income (charges), net		(37)	20
Income from operations before income taxes		882	885
Provision for income taxes		(246)	(153)
Net income		636	732

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

	2006			2007		
	First half year	Second half year	Full year	First half year	Second half year	Full year
Net sales (EUR million)	1,571	2,026	3,597	1,895	1,914	3,809
Net system sales (EUR million)	1,394	1,835	3,229	1,690	1,702	3,392
Net service and field option sales (EUR million)	177	191	368	206	211	417
Total systems recognized (number)	123	143	266	146	114	260
Total new systems recognized (number)	97	123	220	131	104	235
Total used systems recognized (number)	26	20	46	15	10	25
Gross profit on sales (% of sales)	39.4	39.2	39.3	38.4	38.3	38.3
ASP for systems (EUR million)	11.3	12.8	12.1	11.6	14.9	13.0
ASP for new systems (EUR million)	13.6	14.3	14.0	12.6	15.9	14.0
ASP for used systems (EUR million)	2.8	3.7	3.2	2.8	5.5	3.9

### Consolidated sales and gross profit

We achieved growth in net sales of EUR 212 million or 5.9 percent from EUR 3,597 million in 2006 to EUR 3,809 million in 2007. The increase in net sales mainly relates to an increase in net system sales of EUR 163 million or 5.0 percent, from EUR 3,229 million in 2006 to EUR 3,392 million in 2007 mainly attributable to increased ASPs partly offset by a lower number of systems shipped and to an increase in net service and field option sales of EUR 49 million or 13.3 percent from EUR 368 million in 2006 to EUR 417 million in 2007.

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

The ASP of our systems increased by 7.4 percent from EUR 12.1 million in 2006 to EUR 13.0 million in 2007. This increase was mainly driven by a change in product mix reflecting the continued shift in market demand to our leading-edge technology systems (as customers commenced their ramp-up of volume manufacturing with our leading-edge immersion systems for 45 nm Flash and 55 nm DRAM) with higher ASPs driven by the shrink roadmaps of our customers. This increase was partly offset by a growing number of i-line systems sold, with relatively low ASPs, in 2007 reflecting our market share gains in this segment of the market.

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

Net service and field option sales showed a 13.3 percent increase from EUR 368 million in 2006 to EUR 417 million in 2007, resulting from increased service as well as field option sales. The increase in service sales was mainly driven by the growth of our system installed base at customers. The growth of field option sales is positively impacted by the customer demand for system upgrade packages that further enhance system performance.

Of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditures, 18 are customers of ASML. In 2007, sales to the largest customer accounted for EUR 833 million, or 21.9 percent of our net sales. In 2006, sales to the largest customer accounted for EUR 730 million, or 20 percent of our net sales.

Gross profit increased 3.3 percent from EUR 1,414 million or 39.3 percent of net sales in 2006 to 1,460 million or 38.3 percent of net sales in 2007. Gross profit was negatively impacted by decreased ASPs of mature technology (-2.4 percent) and higher amortization of capitalized development expenditures (-1.4 percent). The gross profit was positively impacted by a changed product mix (0.2 percent) and, more important, by decreased cost of sales (2.4 percent) reflecting the results of our continuous cost of sales reduction programs. In addition gross profit was positively impacted by currency effects (0.4 percent) partly offset by

various other items including lower service gross profit as a result of investments in spare parts related to the introduction of immersion systems for volume manufacturing as well as expenses relating to our ASML Center of Excellence (ACE) in Asia.

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

### **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 103 million or 25.7 percent from EUR 401 million (EUR 307 million research and development costs and EUR 94 million addition to other intangible assets regarding development expenditures) in 2006 to EUR 504 million (EUR 368 million research and development costs and EUR 136 million addition to other intangible assets regarding development expenditures) in 2007. The increase reflected further investment in technology leadership in 2007 through investments in the development of the newest versions of our high resolution TWINSCAN systems and enhancements of the next generation TWINSCAN systems based on immersion, double patterning and EUV. In the third quarter of 2007 we shipped the first XT:1900i, capable of imaging features down to 40 nm.

Research and development credits are EUR 15 million in 2007 compared to EUR 17 million in 2006.

### **Selling, general and administrative costs**

Selling, general and administrative costs increased by 18.4 percent from EUR 204 million in 2006 to EUR 242 million in 2007 reflecting the increased activity level to support sales growth. Over the past two years selling, general and administrative costs increased by 17.8 percent, while net sales grew by 50.6 percent. Continuing cost reduction and efficiency programs contributed to maintaining a relatively low increase in the level of selling, general and administrative costs compared to the increase in net sales and related activity over the two-year period ended December 31, 2007.

### **Net interest income**

Net interest charge decreased from EUR 37 million in 2006 to a net interest income of EUR 20 million in 2007 due to increased interest income. Our interest income relates to interest earned on our cash and cash equivalents. In 2007 interest income increased mainly as a result of higher short-term interest rates and a higher average cash balance. The average cash balance was higher as a result of the cash provided by operating activities and the issuance of a EUR 600 million Eurobond. Interest expense in 2007 was lower due to the conversion of substantially all the US dollar 575 million 5.75 percent Convertible Subordinated Notes in October 2006 (with the unconverted notes redeemed) and the conversion of substantially all the EUR 380 million 5.50 percent Convertible Subordinated Notes, in October 2007 (with the unconverted notes redeemed).

### **Income taxes**

Income taxes represented 17.3 percent of income before taxes in 2007, compared to 27.9 percent in 2006. The decrease in income taxes in 2007 is mainly related to a favorable settlement of tax contingencies provided for in prior year and discussions held and rulings agreed upon with the tax authorities. In addition a corporate tax rate reduction in the Netherlands also contributed to a decrease in income taxes.

### **Liquidity**

Our principal sources of liquidity consist of EUR 1,272 million of cash and cash equivalents as of December 31, 2007, EUR 500 million of available credit facilities as of December 31, 2007 and cash flows from operations. For further details of our credit facilities, see Note 18 to our consolidated financial statements. In addition to cash and available credit facilities, from time to time we 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 global economies and the semiconductor industries. 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 present requirements.

We expect substantial cash outflow from investing activities in 2008 due to our planned capital expenditures (excluding capitalized development expenditures). Subject to market developments we expect that our capital expenditures in 2008 could be up to approximately EUR 250 million (excluding capitalized development expenditures), an increase of EUR 18 million compared to 2007. We expect that a significant part of the 2008 expenditures will be allocated to construction and upgrades of production facilities in the Netherlands and Taiwan. We expect to finance 2008 capital expenditures out of our cash flow from operations and available cash and cash equivalents.

We reiterate our commitment to return excess cash to our shareholders and will consider all available opportunities to return this cash to shareholders, including share buybacks, dividend and capital repayment. Accordingly, we intend to seek authorization for additional share buyback programs at the Annual General Meeting of Shareholders on April 3, 2008. Furthermore, we intend to seek authorization at the Annual General Meeting of Shareholders on April 3, 2008 to pay out a cash dividend over 2007 for an amount of EUR 0.25 per ordinary share of EUR 0.09.

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, lines of credit and other borrowing arrangements is provided in Note 18 to our consolidated financial statements.

### **Cash Flows from Operating Activities**

We generated cash from operating activities of EUR 574 million and EUR 807 million in 2006 and 2007, respectively. The primary components of cash provided by operating activities in 2007 were net income (EUR 732 million) plus non-cash expenses (EUR 386 million) mainly related to depreciation and amortization, impairment charges, unpaid taxes and inventory obsolescence partially offset by a cash outflow of EUR 311 million due to investments in working capital. The investments in working capital mainly relate to higher inventories of EUR 438 million, lower tax liabilities of EUR 78 million and higher other assets of EUR 62 million, partly offset by higher accrued liabilities of EUR 262 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 159 million for investing activities in 2006 and EUR 484 million in 2007. The majority of the 2007 expenditures were spent on internally-generated intangible assets (capitalization of development expenditures), the acquisition of Brion, the ongoing construction of a new production facility and, to a lesser extent, machinery and equipment and information technology investments.

### **Cash Flows from Financing Activities**

Net cash used by financing activities was EUR 651 million in 2006 compared to EUR 699 million in 2007. In 2007, cash provided by financing activities mainly included EUR 594 million net proceeds from the issuance of a Eurobond in June 2007, EUR 89 million from the issuance of shares in connection with the exercise of employee stock options. In 2007, cash used by financing activities included EUR 1,372 million for share buyback programs (including the synthetic share buyback) and EUR 10 million for the redemption of debt.

## **Employees**

As of December 31, 2007, we had 6,582 employees in our operations employed primarily in manufacturing, product development and customer support activities. As of December 31, 2006, the total number of employees in continued operations was 5,594 respectively. In addition, during 2007 we had an average of 3,218 temporary employees. For a more detailed description of employee information, including a breakdown of our employees by sector, see Note 26 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.

## **2008 Perspectives**

### **Operational outlook**

Within the current sentiment of global economic weakness and an overall 2008 semiconductor capital investment slowdown forecast by some analysts and customers, ASML believes that it is nonetheless well positioned for robust revenues in the first half of 2008. With 60 percent of our EUR 1,697 million backlog covered by immersion technology tools, and 26 percent of the backlog ordered by manufacturers of logic ICs, we have a relatively low exposure to the currently more volatile capital spend at second tier memory manufacturers. Our immersion products are designed to enable rapid technology transfers down to 4x nm nodes, which are being executed by our customers to reach appropriate integration and cost targets that are needed in the current environment. We expect to almost double our net sales from immersion systems in 2008 from 2007. Although independent market researchers still expect a double digit increase in demand for integrated circuit units in 2008, which we expect will

translate into lithography market expansion in 2008, we are awaiting confirmation of this potential growth through the level of first and second quarter bookings. We remain optimistic, in view of our customers' large immersion technology needs, their high level of capacity utilization, and the current IC inventory levels in the market.

## Financial outlook

The following table sets forth our backlog of systems as of December 31, 2006 and 2007.

	Year ended December 31	2006	2007
	Backlog sales of new systems (number)	153	79
	Backlog sales of used systems (number)	10	10
	Backlog sales of total systems (number)	163	89
	Value of backlog new systems (EUR million)	2,120	1,650
	Value of backlog used systems (EUR million)	26	47
	Value of backlog of total systems (EUR million)	2,146	1,697
	ASP for new systems (EUR million)	13.9	20.9
	ASP for used systems (EUR million)	2.6	4.7
	ASP for total systems (EUR million)	13.2	19.1

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.

ASML expects to ship 50 systems in the first quarter of 2008 with an average selling price of EUR 18.9 million for new systems and an average selling price for all systems of EUR 16.3 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 27 to the Statutory Financial Statements 2007.

## 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 2007 and Note 27 to the Statutory Financial Statements 2007.

## Sustainability Report 2007

In our third sustainability report, we provide information on our progress in Environmental, Health, Safety and Social areas. We are pleased to report that ASML maintained its ISO 14001 certification in 2007. Furthermore, no serious-injury incidents or violations occurred during 2007. For further information, we refer to the sustainability report 2007 that will be posted on our website early March 2008.

## U.S. GAAP and Dutch 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 Dutch statutory purposes based on 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 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. The principal differences between ASML's U.S. and IFRS financial statements relate to share-based payments, capitalization of development expenditures and convertible subordinated notes.

ASML's U.S. GAAP report, based on Form 20-F, may contain additional information next to its Dutch 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](http://www.asml.com).

### **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 granted to its employees after November 7, 2002.

Under U.S. GAAP, until December 31, 2005, ASML accounted for stock option plans using the intrinsic value method in accordance with APB 25, "Accounting for stock issued to employees" and provided pro forma disclosure of the impact of the fair value method on net income and earnings per share in accordance with SFAS No. 123, "Accounting for Stock Based Compensation". As of January 1, 2006, ASML applies SFAS No. 123(R), "Share-Based Payment" which is a revision of SFAS No. 123. ASML began recognizing compensation expenses for equity-based awards granted, modified, repurchased, or cancelled after the required effective date of January 1, 2006 based upon the grant-date fair value of those instruments.

### **Capitalization of Development Expenditures**

Under IFRS, ASML applies International Accounting Standard ("IAS") 38, "Intangible Assets". During the second half of 2004, ASML made changes to its administrative systems in order to provide sufficient information to comply with IFRS beginning from January 1, 2005. Sufficient reliable information to account for capitalization of development expenditures under IFRS before January 1, 2005 is not available. Under 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.

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.

### **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. 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 cost which results in additional interest charges.

Under U.S. GAAP, ASML accounts for its convertible bonds as a liability at the principal amount outstanding. As of December 31, 2007 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**

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 15, 2008

# 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 manage in an optimal way 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:

- 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;
- discussions on management letters and audit reports provided by the Company’s external auditors within our Board of Management and Supervisory Board;
- ASML’s Ten Business Control Principles;
- ASML’s Internal Guidelines on Ethical Business Conduct 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 improvements in internal controls, with 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, 2007 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, 2007 do not contain any material inaccuracy;
- (ii) the internal risk management and control systems with respect to financial reporting risks have worked properly in 2007 and no material weaknesses were detected; and
- (iii) there are no indications that the Company’s internal controls over financial reporting will not operate effectively in 2008.

ASML’s Board of Management is currently not aware of any change in the Company’s internal control over financial reporting that occurred during 2007 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:

- 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 Ten Business Control Principles;
- ASML's Internal Guidelines on Ethical Business Conduct; and
- ASML's Anti-Fraud Policy.

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, 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,  
Veldhoven, February 15, 2008

# Statutory Financial Statements



# Consolidated Financial Statements

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## Consolidated Income Statements

Notes	Year ended December 31 (in thousands, except per share data)	2006 EUR	2007 EUR
24	Net system sales	3,229,065	3,391,775
	Net service and field option sales	368,039	416,904
	<b>Total net sales</b>	<b>3,597,104</b>	<b>3,808,679</b>
	Cost of system sales	1,959,093	2,073,879
	Cost of service and field option sales	223,927	274,676
	<b>Total cost of sales</b>	<b>2,183,020</b>	<b>2,348,555</b>
	<b>Gross profit on sales</b>	<b>1,414,084</b>	<b>1,460,124</b>
	Research and development costs	307,388	367,585
	Research and development credits	(17,098)	(14,643)
	Selling, general and administrative costs	204,362	241,928
	<b>Operating income</b>	<b>919,432</b>	<b>865,254</b>
	Interest income	49,634	81,773
	Interest charges	(86,848)	(62,384)
	<b>Income before income taxes</b>	<b>882,218</b>	<b>884,643</b>
22	Provision for income taxes	(246,234)	(152,750)
	<b>Net income</b>	<b>635,984</b>	<b>731,893</b>
7	Basic net income per ordinary share	1.34	1.58
	Diluted net income per ordinary share	1.31	1.55
	Number of ordinary shares used in computing per share amounts (in thousands):		
	Basic	474,860	462,406
	Diluted	504,091	484,309

## Consolidated Statements of Recognized Income and Expense

	Year ended December 31 (in thousands)	2006 EUR	2007 EUR
	Net income	635,984	731,893
	Foreign currency translation	(20,524)	(32,605)
	Derivative financial instruments	11,240	(4,888)
	<b>Total recognized income</b>	<b>626,700</b>	<b>694,400</b>

## Consolidated Balance Sheets

(Before appropriation of net income)

Notes	As of December 31 (in thousands)	2006 EUR	2007 EUR
	<b>Assets</b>		
8	Property, plant and equipment	270,890	380,894
6, 9	Goodwill	—	136,246
10	Other intangible assets	139,913	216,908
23	Deferred tax assets	315,180	220,863
11, 12	Derivative financial instruments	3,197	20,930
11, 14	Other non-current assets	31,360	32,828
	<b>Total non-current assets</b>	<b>760,540</b>	<b>1,008,669</b>
15	Inventories	808,481	1,102,210
11, 12	Derivative financial instruments	13,363	12,319
11, 13	Accounts receivable	672,762	637,975
11, 14	Other current assets	146,153	193,415
16	Cash and cash equivalents	1,655,857	1,271,636
	<b>Total current assets</b>	<b>3,296,616</b>	<b>3,217,555</b>
	<b>Total assets</b>	<b>4,057,156</b>	<b>4,226,224</b>
	<b>Equity and liabilities</b>		
17	<b>Equity</b>	2,278,983	2,055,680
11, 18	Convertible subordinated debt	333,220	—
11, 18	Other long-term debt	1,433	595,783
23	Deferred tax and other liabilities	238,275	257,325
	Other deferred liabilities	8,271	7,935
	<b>Total non-current liabilities</b>	<b>581,199</b>	<b>861,043</b>
	Accounts payable	326,995	282,953
19	Accrued liabilities and other	674,230	905,852
23	Current tax liabilities	187,751	109,415
11, 12	Derivative financial instruments	7,998	11,281
	<b>Total current liabilities</b>	<b>1,196,974</b>	<b>1,309,501</b>
	<b>Total equity and liabilities</b>	<b>4,057,156</b>	<b>4,226,224</b>

## Consolidated Statements of Changes in Equity

	Issued and outstanding shares		Share Premium EUR	Retained Earnings EUR	Treasury	Other Reserves <sup>2</sup> EUR	Net Income EUR	Total EUR
	Number <sup>1</sup> (in thousands)	Amount EUR			Shares at cost EUR			
<b>Balance at January 1, 2006</b>	484,670	9,694	1,360,507	106,287	—	11,657	332,826	<b>1,820,971</b>
<b>Appropriation of net income</b>	—	—	—	332,826	—	—	(332,826)	—
<b>Components of statement of recognized income and expense:</b>								
Net income	—	—	—	—	—	—	635,984	<b>635,984</b>
Foreign currency translation	—	—	—	—	—	(20,524)	—	<b>(20,524)</b>
Derivative financial instruments	—	—	—	—	—	11,240	—	<b>11,240</b>
<b>Purchase of treasury shares</b>	(25,450)	—	—	—	(401,000)	—	—	<b>(401,000)</b>
<b>Purchase of shares in conjunction with conversion rights of bond holders</b>	(14,935)	(299)	—	—	(277,235)	—	—	<b>(277,534)</b>
<b>Issuance of shares in conjunction with convertible bonds</b>	30,811	616	238,862	(48,034)	277,235	—	—	<b>468,679</b>
<b>Issuance of shares and stock options</b>	2,003	40	41,127	—	—	—	—	<b>41,167</b>
<b>Development expenditures</b>	—	—	—	(48,235)	—	48,235	—	—
<b>Balance at December 31, 2006</b>	477,099	10,051	1,640,496	342,844	(401,000)	50,608	635,984	<b>2,278,983</b>
<b>Appropriation of net income</b>	—	—	—	635,984	—	—	(635,984)	—
<b>Components of statement of recognized income and expense:</b>								
Net income	—	—	—	—	—	—	731,893	<b>731,893</b>
Foreign currency translation	—	—	—	—	—	(32,605)	—	<b>(32,605)</b>
Derivative financial instruments	—	—	—	—	—	(4,888)	—	<b>(4,888)</b>
<b>Cancellation of treasury shares</b>	—	(509)	(48,563)	(351,928)	401,000	—	—	—
<b>Purchase of shares in conjunction with conversion rights of bond holders and stock options</b>	(17,000) <sup>3</sup>	—	—	—	(359,856)	—	—	<b>(359,856)</b>
<b>Issuance of shares in conjunction with convertible bonds</b>	26,232	718	289,085	(60,846)	130,317	—	—	<b>359,274</b>
<b>Capital repayment<sup>4</sup></b>	(55,093)	29,748	(1,041,605)	—	—	—	—	<b>(1,011,857)</b>
<b>Issuance of shares and stock options</b>	4,388	168	69,923	(5,031)	29,676	—	—	<b>94,736</b>
<b>Development expenditures</b>	—	—	—	(59,309)	—	59,309	—	—
<b>Balance at December 31, 2007</b>	435,626	40,176	909,336	501,714	(199,863)	72,424	731,893	<b>2,055,680</b>

1 As of December 31, 2007, the number of issued shares is 444,452,864. This included the number of issued and outstanding shares of 435,625,934 and treasury shares of 8,826,930. As of December 31, 2006, the number of issued shares was 502,549,541. This included the number of issued and outstanding shares of 477,099,245 and treasury shares of 25,450,296.

2 Other reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. See Note 17 for further information.

3 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 17 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 17 for further information.

## Consolidated Statements of Cash Flows

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
<b>Cash Flows from Operating Activities</b>		
Net income	635,984	731,893
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	132,200	201,324
Impairment charges	17,354	9,022
Share-based payments	11,290	659
Convertible financial expenses	23,803	22,229
Allowance for doubtful debts	249	178
Allowance for obsolete inventory	54,181	79,592
Deferred income taxes	(65,298)	82,224
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(362,388)	42,653
Inventories	(85,213)	(438,147)
Other assets	(30,420)	(61,552)
Accrued liabilities	153,536	262,430
Accounts payable	(8,916)	(38,345)
Income taxes payable	97,740	(78,337)
<b>Net cash provided by operating activities from operations</b>	<b>574,102</b>	<b>815,823</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment	(70,619)	(179,152)
Proceeds from sale of property, plant and equipment	5,216	19,221
Purchase of intangible assets	(93,810)	(136,521)
Acquisition of subsidiary (net of cash acquired)	—	(188,011)
<b>Net cash used in investing activities from operations</b>	<b>(159,213)</b>	<b>(484,463)</b>
<b>Cash Flows from Financing Activities</b>		
Purchase of treasury shares	(401,000)	—
Capital repayment	—	(1,011,857)
Purchase of shares in conjunction with conversion rights of bond holders and stock options	(277,385)	(359,856)
Net proceeds from issuance of shares and stock options	35,840	79,812
Net proceeds from issuance of bond	—	593,755
Redemption and/or repayment of debt	(8,318)	(9,718)
<b>Net cash used in financing activities from operations</b>	<b>(650,863)</b>	<b>(707,864)</b>
Net cash flows	(235,974)	(376,504)
Effect of changes in exchange rates on cash	(12,778)	(7,717)
<b>Net decrease in cash and cash equivalents</b>	<b>(248,752)</b>	<b>(384,221)</b>
Cash and cash equivalents at beginning of the year	1,904,609	1,655,857
<b>Cash and cash equivalents at end of the year</b>	<b>1,655,857</b>	<b>1,271,636</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for:		
Interest	48,656	38,936
Taxes	217,466	167,268
<b>Supplemental non-cash investing and financing activities:</b>		
Conversion of Bonds into 30,811,215 and 26,232,275 ordinary shares respectively in 2006 and 2007	459,087	378,413



## 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 New York Shares on NASDAQ (NASDAQ Global Select Market) and in the form of registered shares ("Amsterdam Shares") on Euronext Amsterdam. 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 15, 2008 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 April 3, 2008.

### 2. Adoption of new and revised International Financial Reporting Standards

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 financial statements for the years ended December 31, 2006 and 2007 have been prepared on the basis of IFRS as adopted by the EU. New Standards and Interpretations, which became effective in 2007, did not have a material impact on ASML's financial statements. However the adoption of IFRS 7 "Financial Instruments: Disclosures" did have a significant impact on the disclosures.

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

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. ASML is currently in the process of determining the impact of adopting this amendment to IAS 1 on the Company's consolidated financial statements.

IAS 23 (Amendment), "Borrowing costs" (effective for annual periods beginning on or after January 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Since ASML does not make use of the option to immediately expense borrowing costs this amendment has no impact 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 an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. ASML anticipates that the adoption of this interpretation will have no material impact on the Company's consolidated financial statements.

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. ASML anticipates that the adoption of this interpretation will have no material impact on the Company's consolidated financial statements.

IFRIC 12, "Service concession arrangements" (effective for annual periods beginning on or after January 1, 2008). IFRIC 12 applies to contractual agreements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant for the Company because none of the subsidiaries provide for public sector services.

IFRIC 13, "Customer loyalty programmes" (effective for annual periods beginning on or after July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the

arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. ASML is currently in the process of determining the impact of adopting this interpretation on the Company's consolidated financial statements.

IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective for annual periods beginning on or after January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. ASML anticipates that the adoption of this interpretation will have no material impact on the Company's consolidated financial statements.

ASML has not yet adopted these Standards and Interpretations in its accompanying consolidated financial statements.

### **3. Summary of Significant Accounting Policies**

#### **Statement of compliance**

The financial statements have been prepared in accordance with IFRS as adopted by the European Union (EU).

#### **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.

As of January 1, 2007 ASML has adopted IFRS 7 "Financial Instruments: Disclosures". IFRS 7 requires new disclosures with respect to financial instruments. To improve the understanding of the financial statements, ASML decided to separately disclose derivative financial instruments on the face of the balance sheet at the date of adoption of IFRS 7. In prior year, derivative financial instruments were included in other current assets. Comparative information was adjusted to reflect the change in presentation of derivative financial instruments. This change had no impact on net income or equity.

To align the presentation of the consolidated statement of changes in equity with the presentation of the statement of changes in equity as included in the company financial statements, we changed the presentation of the consolidated statement of changes in equity as of January 1, 2007. Comparative information was adjusted to reflect this change in presentation. This change had no impact on total equity or net income.

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.

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

#### **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 cumulative 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. Land is not depreciated. 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

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

## Other intangible assets

Other intangible assets include 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. Before January 1, 2005, ASML's financial statements did not include any capitalization of development expenditures due to the fact that ASML's administrative system was not implemented in such a manner that these criteria could be demonstrated. During the second half of 2004, ASML made changes to its administrative systems in order to be able to comply with IFRS as from January 1, 2005 onwards. As such, ASML has included capitalization of development expenditures that meet the capitalization criteria from January 1, 2005 onwards.

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 43 million and EUR 84 million for the years 2006 and 2007, 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.

### 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 will be amortized when the technology is available for use.

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 non-financial assets**

Goodwill is not subject to amortization and is tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses on goodwill are not reversed. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years.

### **Financial assets**

ASML classifies its financial assets in the following categories: at fair value through profit or loss or as loans and receivables. The classification depends on the nature and purpose of the financial assets. Management determines the classification of its financial assets at initial recognition.

#### **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 receivables. The Company's loans and receivables comprise accounts receivable 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 are classified as at fair value through profit or loss where the financial liabilities are designated as at fair value through profit or loss. Liabilities in this category 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:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge);
- hedges 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 11 and 12. Movements on hedging reserve in equity are shown in Note 17. 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.

#### **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. Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair value hedges. The critical terms of the hedging instruments are the same as those for the underlying assets. 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 within "interest income" or "interest charges".

If the hedge no longer meets the criteria for hedge accounting, the adjustments to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the period to maturity.

#### **Cash flow hedge**

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in equity, until underlying hedged transaction is recognized in the income statement. In the event that the underlying hedge transaction does not occur, or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is immediately released from equity and included in the income statement.

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 accumulated changes in fair value of the derivatives are intended to offset changes in future interest cash flows on the assets. 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 within "interest income" or "interest charges".

#### **Net investment hedge**

Any gain or loss on the hedging instrument relating to the effective portion of the hedge of a foreign currency exposure of a net investment in a foreign operation is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within "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, commercial paper 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.

### **Convertible subordinated debt**

Convertible subordinated notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible subordinated notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loan note into equity of the Company, is included in equity. Issue costs are apportioned between the liability and equity components of the convertible subordinated notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity. The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible subordinated notes.

### **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, we recognize 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.

We anticipate that, in connection with future introductions of new technology, we will initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until we are able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on our results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2007 and 2006 we had no deferred revenue from shipments of new technology. During the two years ended December 31, 2007, 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, 2007 ASML has repurchase commitments for an amount of 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 9 million and EUR 28 million, respectively, as of December 31, 2007.

The deferred revenue balance from prepaid service contracts and prepaid extended optic warranty contracts amounted to approximately EUR 149 million and EUR 38 million, respectively, as of December 31, 2007.

We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment revenue is recognized. 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. Generally, there are no other credits or adjustments recognized at shipment. From time to time, we offer free or discounted products or services in connection with the sale of a system, which are earned by the customer at a future date only if the customer completes a specified cumulative level of revenue transactions. As the value of these free or discounted products or services is insignificant in relation to the value of the transactions necessary to earn these free or discounted products or services, a liability is recorded for the cost of these free or discounted products or services at the time of revenue recognition.

### **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.

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

### **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 liability for current tax 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 income statement effect of interest and penalties relating to income tax contingencies 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 22 to the consolidated 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 income statement in 2006 and 2007. Significant subjective judgments were required in

these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, ASML may agree to settle or to terminate a claim or proceeding in which it believes it would ultimately prevail where it believes 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 statement at the time when the related legal services are actually provided to us.

### **Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 20.

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 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 over the remaining vesting period, 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.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### **Retirement benefit costs**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. 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.

## **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. 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.

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

### **Foreign currency exchange rate risk and 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. The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

During the 12 months ended December 31, 2007, EUR 0.2 million gain (2006: EUR 0.0) was recognized in cost of sales relating to ineffective hedges. As of December 31, 2007 EUR 3.8 million gain (2006: EUR 4.1 million gain) of the hedging reserve represents the total anticipated gain to be released to sales, and EUR 3.1 million loss (2006: EUR 2.1 million loss) is the total anticipated loss to be charged to cost of sales over the next 12 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 US dollar net investments by hedging these partly with forward contracts.

The related foreign currency translation amounts (gross of taxes) included in cumulative translation adjustment for the years ended December 31, 2006 and 2007 were EUR 16.0 million gain and EUR 15.0 million gain, respectively.

### Interest rate risk and 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.

### Derivative financial instruments

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

(in thousands)	2006		2007	
	Notional Amount EUR	Fair Value EUR	Notional Amount EUR	Fair Value EUR
Forward contracts <sup>1,2</sup>	482,131	2,150	283,881	528
Currency options <sup>2</sup>	73,049	3,827	90,000	4,887
Interest rate swaps <sup>3</sup>	429,900	2,584	1,029,900	16,553

(Source: Bloomberg Finance LP)

1 Mainly includes forward contracts on US 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 subsidiaries.

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

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, current exchange rates and the current creditworthiness of the counterparties. 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, volatility and the current creditworthiness of the counterparties. We use the Black-Scholes option-pricing 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 and the current creditworthiness of the counterparties. 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 US dollar and Japanese yen. The following table details the Company's sensitivity to a 10 percent strengthening of foreign currencies against the euro. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. A positive amount indicates an increase in income before income tax and equity.

(in thousands)	2006		2007	
	Impact on income before income taxes EUR	Impact on equity EUR	Impact on income before income taxes EUR	Impact on equity EUR
US dollar	(4,051)	9,531	(709)	18,523
Japanese yen	(2,063)	(1,649)	(502)	(3,977)
Other currencies	(1,308)	5,239	(1,296)	11,236
<b>Total</b>	<b>(7,422)</b>	<b>13,121</b>	<b>(2,507)</b>	<b>25,782</b>

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

Fair value movements of cash flow hedges are recognized in equity. The main reason for the increased effect in equity in 2007 compared to 2006 is a higher volume of cash flow hedges (EUR 190 million), mainly purchase hedges.

It is the Company's policy to limit the currency effects through the income statement. The effect on income before income tax as presented in 2007 and 2006 is mainly attributable to unavoidable timing differences between the arising of exposures and the hedging thereof.

For a 10 percent weakening of the foreign currencies against the euro, there would be approximately an equal and opposite effect on the income before income tax and equity. Only for the sensitivity for a 10 percent weakening of the Japanese yen against the euro, there would be a higher opposite effect than presented in the table shown above of EUR 2.9 million (2006: EUR 3.0 million) on equity.

### Interest rate sensitivity

The sensitivity analyses below have 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 tax and equity. For a one percent decrease in interest rates there would approximately be an equal and opposite effect on the income before income tax and equity.

(in thousands)	2006		2007	
	Impact on income before income taxes EUR	Impact on equity EUR	Impact on income before income taxes EUR	Impact on equity EUR
	12,700	(10,481)	2,602	(7,578)

The negative effect on equity is mainly attributable to the fair value movements of the interest rate swaps (EUR 380 million) designated as cash flow hedges. As the remaining outstanding term of the interest rate swaps has decreased by one year, the effect on equity has decreased accordingly.

The positive effect on the income before income tax is mainly attributable to increased revenue on the net asset position. In 2007 the effect is lower than in 2006, because new interest rate swaps (EUR 600 million) were entered into, decreasing the sensitivity to rate movements. In addition, lower cash balances had a decreasing effect.

## Credit risk and 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.

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 and issuers of commercial paper. 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 generally requires no collateral to secure accounts receivable. 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. In addition, ASML utilizes letters of credit to mitigate credit risk when considered appropriate.

## Capital risk management

ASML regularly reviews the efficiency of its capital structure and is committed to return excess cash to its shareholders. During the course of 2007 ASML concluded that the debt-to-equity ratio could be further optimized. This has been realized by means of the EUR 600 million bond issue, followed by the capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback). ASML maintains its target for cash reserves of between EUR 1.0 billion and EUR 1.5 billion.

## Liquidity risk and 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. ASML seeks to maintain a strategic target level of cash and cash equivalents between EUR 1.0 billion and 1.5 billion. To the extent that the cash buffer exceeds this target and there are no alternative investment opportunities, ASML intends to return excess cash to our shareholders. As of December 31, 2007 the cash and cash equivalents amounted to EUR 1.3 billion.

The Company's liquidity analysis consists of the following:

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
<b>Derivative Financial Instruments</b>					
Forwards/swaps	1,259	1,259	—	—	—
Options	4,887	4,887	—	—	—
Interest rate swaps	21,610	(4,764)	9,703	2,025	14,646
<b>Financial instruments</b>					
Long Term Debt Obligations, including interest expenses <sup>1</sup>	948,222	35,706	71,412	69,000	772,104
<b>Other</b>					
Operating Lease Obligations	189,293	36,040	55,581	40,586	57,086
Purchase Obligations	1,405,283	1,375,334	29,945	4	—
Repurchase Commitments	53,259	40,459	12,800	—	—
Total	2,623,813	1,488,921	179,441	111,615	843,836

<sup>1</sup> We refer to Note 18 to the consolidated financial statements for the amounts excluding interest expenses.

## 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.

## **Impairment of non-financial assets**

Goodwill is not subject to amortization and is tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. In determining the recoverable amount of an asset or cash-generating unit, the Company makes estimates about future cash flows based on the value in use. These estimates are based on financial plan updated with the latest available projection of the semiconductor market evolution, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. We also make estimates and assumptions concerning Weighted Average Cost of Capital (WACC) and future inflation rates. It is possible, however, that the outcome of the plans, estimates and assumptions used may differ, and future adverse changes in market conditions, may require impairment of certain non-financial assets.

During 2007 we recorded impairment charges of EUR 8.0 million in property, plant and equipment and EUR 1.0 million in other intangible assets of which we recorded EUR 8.6 million in cost of sales, EUR 0.2 million in research and development costs and EUR 0.2 million in selling, general and administrative costs.

The impairment charges recorded in 2007 mainly relate to buildings and construction and machinery and equipment. The impairment charges with respect to buildings and constructions mainly relate to a building in Veldhoven that has been abandoned in 2007 and will be 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 estimated fair value (being EUR 0.0) and its carrying amount. The impairment charges with respect to machinery and equipment mainly relate to development, production and field service tooling that were no longer used because the tools no longer met current technology requirements. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 0.0) and their carrying amount.

## **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. Where we deem it prudent to do so, we may require some form of credit enhancement, such as a letter of credit or bank guarantee, before shipping systems to a customer. 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 40.1 percent of accounts receivable at December 31, 2007, compared to 35.0 percent at December 31, 2006. 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.

## **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**

Equity-settled share-based payments are measured at fair value at the date of grant. The grant-date fair value of these instruments was estimated using the Black-Scholes option-pricing model. This Black-Scholes option-pricing model requires the use of assumptions, including expected stock price volatility and the estimated life of each award. 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. Since January 1, 2006 we are adopting implied volatility of our actively-traded options for new issued stock options as one of the assumptions in the Black-Scholes pricing model. As the semiconductor industry is becoming more mature, resulting in a decreasing cyclicality, we believe that implied volatility is currently a better assumption for the valuation model than historical volatility as previously applied. We also refer to Note 20 "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 15.9 million in 2007 (2006: EUR 8.3 million).

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

## **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, 2007 is EUR 209 million tax basis or EUR 81 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 from operations, 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 from operations, will be sufficient to absorb the net operating losses that ASML US, Inc. has incurred, prior to the expiry of those losses. In order to determine with certainty the tax consequences and value of this asset transfer, 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 calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is highly judgmental. However, we believe that we have adequately provided for tax contingencies. 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 tax contingencies mainly relate to transfer pricing positions, operational activities in countries where we are not tax registered and tax deductible costs. We provide for these tax contingencies for the duration of the statute of limitations which differs per tax jurisdiction and generally ranges up to seven years. As of

December 31, 2007 the liability for tax contingencies amounts to EUR 110.3 million (December 31, 2006: EUR 130.7 million) and are included in Deferred tax and other liabilities on the consolidated balance sheets.

## 6. 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 OPC to design data and verification before mask manufacture. The acquisition of Brion is expected to enable ASML to improve the implementation of OPC and resolution enhancement techniques such as Double Patterning in the masks to be used on ASML systems. These improvements in turn are expected to enable the extension of the practical resolution limits of ASML ArF immersion products. Use of Brion computational lithography capability is also expected to enable us to offer products to 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-pricing 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 are 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	—
<b>Total</b>	<b>193,269</b>	<b>(6,855)</b>

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. In-process research and development will be amortized when the technology is available for use.

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

As part of a retention package employees and executives of Brion 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 20).

The fair values identified upon acquisition are provisional and may still be subject to change. Changes in fair values will be shown as an adjustment to the initial identified goodwill within one year after acquisition date.



Pro forma financial information has not been presented because the effect of the acquisition in fiscal year ended December 31, 2007 and December 31, 2006 was not material.

## 7. Earnings per share

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

Year ended December 31 (in thousands, except per share data)	2006 EUR	2007 EUR
<b>Basic EPS computation:</b>		
<b>Net income available to holders of common shares</b>	635,984	731,893
<b>Weighted average number of shares outstanding (after deduction of treasury stock) during the year</b>	474,860	462,406
<b>Basic earnings per share</b>	1.34	1.58
<b>Diluted EPS computation:</b>		
Net income available to holders of common shares	635,984	731,893
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	22,136	18,512
<b>Net income available to holders of common shares plus effect of assumed conversions</b>	658,120	750,405
<b>Weighted average number of shares:</b>	474,860	462,406
Plus shares applicable to		
Stock options	2,658	3,235
Convertible subordinated notes	26,573	18,668
<b>Dilutive potential common shares</b>	29,231	21,903
<b>Adjusted weighted average number of shares</b>	504,091	484,309
<b>Diluted earnings per share</b>	1.31	1.55

## 8. 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
<b>Cost</b>					
Balance, January 1, 2006	126,951	433,824	122,029	207,534	890,338
Additions	1,919	52,703	17,481	27,191	99,294
Disposals	(605)	(37,318)	(1,977)	(3,262)	(43,162)
Effect of exchange rates	(7,107)	(14,190)	(592)	(2,344)	(24,233)
Balance, December 31, 2006	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
<b>Accumulated depreciation</b>					
Balance, January 1, 2006	51,387	341,503	71,808	147,059	611,757
Depreciation	3,758	32,938	11,858	27,447	76,001
Impairment charges	10,222	7,132	—	—	17,354
Disposals	(309)	(32,889)	(1,343)	(3,057)	(37,598)
Effect of exchange rates	(3,125)	(10,852)	(396)	(1,794)	(16,167)
Balance, December 31, 2006	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
<b>Carrying amount<sup>1</sup></b>					
December 31, 2006	59,225	97,187	55,014	59,464	270,890
December 31, 2007	136,110	129,941	56,278	58,565	380,894

<sup>1</sup> Includes as of December 31, 2007 and 2006 assets under construction, respectively, for buildings and constructions of EUR 79.6 million and EUR 1.6 million, machinery and equipment of EUR 6.6 million and EUR 1.6 million, leasehold improvements of EUR 1.2 million and EUR 11.5 million and furniture, fixtures and other equipment of EUR 16.4 million and EUR 13.2 million.

Additions to buildings and constructions relate to the construction of new facilities in Veldhoven and Taiwan.

The majority of the Company's disposals in 2006 and 2007 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 fixed assets because they are held and, at the time they are placed in service, expected to be used for a period longer than 1 year. These systems are recorded at cost and depreciated over their useful life.

From the moment these assets are no longer held for use but intended for sale, they are reclassified from fixed assets to inventory at the lower of their carrying value or fair market value. The cost of sales for these systems includes this value and the additional costs of refurbishing (materials and labor). 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.

During 2007, we recorded impairment charges of EUR 8.0 million (2006: EUR 17.4 million) of which we recorded EUR 7.6 million (2006: EUR 14.1 million) in cost of sales, EUR 0.2 million (2006: EUR 2.0 million) in research and development costs and EUR 0.2 million (2006: EUR 1.3 million) in selling, general and administrative costs.

The impairment charges recorded in 2007 mainly relate 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 relate to a building in Veldhoven that has been abandoned in 2007 and will be 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 estimated fair value (being EUR 0.0) and its carrying amount. The impairment charges with respect to machinery and equipment mainly relate to development, production and field service tooling, that were no longer used because the tools no longer met current technology requirements. The impairment charges were determined based on the difference between the assets' estimated fair value (being EUR 0.0) and their carrying amount.

The impairment charges recorded in 2006 mainly relate to buildings and construction (EUR 10.2 million) and machinery and equipment (EUR 7.1 million). The impairment charges with respect to buildings and construction mainly relate to a subleased building in Japan for which there are insufficient cash flows to support its carrying amount, mainly as a result of a drop in rental income. This drop is caused by a cancellation of one of the subleases and unfavorable real estate market conditions at the location of our Japan building. The impairment was determined based on the difference between the building's estimated fair value and its carrying amount. The impairment charges with respect to machinery and equipment mainly relate to development, production and field service tooling, which were no longer used because the tools did no longer meet the today's technology requirements. The impairment charges were determined based on the difference between the assets' estimated fair value and their carrying amount.

During 2007, we recorded depreciation charges of EUR 88.5 million (2006: EUR 76.0 million) of which we recorded EUR 48.6 million (2006: EUR 37.8 million) in cost of sales, EUR 21.5 million (2006 EUR 18.7 million) in research and development costs and EUR 18.4 million (2006: EUR 19.5 million) in selling, general and administrative costs.

## 9. Goodwill

Changes in goodwill are summarized as follows:

(in thousands)	2007 EUR
<b>Cost</b>	
Balance, January 1	—
Acquisition subsidiary	152,252
Effect of exchange rates	(16,006)
Balance, December 31	136,246
<b>Accumulated impairment</b>	
Balance, January 1	—
Impairment	—
Effect of exchange rates	—
Balance, December 31	—
<b>Carrying amount, December 31</b>	<b>136,246</b>

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 calculations. These calculations use pre-tax cash flow projections based on the strategic plan approved by management covering a six-year period. 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 discount rate is pre-tax and reflects the risk of ASML as a whole.

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 and a discount rate of 15.5 percent.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 10. 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
<b>Cost</b>							
Balance, January 1, 2006	98,484	47,095	—	—	—	—	145,579
Additions	93,690	120	—	—	—	—	93,810
Balance, December 31, 2006	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
<b>Accumulated depreciation</b>							
Balance, January 1, 2006	24,882	22,152	—	—	—	—	47,034
Amortization	45,455	6,987	—	—	—	—	52,442
Balance, December 31, 2006	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
<b>Carrying amount</b>							
December 31, 2006	121,837	18,076	—	—	—	—	139,913
December 31, 2007	157,998	9,418	20,136	7,224	20,715	1,417	216,908

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

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

In connection with the settlement, ASML made an initial payment to Nikon of US dollar 60 million in 2004 and further payments of US 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 6 for more information.

During 2007, we recorded amortization charges of EUR 111.6 million (2006: EUR 52.4 million) of which we recorded EUR 111.3 million in cost of sales (2006: EUR 51.9 million) and EUR 0.3 million in research and development costs (2006: EUR 0.5 million).

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

	2008	62,798
	2009	29,197
	2010	13,564
	2011	7,935
	2012	1,674
	<b>Total</b>	<b>115,168</b>

## 11. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

As of December 31, 2007 (in thousands)	Loans and receivables EUR	Derivatives at fair value through income statement EUR	Derivatives for which hedge accounting is applied EUR	Total EUR
<b>Assets as per balance sheet date</b>				
Derivative financial instruments	—	2,989	30,260	33,249
Accounts receivable	637,975	—	—	637,975
Other non-current and current assets	226,243	—	—	226,243
Cash and cash equivalents	1,271,636	—	—	1,271,636
<b>Total</b>	<b>2,135,854</b>	<b>2,989</b>	<b>30,260</b>	<b>2,169,103</b>

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

As of December 31, 2006 (in thousands)	Loans and receivables EUR	Derivatives at fair value through income statement EUR	Derivatives for which hedge accounting is applied EUR	Total EUR
<b>Assets as per balance sheet date</b>				
Derivative financial instruments	—	8,633	7,927	16,560
Accounts receivable	672,762	—	—	672,762
Other non-current and current assets	177,513	—	—	177,513
Cash and cash equivalents	1,655,857	—	—	1,655,857
<b>Total</b>	<b>2,506,132</b>	<b>8,633</b>	<b>7,927</b>	<b>2,522,692</b>

As of December 31, 2006 (in thousands)	Derivatives at fair value through income statement EUR	Derivatives for which hedge accounting is applied EUR	Other financial liabilities EUR	Total EUR
<b>Liabilities as per balance sheet date</b>				
Convertible subordinated debt	—	—	333,220	<b>333,220</b>
Other long-term debt	—	—	1,433	<b>1,433</b>
Derivative financial instruments	4,184	3,814	—	<b>7,998</b>
<b>Total</b>	4,184	3,814	334,653	<b>342,651</b>

### 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 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 and issuers of commercial paper. 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 generally requires no collateral to secure accounts receivable, ASML maintains an allowance reserve for potentially uncollectible accounts receivable. ASML regularly reviews the allowance by considering factors such as historical payment experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In addition, ASML utilizes letters of credit to mitigate credit risk when considered appropriate.

## 12. Derivative financial instruments

As of December 31 (in thousands)	2006 Assets EUR	Liabilities EUR	2007 Assets EUR	Liabilities EUR
Interest rate swaps – cash flow hedges	3,435	851	3,900	3,996
Interest rate swaps – fair value hedges	—	—	17,358	709
Forward foreign exchange contracts – cash flow hedges	4,492	1,399	1,575	3,587
Forward foreign exchange contracts – net investment hedges	—	1,565	723	—
Forward foreign exchange contracts – other hedges (no hedge accounting)	4,807	4,183	4,806	2,989
Option contracts – cash flow hedges	—	—	4,887	—
Option contracts – other hedges (no hedge accounting)	3,826	—	—	—
<b>Total</b>	16,560	7,998	33,249	11,281
Less non-current portion:				
Interest rate swaps – cash flow hedges	3,197	—	3,572	—
Interest rate swaps – fair value hedges	—	—	17,358	—
<b>Total non-current portion</b>	3,197	—	20,930	—
<b>Total current portion</b>	13,363	7,998	12,319	11,281

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 2007 (2006: EUR 0.0) that arises from fair value hedges. The ineffective portion recognized in the income statement that arises from cash flow hedges amounts to a gain of EUR 0.2 million (2006: EUR 0.0). There was no ineffectiveness to be recorded 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 US dollar and Japanese yen at December 31, 2007 are US dollar 306.3 million and Japanese yen 32.5 billion (2006: US dollar 610 million and Japanese yen 17.6 billion).

The hedged highly probable forecasted transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve in equity on forward foreign exchange contracts as of December 31, 2007 are recognized in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the balance sheet date.

### Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts as of December 31, 2007 were EUR 1,030 million (2006: EUR 430 million).

### Hedge of net investment in foreign entities

A proportion of the Company's US dollar-denominated forward foreign exchange contracts amounting to US dollar 182.5 million (2006: US dollar 506.3 million) are designated as hedges of the net investment in the Company's US subsidiary.

## 13. Accounts receivable

The accounts receivable consist of the following:

	As of December 31 (in thousands)	2006 EUR	2007 EUR
Accounts receivable, gross		675,150	639,360
Allowance for doubtful debts		(2,388)	(1,385)
Accounts receivable, net		672,762	637,975

The carrying amount of the accounts receivable approximates the fair value. The maximum exposure to credit risk at December 31, 2007 is the fair value of the accounts receivable mentioned above. The Company does not hold any collateral as security.

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, 2007, trade receivables of EUR 45.9 million (2006: EUR 64.4 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.

	As of December 31 (in thousands)	2006 EUR	2007 EUR
Accounts receivable:			
Up to three months due		52,472	40,768
Over three months due		11,977	5,157
<b>Total</b>		64,449	45,925

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

Movements on the allowance for doubtful debts are as follows:

(in thousands)	2006 EUR	2007 EUR
Balance, January 1	(4,275)	(2,388)
(Addition)/release of the year <sup>1</sup>	(249)	178
Receivables written off during the year as uncollectible	2,136	825
<b>Balance, December 31</b>	<b>(2,388)</b>	<b>(1,385)</b>

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

#### 14. Other non-current and current assets

The other non-current assets consist of the following:

As of December 31 (in thousands)	2006 EUR	2007 EUR
Compensation plan assets <sup>1</sup>	8,087	7,929
Subordinated loan granted to lessor in respect of Veldhoven headquarters <sup>2</sup>	5,445	5,445
Loan to Micronic <sup>3</sup>	13,000	13,000
Other	4,828	6,454
<b>Total other non-current assets</b>	<b>31,360</b>	<b>32,828</b>

1 For further details on compensation plan refer to Note 20.

2 For further details on loan granted to lessor in respect of Veldhoven headquarters refer to Note 21.

3 Pursuant to a license agreement between Micronic Laser Systems AB and ASML, ASML has paid to Micronic in 2005 EUR 20.0 million, of which EUR 13.0 million (December 31, 2006: EUR 13.0 million) is non-current.

The other current assets consist of the following:

As of December 31 (in thousands)	2006 EUR	2007 EUR
Advance payments to Zeiss	78,412	100,112
VAT	22,413	34,459
Loan to Micronic <sup>1</sup>	3,500	—
Prepaid expenses	17,897	34,415
Other <sup>2</sup>	23,931	24,429
<b>Total other current assets</b>	<b>146,153</b>	<b>193,415</b>

1 Pursuant to a license agreement between Micronic Laser Systems AB and ASML, ASML has paid to Micronic in 2005 EUR 20.0 million, of which EUR 0.0 million (December 31, 2006: EUR 3.5 million) is current.

2 Other includes interest free loans of EUR 11.3 million in 2006 and EUR 11.4 million in 2007.

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-progress and thereby secure lens deliveries to us. Amounts owed under these advance payments are repaid through lens deliveries. We do not maintain a provision against these advances, but periodically monitor Zeiss' financial condition to confirm that no provision 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.



## 15. Inventories

Inventories consist of the following:

	As of December 31 (in thousands)	2006 EUR	2007 EUR
Raw materials		201,471	139,868
Work-in-process		442,513	712,815
Finished products		279,915	378,572
<b>Total inventories, gross</b>		923,899	1,231,255
Allowance for obsolescence and/or lower market value		(115,418)	(129,045)
<b>Total inventories, net</b>		808,481	1,102,210

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

	As of December 31 (in thousands)	2006 EUR	2007 EUR
Balance at beginning of year		(116,192)	(115,418)
Addition of the year <sup>1</sup>		(54,181)	(79,592)
Effect of exchange rates		5,268	4,259
Utilization of the provision		49,687	61,706
<b>Balance at end of year</b>		(115,418)	(129,045)

<sup>1</sup> Addition of the year is recorded in cost of sales.

The higher addition to and utilization of the inventory provision in 2007 reflect our increased focus on inventory control management, which is required because of accelerated technology changes.

The cost of inventories recognized as expense and included in cost of sales amounted to EUR 1.8 billion (2006: EUR 1.7 billion).

## 16. Cash and cash equivalents

Cash and cash equivalents at December 31, 2007 include short-term deposits for the amount of EUR 1,201 million (2006: EUR 1,471 million), commercial papers for an amount of EUR 0.0 (2006: EUR 44 million), investments in Money Market Funds for an amount of EUR 0.0 (2006: EUR 78 million) and interest-bearing bank accounts for an amount of EUR 71 million (2006: EUR 62 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.

## 17. 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 435,625,934 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid.

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 March 28, 2007, the Board of Management was granted the authorization to issue shares and/or rights thereto. At our annual General Meeting of Shareholders to be held on April 3, 2008, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through October 3, 2009.

Holders of our ordinary shares have a pro rata 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 March 28, 2007, the Board of Management was granted the authorization, subject to the aforementioned approval, to limit or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on April 3, 2008, our shareholders will be asked to grant this authority through October 3, 2009. 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 provided the aggregate nominal value of the ordinary shares held by ASML or a subsidiary at any time amounts to no more than one-tenth of our issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through September 28, 2008 up to a maximum of 30 percent of our issued share capital as of the date of authorization (March 28, 2007) 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 April 3, 2008, our shareholders will be asked to extend this authority through October 3, 2009.

## **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 further amendment to the option agreement between the Foundation and ASML was made in 2007. The object of the Foundation is to protect the interests of the Company and the enterprises maintained by it. 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 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.

The Foundation is independent of the Company and its Board of Directors comprises three voting members from the Netherlands business and academic communities, Mr. R.E. Selman, Mr. F.H.M. Grapperhaus and Mr. M.W. den Boogert, and one non-voting member, the Chairman of the Company's Supervisory Board, Mr. A.P.M. Van der Poel.

## Other reserves

Changes in other reserves during 2006 and 2007 were as follows:

(in thousands)	Legal reserves			Total EUR
	Hedging reserve EUR	Currency translation reserve EUR	Capitalized development expenditures EUR	
<b>Balance at January 1, 2006</b>	152,686	(214,631)	73,602	<b>11,657</b>
<b>Components of statements of recognized income and expense:</b>				
Foreign currency translation	—	(20,524)	—	<b>(20,524)</b>
Derivative financial instruments	11,240	—	—	<b>11,240</b>
<b>Development expenditures</b>	—	—	48,235	<b>48,235</b>
<b>Balance at December 31, 2006</b>	163,926	(235,155)	121,837	<b>50,608</b>
<b>Components of statements of recognized income and expense:</b>				
Foreign currency translation	—	(32,605)	—	<b>(32,605)</b>
Derivative financial instruments	(4,888)	—	—	<b>(4,888)</b>
<b>Development expenditures</b>	—	—	59,309	<b>59,309</b>
<b>Balance at December 31, 2007</b>	159,038	(267,760)	181,146	<b>72,424</b>

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 the Annual General Meeting of Shareholders, to be held on April 3, 2008, the Board of Management, with the approval of the Supervisory Board, will propose to the shareholders to pay out a cash dividend for an amount of EUR 0.25 per ordinary share of EUR 0.09. The Board of Management, with the approval of the Supervisory Board, has decided that the remainder of the 2007 net income will be added to the retained earnings.

### Share buyback programs

#### 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 aggregate number of shares bought back in this Repurchase Program was 25,450,296, representing 100 percent of the announced objective 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 order to mitigate the dilution due to the issuance of shares upon conversion of its convertible bond due October 2006, ASML repurchased 14,934,843 shares pursuant to a call option transaction announced on October 9, 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 bought back 8,000,000 shares, representing 100 percent of the announced objective of the remaining 1.7 percent of outstanding 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 exercised stock options and to partly satisfy the conversion rights of ASML's 5.50 percent Convertible Subordinated Notes.

The following table provides a summary of shares repurchased by the Company in 2007 under the 2006-2007 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)
February 14-23, 2007	8,000,000	19.53	8,000,000	—	156

### 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.

The following table provides a summary of shares repurchased by the Company in 2007 under the 2007-2008 program:

Period	Total Number of Shares Purchased	Average Price Paid per Share (EUR)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Programs	Total Value of Shares Purchased as Part of Publicly Announced Plans or Programs (In EUR million)
November 14-26, 2007	9,000,000	22.62	14,000,000	5,000,000 <sup>1</sup>	204

<sup>1</sup> 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 million ordinary shares.

### 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 was 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.

## 18. Convertible subordinated debt and other long-term debt

### Convertible Subordinated Notes

In May 2003, we completed an offering of EUR 380 million principal amount of our 5.50 percent Convertible Subordinated Notes due 2010, with interest payable annually on May 15 of each year, commencing on May 15, 2004. The notes were convertible into an aggregate of 26,573,426 ordinary shares at a conversion price of EUR 14.30 per share at any time prior to maturity. EUR 335.6 million of principle amount was converted into 23,466,498 shares prior to adjustment of the conversion price to EUR 15.49 on October 4, 2007 as a result of the synthetic share buyback. We exercised our option to redeem the notes on November 7, 2007. EUR 42.8 million principal amount was converted into 2,765,777 shares prior to this date. The remaining part of the principal amount was redeemed.

The interest charged for the year is calculated by applying an effective interest rate of 10.1 percent to the liability component.

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. 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 cost which results in additional interest charges.

The net proceeds received from the issue of the Company's Convertible Subordinated Notes have been split between a liability component and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company, as follows (excluding transaction costs):

As of December 31 (in thousands)	2006 EUR	2007 EUR
<b>5.50 percent convertible notes</b>		
Liability component at January 1	324,694	<b>336,584</b>
Interest charged	32,790	<b>30,115</b>
Interest paid	(20,900)	<b>(20,900)</b>
Redemption	—	<b>(1,587)</b>
Conversion into shares	—	<b>(344,212)</b>
Liability component at December 31	336,584	—
Transaction costs at December 31	(3,364)	—
<b>Carrying amount at December 31</b>	<b>333,220</b>	—
<b>Nominal value at December 31</b>	<b>380,000</b>	—

The following table summarizes the estimated fair values of our Convertible Subordinated Notes:

As of December 31 (in thousands)	2006		2007	
	Principal Amount EUR	Fair Value EUR	Principal Amount EUR	Fair Value EUR
5.50 percent convertible notes	380,000	531,050	—	—

(Source: Bloomberg Finance LP)

The fair value of the Company's convertible subordinated debt is estimated based on the quoted market prices as of December 31, 2006.

### Other long-term debt

The Company's obligations to make principal repayments under the senior bond and other borrowing arrangements as of December 31, 2007, for the next five years and thereafter and excluding interest expense, are as follows:

	2008	1,206
	2009	2,412
	2010	—
	2011	—
	2012	—
	Thereafter	599,604
	Total	603,222
	Less current portion of long-term debt	(1,206)
	Transaction costs	(6,233)
	<b>Non-current portion of long-term debt</b>	<b>595,783</b>

## Eurobond

The following table summarizes the carrying amount of the Company's outstanding Eurobond as of December 31, 2007, including the transaction costs and 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
<b>5.75 percent Eurobond</b>		
	Principal amount	600,000
	Transaction costs	(6,233)
	Fair value interest rate swap	(436) <sup>1</sup>
	<b>Total</b>	<b>593,331</b>

<sup>1</sup> 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
	5.75 percent Eurobond	600,000	593,331	532,260

(Source: Bloomberg Finance LP)

The fair value of the Company's Eurobond is estimated based on the quoted market prices as of December 31, 2007. The fair value of the Eurobond is lower than the principal amount as a result of an increased implied credit spread.

## Other

In February 1997, we received a US dollar 6.5 million (EUR 5.5 million) loan from the Connecticut Development Authority. The loan had a ten-year term, bore interest at 8.25 percent, and was secured by the Company's United States facility in Wilton, Connecticut. This loan was repaid in 2007.

We assumed three Yen-denominated loans (which were granted in 1999) in connection with our merger with SVG. The last outstanding loan was repaid in 2007.

## Lines of credit

At December 31, 2007, the Company had an available credit facility for a total of EUR 500 million (2006: EUR 400 million), which will expire in May 2012.

No amounts were outstanding under these credit facilities at the end of 2007 and 2006. The credit facilities contain 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, 2006 and 2007. ASML does not currently anticipate any difficulty in continuing to meet this covenant requirement.

Outstanding amounts under these credit facilities 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.

## 19. Accrued liabilities and other

Accrued liabilities and other consist of the following:

As of December 31 (in thousands)	2006 EUR	2007 EUR
Deferred revenue	191,234	294,575
Warranty	75,297	73,198
Materials and costs to be paid	178,590	228,580
Current portion of long-term debt	7,406	1,206
Advances from customers	96,242	163,759
Personnel related items	119,522	144,508
Other	5,939	26
<b>Total accrued liabilities and other</b>	<b>674,230</b>	<b>905,852</b>

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.

We provide standard warranty coverage on our systems for twelve months and an additional lens warranty generally for four years, providing labor and parts necessary to repair systems during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance, expected results from improvement programs and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge and update these estimated charges periodically. Changes in product warranty liabilities for the years 2006 and 2007 are as follows:

(in thousands)	2006 EUR	2007 EUR
Balance, January 1	38,215	75,297
Additions	83,059	47,258
Usage	(42,895)	(28,302)
Release	—	(17,988) <sup>1</sup>
Effect of exchange rates	(3,082)	(3,067)
<b>Balance, December 31</b>	<b>75,297</b>	<b>73,198</b>

<sup>1</sup> 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.

## 20. Employee Benefits

### Deferred Compensation Plans

In February 1997, SVG 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 commissions. The plan allowed SVG to credit additional amounts to participants' account balances, depending on the amount of the employee's contribution, up to a maximum of 5.0 percent of an employee's annual salary and bonus. In addition, interest is credited to the participants' account balances at 120 percent of the average Moody's corporate bond rate. For calendar years 2006 and 2007, participants' accounts were credited at 6.92 percent and 7.16 percent respectively. SVG's contributions and related interest became 100 percent vested in May 2001 with the merger of SVG and ASML. During fiscal years 2006 and 2007, the expense incurred under this plan was EUR 0.2 million and EUR 0.1 million respectively. As of December 31, 2006 and 2007 the Company's liability under the deferred compensation plan was EUR 3.0 million and EUR 2.0 million respectively.

In July 2002, ASML adopted a non-qualified deferred compensation plan ("defined contribution 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 other benefits. The plan allows ASML to credit additional amounts to the participants' account balances. The participants invest their funds between 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 five years after deferral. There were minor plan

expenses in 2007. On December 31, 2006 and 2007, the Company's liability under the deferred compensation plan was EUR 5.0 million and EUR 6.0 million, respectively.

### Pension Plans

ASML maintains various pension plans covering substantially all of its employees. The Company's approximately 3,400 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 1,300 companies and 147,000 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 Pensions and Savings 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.

In January 2008, PME issued a press release on its website which stated a funding ratio of 133 percent as of December 31, 2007 (December 31, 2006: 129 percent). This funding ratio is calculated by dividing the fund's capital by the total sum of pension liabilities and is on the basis of actual market interest.

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. The contribution rate 2007 imposed by PME for the old age pension was 23 percent (2006: 23 percent) of the pensionable salary. Apart from the contribution rate for the old age pension, PME imposes a contribution rate for the transitional arrangements. This amounts to 8.3 percent of the salary (2006: 7 percent). ASML bears 64 percent of these premiums. The other 36 percent is charged to its employees.

ASML has been informed that its yearly contribution will not change significantly in the foreseeable future. However, 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 plan thus exposes the participating entities to actuarial risks associated with current and former employees of other entities with the result that no consistent and reliable basis for allocating the pension obligation, plan assets and cost to individual entities participating in the plan exists.

ASML also participates in several defined contribution pension plans, with ASML's expenses for these plans equaling the contributions made in the relevant fiscal period.

The Company's pension costs for all employees for the three years ended December 31, 2007 were:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
Pension plan based on multi-employer union plan	21,407	26,485
Pension plans based on defined contribution	7,538	6,993
<b>Total</b>	28,945	33,478

### 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 70 percent, or 0 percent and 40 percent of their annual salaries, depending upon their seniority. The performance targets for 2007 were set per half year of which the first half year amount is paid out in the second half of 2007 and the second half year amount is accrued for in the income statement for the



year ended December 31, 2007 and expected to be paid out in the first quarter of 2008. The Company's bonus expenses for all participants under this plan were:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
Bonus expenses	8,202	8,934

ASML has a retention bonus plan for employees and executives of Brion including three retention bonuses. The first retention bonus is conditional on the first year of employment after the acquisition date and is payable 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
Bonus expenses	5,335

### Profit-sharing plan

ASML has a profit-sharing plan covering all employees who are not members of the Board of Management or senior management. Under the plan, eligible employees receive an annual profit-sharing bonus, based on a percentage of net income relative to sales ranging from 0 to 20 percent of annual salary. The profit-sharing percentage for the years 2006 and 2007 was 12 percent and 14 percent, respectively. This profit-sharing bonus is accrued for in the income statement for the year ended December 31, 2007 for an amount of EUR 39.9 million, expected to be paid in the first quarter of 2008.

### 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 8.3 million in 2006 and EUR 15.9 million in 2007.

Total compensation expenses related to non-vested awards to be recognized in future periods amounts to EUR 26.2 million as per December 31, 2007 (2006: EUR 9.7 million). The weighted average period over which these costs are expected to be recognized is calculated at 1.4 years (2006: 1.3 years).

Stock option transactions are summarized as follows:

	Number of shares	Weighted average exercise price per share (EUR)
Outstanding, December 31, 2004	25,619,994	23.19
Granted <sup>1</sup>	2,685,681	11.56
Exercised	(991,700)	11.68
Expired	(1,522,674)	15.04
Outstanding, December 31, 2005	25,791,301	23.09
Granted	1,185,863	17.81
Exercised	(1,964,268)	14.40
Expired	(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	(5,466,029)	32.76
<b>Outstanding, December 31, 2007</b>	<b>15,050,099</b>	<b>20.89</b>
Exercisable, December 31, 2007	10,696,587	24.37
Exercisable, December 31, 2006	17,258,450	27.15
Exercisable, December 31, 2005	18,251,813	28.06

<sup>1</sup> Actual number of performance stock options which are awarded in 2006 for 2005 achievements. These options were conditionally granted in 2005.

Information with respect to stock options outstanding at December 31, 2007 is as follows:

Options outstanding Range of exercise prices (EUR)	Number outstanding December 31, 2007	Number Exercisable December 31, 2007	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options (EUR)
0.19 – 7.94	1,008,907	426,377	0.66	1.86
8.17 – 12.62	6,358,956	3,800,774	5.58	11.41
12.75 – 19.13	2,396,791	1,514,409	5.28	16.31
19.45 – 29.18	1,679,515	1,349,097	2.25	20.99
29.65 – 44.48	36,000	36,000	2.71	34.75
45.02 – 67.53	3,569,930	3,569,930	4.07	46.02
<b>Total</b>	<b>15,050,099</b>	<b>10,696,587</b>	<b>4.91</b>	<b>20.89</b>

The estimated weighted average fair value of options granted during 2006 and 2007 was EUR 5.69 and EUR 12.95, respectively, on the date of grant.

The weighted average share price at the date of exercise for stock options was EUR 23.46 (2006: EUR 18.26).

Details with respect to stock options are set forth in the following table:

	As of December 31	
	(in thousands, except for contractual term)	
	2006	2007
Aggregate intrinsic value of stock options exercised (EUR)	12,162	33,273
Total fair value of shares vested during the year (EUR)	362	127
Aggregate remaining contractual term of currently exercisable options (years)	2.21	3.72
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	Number of conditionally stock granted	Stock price (EUR)	Forfeited /expired	Conditionally outstanding stock at December 31, 2007	End of vesting period
Employee plan	2007	45,151	24.26	—	45,151	19-10-2010
Brion stock plan	2007	471,997	23.04	—	471,997	07-03-2010
Brion performance stock plan	2007	159,913	23.12	(3,308)	156,605	31-12-2010
Other plans	2007	24,546	22.00	—	24,546	31-12-2010
<b>Total</b>		<b>701,607</b>		<b>(3,308)</b>	<b>698,299</b>	

### 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-pricing 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-pricing model is based on the following assumptions:

	As of December 31	2006	2007
Weighted average share price (in EUR)		17.8	24.0
Volatility (in percentage)		30.0	29.0
Expected life (in years)		5.0	4.9
Risk free interest rate		3.8	4.4
Expected dividend yield		—	—
Forfeiture rate <sup>1</sup>		—	—

<sup>1</sup> As per year end 2007 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 1997 up to and including 2000. For the years 1997 up to and including 1999, this extension is either until October 21, 2008, or October 21, 2005. For 2000, the option period is 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 and members of the Board of Management (being Messrs. Van den Brink and Wennink – each EUR 380,835) 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 two share programs were executed to cover outstanding stock options. In 2007 both new shares as repurchased shares were used to satisfy the option rights upon exercise.

### Share-based payment plans 2007

In 2007 ASML launched new share-based payment plans providing employees the choice between stock, stock options or a combination of both. The new share-based payment plans divide the employees in two categories, senior management excluding the Board of Management and other employees who are not part of the Board of Management or senior management. Each year, the Board of Management determines the total number of awards that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company.

The fair value of the stock options is determined using a Black-Scholes option-pricing model. For the assumptions on which the Black-Scholes option-pricing model is used reference is made to the disclosure above under the caption "Stock Option Plans".

### Senior management plan

The senior management plan consists of two parts, both including a half-year performance condition based on a targeted Return On Invested Capital ("ROIC") and a three-year service condition. In October 2007 stock and stock options were awarded to senior management under the new share-based payment plan. At the beginning of 2008, the targeted first half-year ROIC will be approved by the Board of Management and communicated to senior management. At that time awards for the first part will be granted to senior management (grant date). In mid-2008 at time of approval and communication of the second-half year ROIC, awards for the second part will be granted to senior management. Stock options granted under the senior management plan have

a fixed exercise price 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 grant date. The announcement date differs 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-pricing 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.

## **21. Commitments, Contingencies and Guarantees**

The Company has various contractual obligations, some of which are required to be recorded as liabilities in the Company's consolidated financial statements, including long- and short-term debt. Others, namely operating lease commitments, purchase obligations and guarantees, are generally not required to be recognized as liabilities on the Company's balance sheet but are required to be disclosed.

### **Lease Commitments and Variable Interests**

The Company leases equipment and buildings under various operating leases. Operating leases are charged to expense on a straight-line basis. See 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. 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 shareholder.

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

assets. Based on this analysis, ASML determined that other variable interest holders will absorb the majority of the lessor's expected losses, and as a result, ASML is not the primary beneficiary.

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

### Purchase Obligations

The Company enters into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations include medium to long-term purchase agreements. These contracts differ and may include certain restrictive clauses. Any identified losses that result from purchase commitments that are forfeited are provided for in the Company's financial statements. As of December 31, 2007, the Company had purchase commitments for a total amount of approximately EUR 1,405 million (2006: EUR 995 million), reflecting higher costs of components for our systems as ASPs have increased. In its negotiations with suppliers the Company continuously seeks to align its purchase commitments with its business objectives. See 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, 2007 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 <sup>1</sup>	948,222	35,706	71,412	69,000	772,104
Operating Lease Obligations	189,293	36,040	55,581	40,586	57,086
Purchase Obligations	1,405,283	1,375,334	29,945	4	—
Repurchase Commitments	53,259	40,459	12,800	—	—
<b>Total Contractual Obligations</b>	<b>2,596,057</b>	<b>1,487,539</b>	<b>169,738</b>	<b>109,590</b>	<b>829,190</b>

<sup>1</sup> We refer to Note 18 to the consolidated financial statements for the amounts excluding interest expenses.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 42 million and EUR 46 million for the years ended December 31, 2006 and 2007 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, 2007 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	61,362	3,358	2,269	8,250	47,485

### 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.

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

## **22. 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 litigation with Nikon**

From 2001 through late 2004, we were a party to a series of civil litigations and administrative proceedings in which Nikon alleged ASML's infringement of Nikon patents relating to photolithography. ASML in turn filed claims against Nikon.

Pursuant to agreements executed on December 10, 2004 (effective November 12, 2004), ASML, Zeiss and Nikon agreed to settle all pending worldwide patent litigation between the companies. The settlement included an agreement to dismiss all pending patent litigation between the companies, 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 made an initial payment to Nikon of US dollar 60 million in 2004 and further payments of US dollar 9 million in 2005, 2006 and 2007. Zeiss also made settlement payments to Nikon from 2004 to 2007.

### **Patent litigation with Ultratech Stepper, Inc**

In May 2000, Ultratech Stepper, Inc. ("Ultratech") filed a lawsuit against ASML. Ultratech alleged that ASML infringed Ultratech's rights under a United States patent in connection with its manufacture and commercialization in the United States of advanced photolithography equipment embodying technology that, in particular, is used in Step & Scan equipment.

Ultratech's patent infringement claims were tried before a jury in Oakland, California, in May and June of 2005. On June 21, 2005 the jury unanimously determined that each of the patent claims that Ultratech had asserted against ASML was invalid, and thus that ASML was not liable for patent infringement, notwithstanding the jury's finding that each of these claims was infringed by ASML and certain of its customers. The Court entered judgment in favor of ASML following receipt of the jury verdict.

Ultratech filed motions with the court seeking to overturn the jury's finding that its asserted patent claims are invalid or, in the alternative, seeking a new trial. The court denied each of Ultratech's motions. Ultratech then filed an appeal with the United States Court of Appeals for the Federal Circuit challenging the finding that its asserted patent claims are invalid. On May 14, 2007, the Federal Circuit rejected Ultratech's arguments on appeal, affirming the lower court's order that Ultratech's asserted patent claims are invalid. The time for Ultratech to file an appeal with the United States Supreme Court has lapsed.

### **Arbitration with Aviza Technology**

On December 1, 2006, Aviza Technology ("Aviza") initiated arbitration proceedings against ASML Holding N.V., ASML U.S., Inc. and certain of its affiliates and subsidiaries (collectively, the "ASML parties"). Aviza's arbitration demand alleges 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. We believe that there are meritorious defenses to Aviza's allegations.

Although we believe the ultimate outcome of the dispute with Aviza will not have a material adverse effect on our business, financial condition or result of operations (taking into account the defenses available to ASML), given the inherently uncertain nature of arbitration, our defenses may not succeed. If Aviza were to prevail, it could have a material adverse effect on ASML's business, financial condition or results of operations.

### **Dividend withholding tax**

In May and June 2006 ASML entered into forward purchase agreements with a broker acting as principal to effect the share repurchases under its share buyback program. The aggregate number of shares bought back up to and including July 13, 2006 was 25,450,296 and represented 100 percent of the announced objective of maximum EUR 400 million to be repurchased during the term of the program.

The Netherlands tax authorities have challenged the fiscal interpretation of the share buyback program and are seeking to recast the repurchase as a dividend payment to unidentifiable shareholders. As a result the Netherlands tax authorities have issued a dividend withholding tax assessment of approximately EUR 24 million, payable by ASML. ASML management is of the opinion

that the case of the Netherlands tax authorities is without merit and will contest the position of the Netherlands tax authorities in court. Based on this, ASML management believes that there is no reason to set up a liability for this dividend withholding tax assessment.

## 23. Income Taxes

The components of income before income taxes are as follows:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
Domestic	663,396	497,792
Foreign	218,822	386,851
<b>Total</b>	<b>882,218</b>	<b>884,643</b>

In addition to the income tax expense charged to the consolidated income statement, current and deferred tax of EUR 5.2 million (gain) have been recognized in equity in the year 2007 related to stock option plans and derivative instruments.

The Netherlands domestic statutory tax rate amounted 25.5 percent in 2007 and 29.6 percent in 2006. 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 (in thousands)	2006 EUR	%	2007 EUR	%
<b>Income before income taxes</b>	882,218	100.0	<b>884,643</b>	<b>100.0</b>
Income tax expense based on domestic rate <sup>1</sup>	261,137	29.6	<b>225,584</b>	<b>25.5</b>
Change in statutory tax rate <sup>2</sup>	(3,435)	(0.4)	—	—
Different tax rates <sup>3</sup>	(19,710)	(2.2)	<b>(12,962)</b>	<b>(1.5)</b>
Other credits and non-taxable items <sup>4</sup>	8,242	0.9	<b>(59,872)</b>	<b>(6.7)</b>
<b>Provision for income taxes shown in the income statement</b>	<b>246,234</b>	<b>27.9</b>	<b>152,750</b>	<b>17.3</b>

1 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.

2 The Netherlands statutory tax rate was reduced to 29.6 percent for 2006 and 25.5 percent for 2007 and following years. This led to a remeasurement of our deferred tax assets and liabilities, resulting in a one time tax benefit of EUR 3.4 million in 2006 since we had a net deferred tax liability position in the Netherlands tax jurisdiction in 2006.

3 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.

4 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. During 2007 ASML and the Netherlands tax authorities have concluded discussions on a number of open tax issues. One of these issues was the valuation of ASML of its US investment, and the related temporary taxable depreciation of this US investment. These discussions led to a higher temporary taxable depreciation as originally recorded in our books.

The provision for income taxes consists of the following:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
<b>Current</b>		
Domestic	190,844	<b>88,070</b>
Foreign	27,459	<b>86,962</b>
<b>Deferred</b>		
Domestic	555	<b>(12,168)</b>
Foreign	27,376	<b>(10,114)</b>
<b>Total</b>	<b>246,234</b>	<b>152,750</b>



The deferred tax position and tax contingencies recorded on the balance sheet are as follows:

As of December 31 (in thousands)	2006 EUR	2007 EUR
Deferred tax position	207,566	73,884
Tax contingencies	(130,661)	(110,346)
<b>Total</b>	76,905	<b>(36,462)</b>

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is highly judgmental. We believe that we have adequately provided for tax contingencies. 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 tax contingencies mainly relate to transfer pricing positions, operational activities in countries where we are not tax registered and tax deductible costs. We provide for these tax contingencies for the duration of the statute of limitations period, which differs per tax jurisdiction and generally ranges up to seven years.

As of December 31, 2007 the tax contingencies amounted to EUR 110.3 million and are included in deferred tax and other liabilities in the consolidated balance sheet.

For the 12 month period ending December 31, 2007, there were material changes related to the liability for tax contingencies that impacted the Company's effective tax rate. This was due to the settlement of a number of tax contingencies recorded in prior years in the various jurisdictions. The settlement of the tax contingencies in the Netherlands jurisdiction was the result of discussions held with the Netherlands tax authorities. As a result of these discussions clarity was obtained on substantially all unresolved disputes relating to the Netherlands tax contingencies through fiscal year 2006. As a result of these resolved disputes with the tax authority EUR 36.8 million was released to the tax provision.

On December 5, 2007, ASML Holding entered into a Supervision Agreement, or 'Handhavingsconvenant', with the Netherlands tax authorities, which provides for cooperation between ASML and for the Netherlands tax authorities. Purpose of this agreement is that parties base their mutual relationship on transparency, understanding and trust. This should result in accelerated settlement of unresolved disputes for ASML in the Netherlands, where ASML reports the vast majority of its taxable income.

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

As of December 31 (in thousands)	2006 EUR	2007 EUR
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	168,478	102,257
Deferred tax asset to be recovered within 12 months	146,702	118,606
<b>Deferred tax liabilities</b>		
Deferred tax liability to be settled after more than 12 months	(103,873)	(106,650)
Deferred tax liability to be settled within 12 months	(3,741)	(40,329)
<b>Total</b>	207,566	73,884

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

As of December 31 (In thousands)	2006 EUR	2007 EUR
Tax effect carry-forward losses	109,554	80,569
Bilateral Advance Pricing Agreement	57,213	9,370
Capitalized development expenditures	15,354	(11,910)
Inventories and work-in-process	14,713	44,689
Unrealised profits resulting from intercompany transactions	16,138	37,647
Temporary depreciation investments	(9,998)	(120,987)
Other temporary differences	4,592	34,506
<b>Total</b>	207,566	73,884

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, 2007 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, 2007 will expire in the period 2008 through 2023. The total amount of losses carried forward as of December 31, 2007 is EUR 209 million tax basis or EUR 81 million tax effect, which resides completely with ASML US, Inc. Based on management's analysis, we believe that all United States qualified tax losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable income from operations, possible tax planning alternatives available to us, and a realignment of group assets that we effected during the period 2001 through 2003 and that included the transfer of certain tangible and intangible assets of ASML US, Inc. to ASML Netherlands B.V. The value of the assets transferred has resulted and will result in additional income recognized by ASML US, Inc., which we believe, taken together with projected future taxable income from operations will be sufficient to absorb the net operating losses that ASML US, Inc. has incurred, prior to the expiry of those losses. In order to determine with certainty the tax consequences and value of this asset transfer, 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.

As of 2007, 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.

The most important components of our deferred tax position at December 31, 2007 related to inventories and work-in-progress are EUR 32.6 million deferred tax asset due to a tax law change in The Netherlands requiring accelerated profit recognition on work-in-process, EUR 12.1 million temporary differences on timing of allowance for obsolete inventory in the United States and EUR 37.6 million on elimination of intercompany profit in inventories. 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, 2007, this repayment obligation amounted to EUR 121 million, which is recorded as a deferred tax liability in the financial statements. The increase of this repayment obligation in 2007 is related to an increased temporary depreciation of our United States Group Companies as ruled with the Netherlands tax authorities in 2007. In addition, related to this temporary deduction as part of the ruling with the Netherlands tax authorities, we reached agreement on the refund of the EUR 80 million as recorded in deferred tax assets as of December 31, 2006.

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.

## 24. Subsidiaries

Details of the Company's material subsidiaries at December 31, 2007 are as follows:

Legal Entity	Country of Incorporation
<b>Subsidiaries of ASML Holding N.V.:</b>	
ASML Netherlands B.V.	Netherlands (Veldhoven)
ASML MaskTools B.V.	Netherlands (Veldhoven)
ASML Germany GmbH	Germany (Dresden)
ASML France S.a.r.l.	France (Montbonnot)
ASML (UK) Ltd.	UK (Edinburgh (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)
<b>Subsidiaries of ASML US, Inc.:</b>	
ASML Capital US, Inc.	US (Delaware)
ASML MaskTools Inc.	US (Delaware)
Brion Technologies, Inc.	US (Delaware)
<b>Subsidiary of ASML Hong Kong Ltd.:</b>	
ASML Macau Commercial Offshore Ltd.	Macau
ASML Hong Kong Logistic Services Ltd.	Hong Kong SAR
<b>Limited partnership with ASML Belgium BVBA as the managing partner:</b>	
ASML Finance Belgium CV	Belgium (Turnhout)

## 25. Segment Disclosure

ASML operates in one reportable segment for the development, manufacture, marketing and servicing of lithography equipment.

Since the beginning of 2005, management reporting includes net system sales figures of our product lines: 300 millimeter new systems, 200 millimeter new systems and used systems. Net sales for these product lines in 2006 and 2007 were as follows:

	Year ended December 31 (in thousands)	2006 EUR	2007 EUR
300 millimeter new systems		2,918,073	3,195,296
200 millimeter new systems		165,069	99,396
used systems		145,923	97,083
<b>Total net system sales</b>		<b>3,229,065</b>	<b>3,391,775</b>

For geographical reporting, net sales are attributed to the geographic location in which the customers' facilities are located. Identifiable assets (total assets excluding goodwill and other intangible assets) are attributed to the geographic location in which they are located. Net sales and identifiable assets by geographic region were as follows:

Year ended December 31 (in thousands)	Net sales EUR	Identifiable assets EUR	Capital expenditures EUR
<b>2006</b>			
Korea	1,085,497	13,730	662
Taiwan	739,432	16,058	483
Rest of Asia	470,915	937,107	1,282
Europe	369,289	2,145,710	166,415
United States	931,971	740,036	24,262
Total	3,597,104	3,852,641	193,104
<b>2007</b>			
Korea	<b>1,037,876</b>	<b>21,888</b>	<b>3,996</b>
Taiwan	<b>794,113</b>	<b>53,534</b>	<b>14,895</b>
Rest of Asia	<b>762,853</b>	<b>869,082</b>	<b>1,946</b>
Europe	<b>350,564</b>	<b>2,572,040</b>	<b>319,757</b>
United States	<b>863,273</b>	<b>356,526</b>	<b>28,134</b>
<b>Total</b>	<b>3,808,679</b>	<b>3,873,070</b>	<b>368,728</b>

In 2007, sales to the largest customer accounted for EUR 833 million or 21.9 percent of net sales. In 2006, sales to one customer accounted for EUR 730 million or 20.3 percent of net sales. ASML's three largest customers accounted for 40.1 percent of accounts receivable at December 31, 2007 and 35.0 percent of accounts receivable at December 31, 2006.

Substantially all our sales were export sales in 2006 and 2007.

## 26. Personnel

Personnel expenses for all employees were:

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
Wages and salaries	405,761	469,214
Social security expenses	31,958	35,905
Pension and early retirement expenses	28,945	33,478
Share-based payments	8,293	15,939
<b>Total</b>	474,957	554,536

The average number of employees from continuing operations during 2006 and 2007 was 5,320 and 6,191 respectively. The total number of personnel employed per sector was:

As of December 31	2006	2007
Research and development	1,480	1,831
Goodsflow	1,450	1,699
Customer Support	2,128	2,475
General	402	468
Sales	134	109
<b>Total number of employees</b>	5,594	6,582

In 2006 and 2007, a total of 2,739 and 3,112 (on average) employees in the Company's continuing operations (excluding non-payroll employees), respectively, were employed in the Netherlands.

In addition, during 2007 we had an average of 3,218 temporary employees, compared to an average of approximately 1,290 during 2006. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products.

## 27. 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 2006 remuneration policy was adopted by the General Meeting of Shareholders of March 23, 2006. ASML's aim with the remuneration policy is to continue to attract, reward and retain qualified industry professionals in an international labor market. The remuneration structure and levels are determined by referencing to the appropriate top executive pay market practices by benchmarking positions. The total remuneration consists of base salary and benefits, a short-term performance cash bonus and performance stock options and long-term performance stock.

#### Base salary, benefits and short-term performance cash bonus

The remuneration of the members of the Board of Management was as follows:

	Year Ended December 31	2006 EUR	2007 EUR
	Salaries	1,921,375	2,010,000
	Bonuses	882,872	940,781
	Pension cost	196,887	221,958
	Other benefits <sup>1</sup>	243,917	245,968
	<b>Total</b>	<b>3,245,051</b>	<b>3,418,707</b>

<sup>1</sup> Other benefits include housing costs, company cars costs, social security costs, health and disability insurance costs and representation allowances.

The 2007 remuneration of the individual members of the Board of Management was as follows:

	Received Base Salary EUR	Earned Cash Bonus <sup>1</sup> EUR	Other benefits <sup>2</sup> EUR	Total EUR
E. Meurice	710,000	332,316	93,613	1,135,929
P.T.F.M. Wennink	440,000	205,942	46,423	692,365
M.A. Van den Brink	460,000	215,303	36,919	712,222
K.P. Fuchs	400,000	187,220	69,013	656,233

<sup>1</sup> The income statement for the year ended December 31, 2007 includes the preliminary short-term performance cash bonus earned over the year 2007. The actual short-term performance cash bonus earned over the year 2007 will be determined by the remuneration committee in February 2008.

<sup>2</sup> 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 this plan, the annual performance bonus ranges between 0 percent and 50 percent of base salary, under the 2006 Remuneration Policy as adopted by the AGM on March 23, 2006. 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 invested capital and technology leadership related parameters.

The 2007 vested pension benefit<sup>1</sup> of individual members of the Board of Management was as follows:

	2007 EUR
E. Meurice	88,844
P.T.F.M. Wennink	45,073
M.A. Van den Brink	47,179
K.P. Fuchs	40,862

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, 2007	Exercised during 2007	Expired during 2007	Dec. 31, 2007	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 <sup>1</sup>	—	—	57,770	11.53	—	18-01-2015
	88,371	—	—	88,371	17.90	—	18-01-2016
P.T.F.M. Wennink	31,500	—	—	31,500	58.00	—	20-01-2012
	15,660	—	15,660	—	40.40	—	22-01-2007
	50,000	—	50,000	—	29.92	—	22-01-2007
	20,960	—	20,960	—	22.12	—	20-07-2007
	20,000	—	—	20,000	20.28	—	21-01-2008
	20,000	20,000	—	—	7.02	21.54	22-04-2013
	20,000	20,000	—	—	14.23	22.00	23-04-2014
	32,379 <sup>1</sup>	—	—	32,379	11.53	—	18-01-2015
M.A. Van den Brink	56,236	—	—	56,236	17.90	—	18-01-2016
	31,500	—	—	31,500	58.00	—	20-01-2012
	19,860	—	19,860	—	40.40	—	22-01-2007
	26,560	—	26,560	—	22.12	—	20-07-2007
	20,000	20,000	—	—	20.28	22.00	21-01-2008
	10,000	10,000	—	—	7.02	20.05	22-04-2013
	20,000	20,000	—	—	14.23	22.57	23-04-2014
	40,473 <sup>1</sup>	—	—	40,473	11.53	—	18-01-2015
K.P. Fuchs	59,098	—	—	59,098	17.90	—	18-01-2016
	6,113 <sup>1,2</sup>	—	—	6,113	11.53	—	18-01-2015
	22,000 <sup>3</sup>	—	—	22,000	17.61	—	20-04-2016
	53,558	—	—	53,558	17.90	—	18-01-2016

1 Granted in 2005 and awarded in 2006 for 2005 actual achievement.

2 The stock options granted to Mr. K.P. Fuchs are performance stock options which were granted in 2006 in relation to performance throughout the period November 1, 2005 through December 31, 2005.

3 The stock options granted to Mr. K.P. Fuchs are sign on stock options. The Board of Management was authorized by the annual general meeting of shareholders as per March 23, 2006 to issue these stock options on the first possible moment of grant.

### Conditional Performance Stock Options

Members of the Board of Management are eligible to a conditional performance stock option grant, under the conditions set forth in the 2006 Remuneration Policy, with a value equal to 25 percent of their base salary for on target achievement. The maximum value of the conditional performance stock option grant for over performance to target amounts to 50 percent of base salary. The maximum number of performance stock options in relation to this maximum amount was determined on the day of publication of the 2006 annual results (in 2007) 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 3.54 per performance stock option. The ultimately awarded number of performance stock options is determined upon achievement of the 2007 target. Based on the Black-Scholes option-pricing model, the fair value of the options granted in 2006 and 2007 was EUR 5.58 and EUR 6.74, respectively. The

compensation expenses recorded in the income statement for the year ended December 31, 2007 amount to EUR 1.8 million (2006: EUR 1.4 million).

The actual number of performance stock options which will be awarded in 2008 in relation to performance achievements over 2007 are as follows:

	Actual number of performance stock options which will be awarded in 2008 for 2007 actual achievement
E. Meurice	95,146
P.T.F.M. Wennink	58,964
M.A. Van den Brink	61,644
K.P. Fuchs	53,604

### Conditional Performance Stock

Members of the Board of Management are eligible to a conditional performance stock award, under the conditions set forth in the 2006 Remuneration Policy, with a value equal to 50 percent of their base salary for on target achievement. The maximum value of the conditional performance stock award for over performance to target amounts to 87.5 percent of base salary. The maximum number of performance stock in relation to this maximum amount was determined on the day of publication of the 2006 annual results (in 2007) 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 9.36 per performance stock. The ultimately awarded number of performance stock will be determined over a three-year period upon achievement of targets set in 2007. These targets are financial and operational performance parameters relating to 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 2006 and 2007 was EUR 17.90 and EUR 20.39, respectively. The compensation expenses recorded in the income statement for the year ended December 31, 2007 amount to EUR 3.3 million (2006: EUR 0.8 million).

The maximum number of performance stock from 2007 which can be awarded in relation to performance targets over the three-year performance period 2007 through 2010 are as follows:

	Maximum number of performance stock granted in 2004 to be awarded in 2007 <sup>1</sup>	Maximum number of performance stock granted in 2005 to be awarded in 2008 <sup>1</sup>	Maximum number of performance stock granted in 2006 to be awarded in 2009	Maximum number of performance stock granted in 2007 to be awarded in 2010
E. Meurice	5,845	36,972	72,136	66,338
P.T.F.M. Wennink	—	20,721	45,905	41,111
M.A. Van den Brink	—	25,902	48,241	42,980
K.P. Fuchs	—	3,912	43,719	37,374

<sup>1</sup> The actual number of performance stock will be determined by the remuneration committee in the first half year of 2008.

### Benefits upon termination of employment

The employment agreements with Messrs. P. Wennink and 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 agreements with Messrs. E. Meurice and K. Fuchs contain specific provisions regarding those benefits. 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 or Mr. K. Fuchs respectively, 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 or Mr. Fuchs 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 his employment agreement, his function or the Company's strategy.

Furthermore, Messrs. E. Meurice and K. Fuchs would also be entitled to the aforementioned severance amounts 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 or Mr. Fuchs gives notice of termination, that is directly related to such Change of Control and such notice is given within 12 months from the date on which the Change of Control occurs.

## 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 2006 and 2007, ASML paid out the following amounts to the individual members of the Supervisory Board:

Year Ended December 31	2006 EUR	2007 <sup>1</sup> EUR
H. Bodt <sup>2</sup>	70,000	70,000
P.H. Grassmann <sup>3</sup>	35,000	—
OB Bilous	45,000	92,500
J.A. Dekker	45,000	75,000
J.W.B. Westerburgen	45,000	75,000
F.W. Fröhlich	40,000	67,500
A.P.M. Van der Poel <sup>4</sup>	45,000	85,000
H.C.J. Van den Burg	35,000	58,750
W.T. Siegle <sup>5</sup>	—	38,750
R. Deusinger <sup>6</sup>	—	9,856

<sup>1</sup> The amounts paid in 2007 consist of the annual compensation over the period April 1, 2006 until March 31, 2007, and the compensation over the second and the third quarter of 2007. In addition, each Supervisory Board member received a net cost allowance over the second and the third quarter of 2007, amounting to EUR 900, and EUR 1,200 for the Chairman of the Supervisory Board.

<sup>2</sup> Membership ended March 28, 2007.

<sup>3</sup> Membership ended March 23, 2006.

<sup>4</sup> Chairmanship started March 28, 2007.

<sup>5</sup> Membership started March 28, 2007.

<sup>6</sup> Membership started July 17, 2007.

In 2008, ASML expects to pay the following amounts to the individual members of the Supervisory Board (in euro):

OB Bilous	95,000
J.A. Dekker	60,000
J.W.B. Westerburgen	60,000
F.W. Fröhlich	55,000
A.P.M. Van der Poel	80,000
H.C.J. Van den Burg	47,500
W.T. Siegle	77,500
R. Deusinger	47,500

In addition, in 2008, 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 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.

## 28. 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 occasionally 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.

ASML sells a substantial number of lithography systems to a limited number of customers. See Note 25. Business failure of one of our main customers may result in adverse effects on our business, financial condition and results of operations.

## 29. Dividends

We reiterate our commitment to return excess cash to our shareholders and will consider all available opportunities to return this cash to shareholders, including share buybacks, dividend and capital repayment. Accordingly, we intend to seek authorization for additional share buyback programs at the Annual General Meeting of Shareholders on April 3, 2008. Furthermore, we intend to seek authorization at the Annual General Meeting of Shareholders on April 3, 2008 to pay out a cash dividend over 2007 for an amount of EUR 0.25 per ordinary share of EUR 0.09.

## 30. Differences between IFRS and U.S. GAAP

The ASML consolidated financial statements prepared in accordance with IFRS differ from the ASML consolidated financial statements prepared in accordance with U.S. GAAP. The principal differences are discussed below.

Year Ended December 31 (in thousands)	2006 EUR	2007 EUR
<b>Net income under U.S. GAAP</b>	624,689	687,843
Share-based payments	(3,855)	(582)
Capitalization of development expenditures	38,953	50,089
Convertible subordinated notes	(23,803)	(6,661)
Income taxes	—	1,204
<b>Net income under IFRS</b>	635,984	731,893

  

As of December 31 (in thousands)	2006 EUR	2007 EUR
<b>Equity under U.S. GAAP</b>	2,156,455	1,907,617
Share-based payments	343	787
Capitalization of development expenditures	90,769	138,424
Convertible subordinated notes	31,416	—
Income taxes	—	8,852
<b>Equity under IFRS</b>	2,278,983	2,055,680

### 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 granted to its employees after November 7, 2002.

Under U.S. GAAP, until December 31, 2005, ASML accounted for stock option plans using the intrinsic value method in accordance with APB 25 "Accounting for stock issued to employees" and provided pro forma disclosure of the impact of the fair value method on net income and earnings per share in accordance with SFAS No. 123 "Accounting for Stock Based Compensation". 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.

### **Capitalization of development expenditures**

Under IFRS, ASML applies IAS 38, "Intangible Assets". During the second half of 2004, ASML made changes to its administrative systems in order to provide sufficient information to comply with IFRS beginning from January 1, 2005. Sufficient reliable information to account for capitalization of development expenditures under IFRS before January 1, 2005 is not available. Under IAS 38, capitalized development expenditures are amortized over the expected useful life of the related product generally ranging between 1 and 3 years. Amortization starts when the developed product is ready for volume production.

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.

### **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. As of December 31, 2007 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.

Veldhoven, the Netherlands  
February 15, 2008

Prepared by  
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# Company Financial Statements



# Company Financial Statements

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**Company Balance Sheets**  
(Before appropriation of net income)

As of December 31 (in thousands)	2006 EUR	2007 EUR
<b>Non-current assets</b>		
Investments in subsidiaries	1,685,788	2,974,661
Loans to subsidiaries	117,160	—
Deferred tax assets	115,335	79,126
Derivative financial instruments	2,980	20,809
<b>Total non-current assets</b>	<b>1,921,263</b>	<b>3,074,596</b>
<b>Current assets</b>		
Amounts due from subsidiaries	652,564	14,801
Derivative financial instruments	3,941	2,952
Other current assets	3,789	3,477
Cash and cash equivalents	434,494	33,114
<b>Total current assets</b>	<b>1,094,788</b>	<b>54,344</b>
<b>Total assets</b>	<b>3,016,051</b>	<b>3,128,940</b>
<b>Equity</b>		
Cumulative Preference Shares, EUR 0.02 nominal value; 900,000,000 shares authorized; none outstanding at December 31, 2006 and 3,150,005,000 shares authorized; none outstanding at December 31, 2007	—	—
Ordinary Shares, EUR 0.02 nominal value at December 31, 2006 900,000,000 shares authorized; 477,099,245 outstanding at December 31, 2006 and 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	10,051	40,176
Share premium	1,640,496	909,336
Retained earnings	342,844	501,714
Treasury shares at cost	(401,000)	(199,863)
Other reserves	50,608	72,424
Net income	635,984	731,893
<b>Total equity</b>	<b>2,278,983</b>	<b>2,055,680</b>
<b>Non-current liabilities</b>		
Loans from subsidiaries	—	166,859
Convertible subordinated debt	333,220	—
Other long-term debt	—	593,331
Deferred tax and other liabilities	211,833	185,905
<b>Total non-current liabilities</b>	<b>545,053</b>	<b>946,095</b>
<b>Current liabilities</b>		
Accrued liabilities and other	13,339	17,949
Current tax liability	172,602	102,159
Derivative financial instruments	6,074	7,057
<b>Total current liabilities</b>	<b>192,015</b>	<b>127,165</b>
<b>Total equity and liabilities</b>	<b>3,016,051</b>	<b>3,128,940</b>

## Abbreviated Company Income Statements

Year ended December 31 (in thousands)	2006 EUR	2007 EUR
Net income from subsidiaries	697,197	749,279
Loss after taxes	(61,213)	(17,386)
<b>Net income</b>	<b>635,984</b>	<b>731,893</b>



## 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-only 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.

#### Financial fixed assets

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 2006 and 2007 were as follows:

As of December 31 (in thousands)	2006 EUR	2007 EUR
Balance, January 1	1,445,952	1,685,788
Capital contributions (reductions)	452,284	937,623
Dividends received	(490,976)	(354,016)
Net income from subsidiaries	697,197	749,279
Effect of exchange rates	(35,216)	(42,727)
Other mutations	11,424	(1,286)
Legal merger <sup>1</sup>	(394,877)	—
<b>Balance, December 31</b>	<b>1,685,788</b>	<b>2,974,661</b>

<sup>1</sup> On December 29, 2006 ASML Finance B.V. legally merged with its parent company ASML Holding N.V. whereby ASML Finance B.V. ceased to exist. The pooling of interest method was used.

## 4. Equity

Changes in equity during 2006 and 2007 were as follows:

(in thousands)	Issued and outstanding shares		Share Premium EUR	Retained Earnings EUR	Treasury Shares at cost EUR	Other Reserves <sup>2</sup> EUR	Net Income EUR	Total EUR
	Number <sup>1</sup>	Amount EUR						
<b>Balance at January 1, 2006</b>	484,670	9,694	1,360,507	106,287	—	11,657	332,826	<b>1,820,971</b>
<b>Appropriation of net income</b>	—	—	—	332,826	—	—	(332,826)	—
<b>Components of statement of recognized income and expense:</b>								
Net income	—	—	—	—	—	—	635,984	<b>635,984</b>
Foreign currency translation	—	—	—	—	—	(20,524)	—	<b>(20,524)</b>
Derivative financial instruments	—	—	—	—	—	11,240	—	<b>11,240</b>
<b>Purchase of treasury shares</b>	(25,450)	—	—	—	(401,000)	—	—	<b>(401,000)</b>
<b>Purchase of shares in conjunction with conversion rights of bond holders</b>	(14,935)	(299)	—	—	(277,235)	—	—	<b>(277,534)</b>
<b>Issuance of shares in conjunction with convertible bonds</b>	30,811	616	238,862	(48,034)	277,235	—	—	<b>468,679</b>
<b>Issuance of shares and stock options</b>	2,003	40	41,127	—	—	—	—	<b>41,167</b>
<b>Development expenditures</b>	—	—	—	(48,235)	—	48,235	—	—
<b>Balance at December 31, 2006</b>	477,099	10,051	1,640,496	342,844	(401,000)	50,608	635,984	<b>2,278,983</b>
<b>Appropriation of net income</b>	—	—	—	635,984	—	—	(635,984)	—
<b>Components of statement of recognized income and expense:</b>								
Net income	—	—	—	—	—	—	731,893	<b>731,893</b>
Foreign currency translation	—	—	—	—	—	(32,605)	—	<b>(32,605)</b>
Derivative financial instruments	—	—	—	—	—	(4,888)	—	<b>(4,888)</b>
<b>Cancellation of treasury shares</b>	—	(509)	(48,563)	(351,928)	401,000	—	—	—
<b>Purchase of shares in conjunction with conversion rights of bond holders and stock options</b>	(17,000) <sup>3</sup>	—	—	—	(359,856)	—	—	<b>(359,856)</b>
<b>Issuance of shares in conjunction with convertible bonds</b>	26,232	718	289,085	(60,846)	130,317	—	—	<b>359,274</b>
<b>Capital repayment<sup>4</sup></b>	(55,093)	29,748	(1,041,605)	—	—	—	—	<b>(1,011,857)</b>
<b>Issuance of shares and stock options</b>	4,388	168	69,923	(5,031)	29,676	—	—	<b>94,736</b>
<b>Development expenditures</b>	—	—	—	(59,309)	—	59,309	—	—
<b>Balance at December 31, 2007</b>	435,626	40,176	909,336	501,714	(199,863)	72,424	731,893	<b>2,055,680</b>

1 As of December 31, 2007, the number of issued shares is 444,452,864. This included the number of issued and outstanding shares of 435,625,934 and treasury shares of 8,826,930. As of December 31, 2006, the number of issued shares was 502,549,541. This included the number of issued and outstanding shares of 477,099,245 and treasury shares of 25,450,296.

2 Other reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. See hereafter for further information.

3 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 hereafter 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 hereafter for further information.

## 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 435,625,934 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid.

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 March 28, 2007, the Board of Management was granted the authorization to issue shares and/or rights thereto. At our annual General Meeting of Shareholders to be held on April 3, 2008, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through October 3, 2009.

Holders of our ordinary shares have a pro rata 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 March 28, 2007, the Board of Management was granted the authorization, subject to the aforementioned approval, to limit or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on April 3, 2008, our shareholders will be asked to grant this authority through October 3, 2009. 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 provided the aggregate nominal value of the ordinary shares held by ASML or a subsidiary at any time amounts to no more than one-tenth of our issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through September 28, 2008 up to a maximum of 30 percent of our issued share capital as of the date of authorization (March 28, 2007) 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 April 3, 2008, our shareholders will be asked to extend this authority through October 3, 2009.

## 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 further amendment to the option agreement between the Foundation and ASML was made in 2007. The object of the Foundation is to protect the interests of the Company and the enterprises maintained by it. 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 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.

The Foundation is independent of the Company and its Board of Directors comprises three voting members from the Netherlands business and academic communities, Mr. R.E. Selman, Mr. F.H.M. Grapperhaus and Mr. M.W. den Boogert, and one non-voting member, the Chairman of the Company's Supervisory Board, Mr. A.P.M. Van der Poel.

## Other reserves

Changes in other reserves during 2006 and 2007 were as follows:

(in thousands)	Legal reserves			Total EUR
	Hedging reserve EUR	Currency translation reserve EUR	Capitalized development expenditures EUR	
<b>Balance at January 1, 2006</b>	152,686	(214,631)	73,602	<b>11,657</b>
<b>Components of statements of recognized income and expense:</b>				
Foreign currency translation	—	(20,524)	—	<b>(20,524)</b>
Derivative financial instruments	11,240	—	—	<b>11,240</b>
<b>Development expenditures</b>	—	—	48,235	<b>48,235</b>
<b>Balance at December 31, 2006</b>	163,926	(235,155)	121,837	<b>50,608</b>
<b>Components of statements of recognized income and expense:</b>				
Foreign currency translation	—	(32,605)	—	<b>(32,605)</b>
Derivative financial instruments	(4,888)	—	—	<b>(4,888)</b>
<b>Development expenditures</b>	—	—	59,309	<b>59,309</b>
<b>Balance at December 31, 2007</b>	159,038	(267,760)	181,146	<b>72,424</b>

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.

## Share buyback programs

### 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 aggregate number of shares bought back in this Repurchase Program was 25,450,296, representing 100 percent of the announced objective 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 order to mitigate the dilution due to the issuance of shares upon conversion of its convertible bond due October 2006, ASML repurchased 14,934,843 shares pursuant to a call option transaction announced on October 9, 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 bought back 8,000,000 shares, representing 100 percent of the announced objective of the remaining 1.7 percent of outstanding 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 exercised stock options and to partly satisfy the conversion rights of ASML's 5.50 percent Convertible Subordinated Notes.

The following table provides a summary of shares repurchased by the Company in 2007 under the 2006-2007 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)
February 14-23, 2007	8,000,000	19.53	8,000,000	—	156

### 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.

The following table provides a summary of shares repurchased by the Company in 2007 under the 2007-2008 program:

Period	Total Number of Shares Purchased	Average Price Paid per Share (EUR)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Programs	Total Value of Shares Purchased as Part of Publicly Announced Plans or Programs (In EUR million)
November 14-26, 2007	9,000,000	22.62	14,000,000	5,000,000 <sup>1</sup>	204

<sup>1</sup> 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 million ordinary shares.

### 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 was 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.

## 5. Personnel

The average number of employees employed by the ASML Holding N.V. at year-end 2007 was 4 (2006: 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 27 of the consolidated financial statements.

## 6. Commitments and Contingencies

ASML Holding N.V. has assumed joint and several liability 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 15, 2008

Prepared by  
The Board of Management:  
Eric Meurice  
Peter T.F.M. Wennink  
Martin A. Van den Brink  
Klaus P. Fuchs

## **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 Notes 17 and 29, 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 the Annual General Meeting of Shareholders, to be held on April 3, 2008, the Board of Management, with the approval of the Supervisory Board, will propose to the shareholders to pay out a cash dividend for an amount of EUR 0.25 per ordinary share of EUR 0.09. The Board of Management, with the approval of the Supervisory Board, has decided that the remainder of the 2007 net income will be added to the retained earnings.

### **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 2007 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, 2007, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2007, 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, 2007, and of its result and its cash flows 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, 2007, 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 of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.

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

Eindhoven, The Netherlands

February 15, 2008

# Information and Investor Relations

## **Financial calendar**

### **April 3, 2008**

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

### **April 16, 2008**

Announcement of First Quarter results for 2008

### **July 16, 2008**

Announcement of Second Quarter results for 2008

### **October 15, 2008**

Announcement of Third Quarter results for 2008

### **January, 2009**

Announcement of Fourth Quarter results for 2008 and Annual Results for 2008.

## **Fiscal Year**

ASML's fiscal year ends as of December 31, 2008

## **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. This Annual Report, quarterly releases and other information are also available on the ASML website ([www.asml.com](http://www.asml.com)).

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