Statutory Annual Report 2009

ASML

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Contents

This report comprises regulated information within the meaning of articles 1:1 and 5:25c of the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht)

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

Foreword

Dear stakeholder,

The year 2009 started in the midst of a major historical downturn and finished with a measured recovery of the world economies. In our semiconductor world, this translated in a virtual business freeze for six months, and a major re-start and acceleration of the bookings trend in the second half of 2009. Customers who had delayed structural technology investments, are now faced with the need to update their infrastructure, to be able to produce new levels of transistor integration. This typical integration trend (Moore's Law, named after the Intel co-founder) calls for a doubling of the number of transistors per chip every two years at roughly stable costs, which has continued even during the 2009 world economic crisis.

Downturn in the first half of 2009

The global economic downturn, one of the sharpest in recorded history, tested our Management for maintaining our long term and Sustainability policy when first and second quarter revenues fell by more than 70 percent in 2009 compared to 2008, forcing us to take measures which were felt by our employees and other stakeholders. We reduced the number of employees mainly on temporary contracts; we reduced working hours of manufacturing employees, without cutting wages, and had to resort to very limited headcount cuts of non temporary workers. Furthermore, we significantly trimmed non strategic discretionary expenses by more than EUR 200 million per year, approximately 75 percent of which will be sustainable even in an economic upturn to a sales level of approximately EUR 800 million per quarter. We did not reduce any of our strategic expenses, whether in Research and Development ("R&D") or in Operations. We communicated that these efforts, although very painful for our dedicated temporary worker population and our suppliers, would ensure that (1) ASML would strengthen its competitive position, by ensuring an improving technology leadership by continuing to develop four new architectures, (2) ASML would generate cash from operations in 2009, in spite of the significant revenue downturn and (3) ASML forecasted that it would reach break-even sales level or above by the second half of 2009.

We are encouraged that our communication was understood and supported by our stakeholders. We managed to retain confidence amongst our customers, our suppliers and our investors as evidenced by our strong bookings pick-up at the end of 2009, our continuous support by suppliers gearing capacity back up and our share price performance. Thanks to the sacrifices and contributions of our employees and flexible staff, we have proven significant robustness of our business model to all our stakeholders, and are getting out of the economic crisis stronger than ever.

Recovery in the second half of 2009

Our confidence to maintain production capacity and continue key research and development — supported by our healthy cash balance of more than EUR 1 billion — was rewarded midway through the year when the chip industry was one of the first global industry sectors to recover. Our sales in the second half of 2009 more than doubled from the first half of 2009. Orders rose even faster which means we entered 2010 with expectations for very healthy revenues for the year. As a result of increased demand for our products, we rehired temporary employees who were laid off earlier in the year. Through our flexible employment partners we had kept in touch with our former flexible staff, and actively approached them during the expansion. We are happy to disclose that we were able to rehire approximately 400 temporary employees in 2009 consisting of people with ASML experience.

Trends for the future

We intend to proceed with our proven strategy, which consists of investing above market average in R&D, to develop multi-segment solutions, while honing our operations and execution so as to reduce structural and product cost, as well as cycle time. We also intend to continue our scouting of other market opportunities beyond semiconductors to leverage our technologies and other competencies. Next to that, we will commit to our corporate responsibilities for contributing to a sustainable future, through investing in technologies and approaches to minimize our ecological footprint. We are confident that this strategy will be sustained by customer requirements driven by Moore's law, which justifies our targeting of yearly revenues of EUR 5 billion at the top of the next semiconductor cycle.

ASML sustainability focus

The semiconductor industry, a USD 225 billion (EUR 162 billion) global sector, and its related equipment industry, have continuously enabled the introduction of new electronics products with increased performance and lower energy consumption per electronic function. The lower cost and lower power consumption, as evidenced by the adoption of mobile handheld electronics, enables semiconductors to have a relatively modest ecological footprint when compared to non-scalable industries. Through our scanners which can image smaller structures on chips which consume less power, ASML is a key enabler of this trend to more energy-efficient electronics. Our key responsibility is to work every day for this trend to continue, and our innovation roadmap to further "shrink" of chip features takes us beyond 2020.

Moreover, we can do even better by also focusing on additional sustainability issues: our enhanced sustainability policy is addressing in particular emission and energy conservation as well as demographic and social responsibilities. In terms of our own direct contribution, we are introducing ambitious targets in the following four focus areas:
- On our sites we will substantially reduce our CO_2 emissions and will put programs in place for more efficient use and recycling of water, waste and other resources.
- For our customers we will commit to improve energy efficiency of our machines.
- For our employees, we will continue to offer a safe, ethical and healthy working environment which supports our position as a preferred employer.
- To our suppliers, we will review their environmental policies and performance and hold them to our social and health & safety standards

Recognition to our stakeholders

The current economic recovery is certainly still very fragile, and we are conscious that our own increased sales is largely the result of what we call a "corrective recovery" in the semiconductor industry which is the result of 9 to 18 months of under-investments in semiconductor factories, and need for technology upgrades by our customers. We will manage the company with this risk in mind, while we continue investing in our new products and capabilities.

We would like to thank all our stakeholders, in particular our permanent and temporary employees who continue to excel in their dedication, unique expertise and professionalism, our customers, suppliers, shareholders and public authorities who have been supporting the company in multiple ways during this difficult year; we are confident that we have grown in strength and capability and look forward to a bright future for the company.

Eric Meurice,
President and Chief Executive Officer, Chairman of the Board of Management
ASML Holding N.V.
Veldhoven, February 16, 2010

Board of Management

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

Peter T.F.M. Wennink (1957)
Executive Vice President, Chief Financial Officer and
Member of the Board of Management
Appointed in 1999
Dutch nationality

Martin A. van den Brink (1957)
Executive Vice President, Chief Product and
Technology Officer and
Member of the Board of Management
Appointed in 1999
Dutch nationality

Frits J. van Hout (1960)
Executive Vice President, Chief Marketing Officer and
Member of the Board of Management
Appointed in 2009
Dutch nationality

Supervisory Board

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

OB Bilous (1938)
Former General Manager and
VP Worldwide Manufacturing of IBM's Microelectronics Division
First appointed 2005
Current term until 2012
United States nationality

Ieke C.J. van den Burg (1952)
Member of the European Parliament (Until July 2009)
First appointed 2005
Current term until 2013
Dutch nationality

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

Pauline F.M. van der Meer Mohr(1960)
Former Senior Executive Vice President at ABN AMRO Bank
First appointed 2009
Current term until 2013
Dutch nationality

Jos W.B. Westerburgen (1942)
Former Company Secretary and
Head of Tax of Unilever N.V. and Plc.
First appointed 2002
Current term until 2011
Dutch nationality

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

Wolfgang H. Ziebart (1950)
Former President and CEO of Infineon Technologies A.G.
First appointed 2009
Current term until 2013
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 2009, as prepared by the Board of Management. Deloitte has duly examined the Company's financial statements, and the Auditor's Report is included in the Other Information.

General

The Supervisory Board supervises and advises the Board of Management 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 Dutch 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 per the criteria of the Dutch Corporate Governance Code as amended in 2008 ("the Code").

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

The Supervisory Board closely follows the developments in the area of corporate governance and the application of the relevant corporate governance rules within the Company. In 2009, the Supervisory Board has reviewed the amended Code, which came into force with effect from the financial year starting on or after January 1, 2009, to determine the implications for the Supervisory Board, its committees, ASML's Board of Management and ASML as a company. For a more detailed description on corporate governance, please refer to the Corporate Governance Chapter of this report.

Meetings and activities of the Supervisory Board

The Supervisory Board held five meetings in 2009 and in addition three conference calls were held specifically to discuss the quarterly results. No Supervisory Board member of those who were in office during the full year of 2009, was absent more than once at the meetings held in 2009, with exception of one member who was absent twice — once due to other obligations, and the second time due to illness. During the various meetings, the Supervisory Board discussed ASML's strategy, financial situation, business risks, investor relations, budget and corporate targets, among other matters. In addition to the scheduled meetings and conference calls, members of the Supervisory Board interacted intensively with the Board of Management, as well as with its individual members, through consultations, telephone calls and regular reports. Also, several informal meetings and telephone calls took place among Supervisory Board members to consult each other with respect to various topics.

In 2009, the Supervisory Board also visited Carl Zeiss SMT ("Zeiss"), to increase their understanding of the research and technology necessary for the development and production of the optics for ASML's leading-edge systems.

In 2009, the Supervisory Board spent considerable time discussing ASML's corporate and technology strategy. And also, several discussions revolved around the financial and economic crisis and the possible consequences thereof for ASML.

The members of the Board of Management attended all meetings of the full Supervisory Board. However, the members of the Board of Management were not present when the Supervisory Board, in general at the end of each meeting, discussed topics related to, amongst others, the functioning of the Board of Management and the Supervisory Board, its individual members, the composition of both bodies and their relationship. Also, the various Supervisory Board committees regularly meet without the members of the Board of Management.

As is common practice each year, an evaluation was performed in 2008 with respect to the functioning of the Supervisory Board, its committees, and individual members. Several suggestions resulting from that evaluation were implemented in 2009, such as more in-depth and more extensive discussions on important topics for ASML and, as a result thereof, extended Supervisory Board meetings.

The 2009 evaluation survey also resulted in various improvement areas, for example related to the composition of the Supervisory Board and its committees (mainly with respect to diversity, i.e. nationality, gender, age), the frequency and depth of certain topics to be discussed during the year (e.g. risk management, strategy), and the evaluation process itself. Also the possible need for more meetings of the Supervisory Board without the Board of Management was discussed. Appropriate feedback has been given to the Board of Management concerning this evaluation meeting.

As is done each year, members of the Supervisory Board met twice during scheduled meetings with the Works Council in the Netherlands, to discuss, among other topics, important internal and external developments relevant for the Company and its employees, the Company's financial situation, as well as its strategy. The Supervisory Board's relationship with the Works Council is characterized by continuous cooperation and professionalism.

Composition of the Supervisory Board

Ms. H. (Ieke) van den Burg and Messrs. O. (OB) Bilous, J. (Jan) Dekker and J.(Jos) Westerburgen retired by rotation on March 26, 2009. Except for Mr. Dekker, all resigning members were reappointed by the AGM in 2009. Mr. Dekker was not reappointed, because of the fulfillment of his twelve year tenure as member of ASML's Supervisory Board. Mr. W. (Wolfgang) Ziebart was appointed as Mr. Dekker's successor at the 2009 AGM. In addition, Ms. P. (Pauline) van der Meer Mohr was appointed as member of the Supervisory Board, succeeding Mr. R. (Rolf) Deusinger, who had resigned from ASML's Supervisory Board in June 2008. As communicated before, Mr. Deusingers resignation was due to him accepting a new position, which made it difficult for him to continue his activities for ASML. Ms. Van der Meer Mohr's appointment was based on the Works Council's enhanced recommendation right. Also Ms. Van den Burg's reappointment was based on the Works Council's enhanced recommendation right.

The Supervisory Board has announced that none of its members will retire by rotation per the AGM to be held on March 24, 2010.

For further details on the activities and responsibilities of the Supervisory Board, see the Corporate Governance Chapter of this Statutory Annual Report.

Supervisory Board Committees

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

Decisions and recommendations of the four committee meetings are reviewed in plenary meetings of the Supervisory Board. The advantage of the committees preparing certain decisions and topics for discussion in the Supervisory Board, is the fact that those committees can discuss relevant topics in more detail than would be possible in the full Supervisory Board meetings, enabling better recommendations for the Board of Management, and it provides for better decisions to be taken by the full Supervisory Board.

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

For further description of the activities and responsibilities of the Supervisory Board committees, refer to the Corporate Governance Chapter of this report.

Audit Committee

In 2009, the Audit Committee met five times and held five conference calls, in which specifically the quarterly results and the results of the year-end audit were discussed. The current members of ASML's Audit Committee are Mr. Fröhlich (Chairman), Mr. Van der Poel and Mr. Ziebart. The members of the Audit Committee are all independent, non-executive members of the Supervisory Board.

The Audit Committee focuses strongly on the review of ASML's quarterly (and annual) results and announcements. It also continuously monitors the activities of the internal audit department with respect to ASML's internal controls and risk management systems, including the internal controls over financial reporting in light of Section 404 of the Sarbanes-Oxley Act of 2002. Other activities of the Audit Committee were: discussion and approval of the internal and external audit plan and related external audit fees; review of i) the audit and non-audit fees paid to the Company's external auditor; ii) the audit activities of the Company's internal and external auditor; iii) the internal and external auditor's management letter; discussions on tax strategy, as well as the tax systems and tax planning, investor relations, review of the way ASML manages its IT landscape, and review of regular updates on the activities of the Company's Disclosure Committee. Significant attention was also given to ASML's financial position and financing policy, in view of the global financial market crisis and severe economic downturn experienced especially in the first six months of 2009.

Remuneration Committee

In 2009, the Remuneration Committee met six times formally and several times on an ad-hoc basis. The current members of ASML's Remuneration Committee are Mr. Westerburgen (Chairman), Ms. Van den Burg and Ms. Van der Meer Mohr.

During 2009, the main subjects of the Remuneration Committee meetings were the implications of the amended Code on the 2008 Remuneration Policy for the Board of Management, especially in preparation of the 2010 AGM. Also discussed were the remuneration of the members of ASML's Board of Management, including the benchmarking of for ASML relevant companies to determine the 2009 remuneration of the individual members of the Board of Management, and ASML's stock-based Equity Plans for 2009.

Independent experts in the field of remuneration for members of Boards of Management in Dutch listed companies assisted the Remuneration Committee in the above activities. These experts do not provide remuneration advice to the Board of Management.

Selection and Nomination Committee

The Selection and Nomination Committee held three scheduled meetings and several additional meetings on an ad-hoc basis in 2009. The current members of ASML's Selection and Nomination Committee are Mr. Westerburgen (Chairman), Mr. Bilous and Mr. Van der Poel.

The main topics in 2009 were the composition of the Supervisory Board, mainly with respect to the succession of Mr. Dekker by Mr. Ziebart. Also, the composition of the Board of Management was discussed extensively, among other factors in connection with the intended extension of the Board of Management to five members. As a result of these discussions, the Selection and Nomination Committee recommended to the Supervisory Board to appoint Mr. F. (Frederic) Schneider-Maunoury as member of the Board of Management. On September 24, 2009, the Supervisory Board announced its intention to appoint Mr. Schneider-Maunoury to ASML's Board of Management, subject to notification to the 2010 AGM. More details on Mr. Schneider-Maunoury can be found on ASML's website.

In addition, the Selection and Nomination Committee reviewed the Supervisory Board's current rotation schedule, and it was decided to amend this schedule in such a manner that some members' terms were shortened to avoid that in 2013, five members out of the eight members would be up for reappointment.

Last but not least, in view of the continuously increasing importance — and therefore also increasing workload — of corporate governance, it has been decided that as per this year, the responsibilities of the Selection and Nomination Committee will be expanded to include the monitoring of the corporate governance developments, and inherent thereto, also advising the Supervisory Board and the Company on this topic.

Technology and Strategy Committee

The Technology and Strategy Committee met three times in 2009. In general, these meetings last a full day. The current members of ASML's Technology and Strategy Committee are Mr. Siegle (Chairman), Mr. Bilous, Mr. Van der Poel and Mr. Ziebart. In addition, the Technology and Strategy Committee may appoint one or more advisors from within and/or from outside the Company. In 2009 three external advisors participated in committee meetings. The advisors to the Technology and Strategy Committee may be invited as guests to (parts of) the meetings of the Committee, but are not entitled to vote in the meetings.

The Technology and Strategy Committee reviews the specific ASML technology matters important at that time. The outcome of the discussions is reported in the meetings of the full Supervisory Board. Because the important technical matters are being discussed extensively in this Committee and because the reporting is done in a comprehensible way, this practice increases the full Supervisory Board's understanding of ASML technology matters and enables it to better supervise the strategic choices facing ASML.

The main subjects of the meetings of the Technology and Strategy Committee in 2009 were the Company's technology roadmap, including NXT (a platform for TWINSCAN™ immersion technology), Extreme Ultra Violet ("EUV") lithography, double patterning and holistic lithography (including, for example, Brion and metrology technologies).

The Committee also reviews the proposals for the Technology Leadership Index ("TLI"), being one of the performance targets for the Board of Management to provide the Remuneration Committee with its advice on this topic. And the Committee also provides its opinion to the Remuneration Committee with respect to the level of achievement of the TLI.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members is described in Note 29 to the Statutory Financial Statements 2009. The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. In addition to their fee as member of the Supervisory Board, Supervisory Board members also receive a fee for each committee membership. The Supervisory Board remuneration is not dependent on the financial results of the Company. No member of the Supervisory Board personally maintains a business relationship with the Company other than as a member of the Supervisory Board.

The Committee also reviews the proposals for the Technology Leadership Index ("TLI"), being one of the performance targets for the Board of Management to provide the Remuneration Committee with its advice on this topic. And the Committee also provides its opinion to the Remuneration Committee with respect to the level of achievement of the TLI.

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 Annual 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 for each member of the Supervisory Board.

Composition of the Board of Management

The Board of Management currently consists of four members. Mr. Schneider-Maunoury will be appointed by the Supervisory Board as fifth member of the Board of Management, subject to notification to the AGM, to be held on March 24, 2010.

For further details and a biography of the members of the Board of Management, see page 5 of this report.

Remuneration of the Board of Management

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

Amount and Composition
The 2004 AGM adopted the 2004 Remuneration Policy, which was amended and adopted in 2006 and lastly in 2008 to reflect further developments and insights with respect to the Board of Management remuneration.

In proposing to the Supervisory Board the actual remuneration elements and levels applicable to the members of the Board of Management, the Remuneration Committee considers the 2008 Remuneration Policy as well as recent external developments. Current compensation and benefits levels are benchmarked against relevant 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 2009 remuneration report
The outline of the remuneration report of the Supervisory Board for the financial year 2009 concerning the remuneration policy of the Company is as follows:

1. Total remuneration for members of the Board of Management consists of (i) base salary and benefits; (ii) a short-term performance cash bonus; (iii) short-term performance stock options; and (iv) long-term performance stock. The pay-out 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 for “on target” performance: 100-75-25-55 for the CEO, where base salary is 100; the “on-target” short-term performance cash bonus is 75; performance stock options are 25 and performance stock is 55; for the other members of the Board of Management this ratio is 100-60-25-55. The “maximum” payout (in case of overachievement of pre-defined targets) for performance stock options is 50 percent and the “maximum” payout for performance stock is 96.25 percent for all members of the Board of Management
3. Base salary, short-term and long-term incentives are measured against the 50th percentile or market median of the appropriate Top Executive reference Market; and
4. Members of the Board of Management are offered a pension plan based on a defined contribution. The total defined contribution is a percentage of the pensionable salary and is dependent on the participant’s age. The total contribution percentage lies between 5.91 percent and 26.94 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 29 to the Statutory Financial Statements 2009. The remuneration of the Board of Management in the year 2009 was in accordance with the 2008 Remuneration Policy. The 2009 Remuneration Report of the Supervisory Board and the 2008 Remuneration Policy are published on the Company’s website.

The Remuneration Committee will submit for adoption a revised Remuneration Policy, to reflect further alignment with the amended Code. The proposed changes especially reflect:

1. The shifting focus from the short-term to the long-term;
2. Further improved alignment of the performance criteria to the business needs;
3. Alignment of the pension arrangement to the adjustments that will be made for the excedent pension arrangement for ASML employees in The Netherlands, and to the median market level of executive pensions in The Netherlands.

The main consequences of the proposed changes are such that 1) only the short-term performance incentive in cash will be determined by the achievement of the short-term performance criteria; 2) the performance stock options as element of the short-term incentive will be abolished, whereby the value of these options will be moved to the long-term incentive and awarded in shares; and 3) the achievement of the long-term incentive will be determined for 80 percent by the achievement of the predetermined level of Return on Average Invested Capital (“ROAIC”) as compared to the Peer Group, and for 20 percent by the level of achievement of a qualitative target, to be measured over a three year period.

With respect to the best practice provisions Ultimum Remedium (II.2.10) and Claw Back (II.2.11) of the amended Corporate Governance Code, the Supervisory Board per the recommendation of the Remuneration Committee has decided to implement these provisions in the contractual relationship between the individual members of the Board of Management and ASML. The Supervisory Board anticipates that, given the legal implications and the need for a diligent process, the actual implementation of these provisions will be finalized in the course of 2010.

Indemnification

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

Gratitude to ASML employees

The Supervisory Board would like to thank and recognize all ASML employees who have been able, under stress and under difficulty, to achieve so much this past, very challenging year. The start of the year was very difficult because of the economic crisis, which resulted in several measures impacting all employees, the second half of this year was dictated by the need to ramp up for the expected upturn, while continuing the efforts to work on ASML’s leading-edge technology. ASML’s Supervisory Board appreciates all the efforts and achievements of ASML employees in 2009. The Supervisory Board would also like to recognize those people who had to leave ASML due to the impact of the severe economic downturn on the Company and thank them for their shown commitment and passion. These employees have been an integral part of ASML’s success achieved so far. And last but not least, the Supervisory Board extends a warm welcome to those employees who were let go one year ago, but who are needed again now.

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	71
profession	former General Manager and VP Worldwide Manufacturing of IBM's Microelectronics Division
principal position	Retired
nationality	US
other relevant positions	Board member Nantero, Inc.
first appointed	2005
current term until	2012

H.C.J. van den Burg

gender	female
age	57
profession	former member of the European Parliament
principal position	N/A
nationality	Dutch
other relevant positions	member of the Supervisory Board of APG Groep N.V., member of the Advisory Board of the Dutch Data-Protection Authority, member of the Dutch Corporate Governance Code Monitoring Committee
first appointed	2005
current term until	2013

F.W. Fröhlich

gender	male
age	67
profession	former Deputy Chairman and CFO of Akzo Nobel N.V.
principal position	retired
nationality	German
other relevant positions	Chairman of the Supervisory Boards of Randstad Holding N.V., Draka Holding N.V. and Altana AG, member of the Supervisory Boards of Allianz Nederland N.V. and Rexel SA.
first appointed	2004
current term until	2012

P.F.M. van der Meer Mohr

gender	female
age	49
profession	Managing partner of the Amstelbridge Group (until December 31, 2009); President of the Executive Board of the Erasmus University Rotterdam (as of January 1, 2010)
nationality	Dutch
other relevant positions	Member of the Supervisory Boards of Océ Technologies B.V. and the Amsterdam Medical Centre (both positions until December 31, 2009).
first appointed	2009
current term until	2013

A.P.M. van der Poel

gender	male
age	61
profession	former member of the Board of Management of Royal Philips Electronics
principal position	retired
nationality	Dutch
other relevant positions	member of the Board of Directors of Gemalto Holding N.V., member of the Supervisory Boards of PSV N.V. and DHV Holding B.V.
first appointed	2004
current term until	2012

W.T. Siegle

gender	male
age	70
profession	former Senior Vice President and Chief Scientist of AMD, Inc.
principal position	retired
nationality	US
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	67
profession	former Company Secretary and Head of Tax of Unilever N.V. and Plc.
principal position	retired
nationality	Dutch
other relevant positions	member of the Supervisory Board of Unibail Rodamco S.E. and Vice-Chairman of the Board of the Association Aegon
first appointed	2002
current term until	2011

W.H. Ziebart

gender	male
age	59
profession	former President and CEO of Infineon Technologies A.G.
principal position	CEO of Artega Automobile GmbH & Co.
nationality	German
other relevant positions	member of the Boards of Autoliv, Inc. and Nordex A.G.
first appointed	2009
current term until	2013
Company Secretary	Mr. R.F. Roelofs
Appointed	2002
Deputy Company Secretary	Ms. G.C.M. Keizer
Appointed	2002

The Supervisory Board,
Veldhoven, February 16, 2010

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 Dutch law. ASML's shares have been listed on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam") and on the NASDAQ Stock Market LLC ("NASDAQ") since 1995.

ASML continuously monitors and assesses applicable Dutch, U.S., and other relevant corporate governance codes, rules, and regulations. ASML is subject to the Dutch Corporate Governance Code (the "Code"), as ASML is registered in the Netherlands and is listed on Euronext Amsterdam. On December 10, 2008 the Dutch Corporate Governance Code Monitoring Committee presented an amended Code, which came into force with effect from the financial year starting on or after January 1, 2009. This Corporate Governance Chapter is based on the amended Code. Because ASML is also listed on NASDAQ, it is required to comply with the U.S. Sarbanes-Oxley Act of 2002, as well as NASDAQ listing rules, and the rules and regulations promulgated by the U.S. Securities and Exchange Commission ("SEC").

For the full text of the Code, please refer to the website www.commissiecorporategovernance.nl. For the full text of the U.S. Sarbanes-Oxley Act of 2002, as well as NASDAQ listing rules, and the rules and regulations promulgated by the SEC, see www.sec.gov/about/laws/soa2002.pdf, http://nasdaq.cchwallstreet.com/, and www.sec.gov/about.shtml respectively.

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 Dutch 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.

Material changes in the corporate governance structure of ASML and/or in its compliance with the Code will be discussed at ASML's Annual General Meeting of Shareholders ("AGM") as a separate agenda item.

II. Board of Management

Role and Procedure

ASML's Board of Management is responsible for managing ASML, under the chairmanship of its President and Chief Executive Officer ("CEO"). The current Board of Management comprises four members. A fifth member of the Board of Management will be appointed by the Supervisory Board subject to notification to the AGM to be held on March 24, 2010.

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, its risk profile and policies, the achievement of its objectives, its results and the corporate social responsibility aspects relevant to the Company.

In fulfilling its management tasks and responsibilities, the Board of Management considers the interests of ASML and the business connected with it, as well as 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.

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

Important decisions of the Board of Management that require the approval of the Supervisory Board are, among others:

- the operational and financial objectives of ASML;
- the strategy designed to achieve the objectives;
- the parameters to be applied in relation to the strategy to achieve the objectives; and
- corporate social responsibility aspects that are relevant to ASML.

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 2009 Statutory Annual Report, ASML describes the sensitivity of its results to both external as well as internal factors and variables.

The Rules of Procedure for the Board of Management were revised to reflect the relevant amendments in the Code. The Rules of Procedure contain – among other topics – the general responsibilities of the Board of Management, the relationship with the Supervisory Board and various stakeholders, the decision making process within the Board of Management, and also the logistics surrounding the meetings. The Rules of Procedure are posted in the Corporate Governance section on ASML's website.

Appointment, Other Functions

Members of the Board of Management are appointed by the Supervisory Board upon recommendation by ASML's Selection and Nomination Committee and after notification to the General Meeting of Shareholders. Members of the Board of Management appointed after the 2004 amendment of the Articles of Association, are appointed for a period of four years, where after reappointment is possible for consecutive four-year terms. Messrs. P. Wennink and M. van den Brink's appointment to the Board of Management is for an indefinite period of time, as their initial appointment was before 2004. The existing employment contracts, including all rights and obligations under these contracts, will be honored.

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

Board of Management members may only accept a Supervisory Board membership of another listed company after having obtained prior approval from the Supervisory Board. Members of the Board of Management are also required to notify the Supervisory Board of other important functions held or to be held by them.

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.

Internal Risk Management and Control Systems, External Factors

The Board of Management is responsible for ensuring that ASML complies with applicable legislation and regulations. It is also responsible for the financing of ASML and for managing the internal and external risks 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 identify risks, ASML uses a formal risk management approach, consisting of a set of risks definitions (Risk Universe) which are discussed amongst ASML senior management during an annually recurring risk workshop. Based on this risk assessment, actions are initiated to further enhance ASML's risk mitigation. In its 2009 Statutory Annual Report, ASML provides a comprehensive description of its risks, which potentially could have a significant impact on the Company's strategy execution, operations or financial position. The disclosure of these risks is derived from ASML's annual internal comprehensive risk assessment, comprising all elements of the risk assessment model as mentioned in the COSO report. The risks identified are categorized in external and internal risks, and divided into 1) strategic risks; 2) risks related to the semiconductor equipment industry; 3) governmental and regulatory risks; 4) operational risks; 5) financial risks; and 6) risks related to our ordinary shares.

As is practice since 2001, ASML publishes two annual reports in respect of the financial year 2009 ("2009 Annual Reports"): a Statutory Annual Report in accordance with Dutch legal requirements and International Financial Reporting Standards ("IFRS") as adopted by the European Union and an Annual Report on Form 20-F in accordance with U.S. securities laws, based on the United States of America Generally Accepted Accounting Principles ("U.S. GAAP"). Both 2009 Annual Reports include risk factors that are specific to the semiconductor industry, ASML and its shares. ASML also provides sensitivity analyses by providing:

- a narrative explanation of its financial statements;
- the context within which financial information should be analyzed; and
- information about the quality, and potential variability, of ASML's earnings and cash flow. In its "In Control Statement", as included in the Statutory Annual Report 2009, the Board of Management addresses ASML's internal risk management and control systems.

Annually, pursuant to the Sarbanes-Oxley Act, ASML's management conducts an evaluation, under the supervision and with the participation of ASML's 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, 2009, providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. The external auditor has confirmed the effectiveness of ASML's internal control over financial reporting in its Consent of Independent Registered Public Accounting Firm as included in ASML's Annual Report on Form 20-F.

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 Dutch law and regulations, including preparation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). For the Annual Report on Form 20-F, ASML applies the requirements of the U.S. Securities and Exchange Act of 1934, and prepares the financial statements included therein in accordance with U.S. GAAP. With respect to the preparation process of these and the other financial reports, ASML applies internal procedures to safeguard completeness and correctness of such information as part of its disclosure controls and procedures.

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

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

Code of Conduct

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

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

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

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

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

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

Mandatory training courses on ASML's Code of Conduct are conducted regularly by all employees worldwide.

Remuneration of the Board of Management

Amount and Composition

The 2004 AGM adopted the 2004 Remuneration Policy, which was amended and adopted in 2006 and lastly in 2008 to reflect further developments and insights. The 2008 Remuneration Policy is currently being revised and will be submitted to the 2010 AGM for adoption. The main reasons for revising the 2008 Remuneration Policy are the amended Code and external developments.

The proposed changes especially reflect:
1. The shifting focus from the short-term to the long-term;
2. Further improved alignment of the performance criteria to the business needs;
3. Alignment of the pension arrangement to the adjustments that will be made for the excedent pension arrangement for ASML employees in The Netherlands, and to the median market level of executive pensions in The Netherlands.

The main consequences of the proposed changes are such that 1) only the short-term performance incentive in cash will be determined by the achievement of the short-term performance criteria; 2) the performance stock options as element of the short-term incentive will be abolished, whereby the value will be moved to the long-term incentive, which value will be awarded in shares; and 3) the achievement of the long-term incentive will be determined for 80 percent by the achievement of the predetermined level of Return on Average Invested Capital ("ROAIC") as compared to the Peer Group, and for 20 percent by the level of achievement of a qualitative target, to be measured over a three year period.

With respect to the best practice provisions Ultimum Remedium (II.2.10) and Claw Back (II.2.11) of the amended Code, the Supervisory Board, per the recommendation of the Remuneration Committee of ASML, has decided to implement these provisions in the contractual relationship between the individual members of the Board of management and ASML. The Supervisory Board anticipates that, given the legal implications and the need for a diligent process, the actual implementation of these provisions will be finalized in the course of 2010.

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

The 2008 Remuneration Policy was drafted in accordance with the (at the time applicable provisions of 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 intend to 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 Dutch employment law, to the extent applicable.

The total remuneration contains base salary and benefits, a short-term performance cash bonus and short-term performance stock options and long-term performance stock. It aims to balance and align the remuneration with short-term execution and long-term elements of the managerial tasks of Management.

The variable part of remuneration is designed to strengthen the commitment of the members of the Board of Management to ASML as well as to its objectives. It is linked to previously determined, measurable targets, designed to achieve ASML's objectives.

Under the 2008 Remuneration Policy, members of the Board of Management are eligible to a cash performance bonus with an "on target" level of 75 (CEO) or 60 (other members) percent of their base salary. The annual bonus payout is dependent on pre-determined short-term performance criteria. The bonus pay-outs are pro-rated on a linear basis to the level of achievement of targets. The performance criteria are based on the achievement of five measurable results. The weighing of each of these five criteria is equal (in total weighted 80 percent). These quantitative objectives are measurable and include milestones reflecting the quality of the performance achieved. A sixth target is set on annual qualitative objectives (weighted 20 percent). Targets are set at the beginning of the performance period. The target setting and measuring period of the first five targets is in general semi-annual which allows alignment of the targets to the then relevant business objectives. The target setting and measuring period of the sixth target is annual. The payout of the Performance Bonus is annual.

In view of the economic downturn, the short-term performance criteria for 2009 were formulated to express the special challenges ASML faced in coping with this downturn. Also in view of the total freeze of ASML's market in the first half of 2009, Market Share was changed to Market Position, not only expressing Market Share as such, but also including ASML's customer intimacy as a measure of the sustainability of ASML's success in the market place. Gross Margin percentage of Sales and Net Operating Profit were replaced by Direct Material Margin on New Systems and Total Company Cost Base. These criteria are a better indicator of

ASML's results on its core business. "Sustainability of Cost Base savings" was used for the first half of 2009 to reflect the urgency of cost reductions whilst ensuring a lasting lower cost base.

The short-term performance criteria for 2009 were:

1. Market Position (target set and measured on an annual basis);
2. Total Company Cost Base;

3a. Sustainability of Cost Base savings (for the first half of 2009);

3b. Direct Material Margin (for the second half of 2009);

4. Operating Cash Flow in Euro;
5. Technology Leadership Index;
6. A qualitative target based on agreed key objectives.

The awarding of performance stock options depends on the achievement of the predetermined level of ROAIC, which is set and measured semi-annually. ROAIC is determined by dividing the operating income minus income taxes by the average invested capital. The average invested capital is determined by total assets minus cash and cash equivalents minus current liabilities. The options ultimately awarded cannot be exercised in the first three years after the date of the initial conditional grant or until the time of termination of employment, if this period is shorter. The exercise price is the official price of the underlying stock on the day of publication of the annual results in the year to which the performance stock option plan relates. The performance stock option plans were approved by the 2006 AGM, for the financial year 2006 and subsequent years.

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

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

Under the 2008 Remuneration Policy, the number of performance stock options which can be awarded to the Board of Management for 'on target' achievement equals 25 percent of base salary divided by the value of one performance stock option. Although ASML defines stretching targets, there is also a possibility to reward overachievement (also set at a certain predefined level). In case of higher achievements than 'on target', the maximum number of performance stock options for such overachievement can reach 50 percent of base salary.

In 2008 the Supervisory Board decided that the maximum number of performance stock options to be granted conditionally in 2009 would be equal to the maximum number of performance stock options in 2008. The value of the performance stock option was determined in 2008 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 was calculated at the beginning of the 2008 performance period, on the day of publication of ASML's annual results of the financial year 2007, using the market value of the underlying stock during the three preceding years.

The number of performance stock to be awarded in case of 'on target' achievement equals 55 percent of base salary divided by the value of one performance stock. Although ASML defines stretching targets, there is also a possibility to reward overachievement (also set at a certain predefined level). In case of higher achievements than the 'on target' performance the maximum number of performance stock for such overachievement can reach 96.25 percent of base salary. Performance stock will be awarded annually under the condition of fulfillment of a predetermined performance target, which is measured over three calendar years. The performance measure for obtaining performance stock will be ASML's relative ROAIC position compared to its peer group at the end of the three years. The peer group which is used for the measurement of ROAIC consists of KLA-Tencor, Varian Semiconductor, Applied Materials, Novellus, Cymer, Lam Research, MKS Instruments, Advanced Energy, Asyst and ASMI.

In 2008 the Supervisory Board decided that the maximum number of performance stock to be granted conditionally in 2009 would be equal to the maximum of performance stock determined for 2008. The value of the performance stock for 2008 was determined by using the market value of the stock on the day of publication of ASML's annual results of fiscal year 2007 in line with U.S. GAAP and applying a performance discount of 30 percent in line with market practice. The value was calculated at the beginning of the 2008 performance period, on the day of publication of ASML's annual results of 2007, using the market value of the underlying stock during the three preceding years.

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

With respect to trading in ASML securities, ASML employees, ASML Board of Management members and ASML Supervisory Board members, are bound by ASML's Insider Trading Rules, which are published on the Company's website. The ASML Insider Trading Rules stipulate, among other items, that members of the Board of Management may not trade during the two months preceding the publication of the annual results, and during the three weeks before publication of quarterly results. In addition, employees of ASML, including the members of the Board of Management, may not perform transactions in ASML securities during the open periods when they have inside information.

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 claims 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 each Board of Management member.

For more details about the Board of Management's remuneration, its composition, and other relevant elements, refer to the 2008 Remuneration Policy and the Remuneration Report for the 2009 financial year (both published on ASML's website), the Report of the Supervisory Board and other parts of ASML's 2009 Annual Reports.

Determination and Disclosure of Remuneration

As previously stated, the 2008 AGM adopted ASML's 2008 Remuneration Policy. The Report of the Supervisory Board as included in ASML's 2009 Statutory Annual Report contains the main items of the Remuneration Report of the Supervisory Board concerning the application of the 2008 Remuneration Policy. The Remuneration Report contains the elements recommended by the Code.

Best practice provisions II.2.13 f) and g) of the Code, recommend to provide a description of the performance criteria and also a summary and account of the methods to determine the achievement of the performance criteria. ASML provides the quantitative performance criteria, a summary and account of the methods to determine the achievement of the performance criteria, and also the ultimate achievement level of the quantitative and qualitative performance criteria. However, ASML cannot give the exact performance criteria data, nor the levels of achievement per each performance criterion, as this concerns highly competitive information, such as targets related to ASML's technology, market position etc. The Supervisory Board feels that in light of the competitive sensitivity, it is justified not to publish more details of the target levels for the quantitative performance criteria set for the Board of Management. Full disclosure is not in the interest of ASML, and therefore also not in the interest of shareholders. It is the Supervisory Board's responsibility to set the actual targets for the variable part of the remuneration of the Board of Management taking into account the principle of reasonableness. The AGM endorsed this position in its meeting on March 23, 2006. The external auditor shall perform agreed upon procedures on the targets achieved, to provide additional assurance whether the performance targets set have been achieved.

The remuneration for the individual Board of Management members of ASML is determined by the Supervisory Board, upon a proposal from the Remuneration Committee, with reference to the 2008 Remuneration Policy. The 2008 Remuneration Policy is posted on ASML's Corporate Governance website and contains the quantitative performance criteria for the Board of Management. The level and structure of the remuneration of each of the members of the Board of Management is described in ASML's 2009 Annual Reports.

Conflicts of Interest

Conflicts of interest procedures are incorporated in the Board of Management's Rules of Procedure and address the principle and the best practice provisions of the Code with respect to conflicts of interest. A member of the Board of Management shall, among other things, have a conflict of interest if he has a material amount of securities in industry related companies, or in companies with which ASML has entered or intends to enter into a business relationship. The member concerned shall immediately report any potential conflict of interests to the Chairman of the Supervisory Board and to the other members of the Board of

Management. During the year 2009, no transactions occurred that could have given the appearance of conflicts of interests or that effectively involved conflicts of interests. In addition, during 2009 no transactions of material significance were entered into between ASML and a shareholder holding at least 10 percent of the shares in the Company in ASML's capital. Besides potential transactions that could cause conflict of interest situations, the Board of Management, together with the Chairman of the Supervisory Board, also carefully considers potential conflicts of interest situations in view of other positions or functions of Board of Management members.

III. Supervisory Board

Role and Procedure

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

In fulfilling its role and responsibilities, the Supervisory Board takes into consideration the interests of ASML and its subsidiaries, as well as the relevant interests of ASML's stakeholders. The Supervisory Board supervises and advises the Board of Management in performing its tasks, with a particular focus on:
- the achievement of ASML's objectives;
- ASML's corporate strategy and the management of risks inherent to ASML's business activities;
- the structure and operation of internal risk management and control systems;
- the financial reporting process;
- compliance with applicable legislation and regulations;
- relationship with shareholders; and
- the social responsibility aspects important for ASML.

In 2009, the Supervisory Board and its committees frequently discussed the Company's financial position, strategy, technology related matters, the economic situation, the operational business risks, the internal risk management and control systems, the composition of the Board of Management, and the revision of the Remuneration Policy. The topics discussed in the committee meetings are summarized in the plenary Supervisory Board meetings to provide each Supervisory Board member with sufficient information to understand ASML's current state of affairs and issues.

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.

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

The Rules of Procedure include the charters for the four committees of the Supervisory Board to which the Supervisory Board has assigned certain tasks: the Audit Committee, the Remuneration Committee, the Selection and Nomination Committee, and the Technology and Strategy Committee. In accordance with Dutch law, the plenary Supervisory Board remains responsible for the fulfillment of its role and responsibilities even if the Supervisory Board has delegated some of its responsibilities to one or more of its committees. The Rules of Procedure stipulate that the Supervisory Board – and its committees – may also obtain information from officers and external advisors of ASML, if necessary for the execution of the tasks assigned to the Supervisory Board (and 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 Supervisory Board's Rules of Procedure need to be approved by the full Supervisory Board; changes in the charters of the committees are approved by the committee concerned.

The Audit Committee charter is reviewed annually, to check whether the charter still complies with the applicable rules and regulations, especially those relating to the Sarbanes-Oxley Act.

Independence

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

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

Expertise, Composition, Appointment

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 current composition of ASML's Supervisory Board shows diversity with respect to background, nationality, age, gender and expertise. This is in accordance with the current profile the Supervisory Board has developed for its composition.

The Supervisory Board has decided to amend its profile this year to incorporate the Code's new recommendations with respect thereto. The main change in the Supervisory Board's new profile concerns diversity, especially regarding gender, age and nationality. In its profile, the Supervisory Board has indicated to strive for a presence of at least 30 percent of each gender in the Supervisory Board, and the profile also includes a revised (re)appointment term of Supervisory Board members who are seventy years or older. In general, the profile aims for an international and adequate composition reflecting the global business activities of ASML, as well as for an adequate level of experience in financial, economic, technological, social, and legal aspects of international business. In case the Supervisory Board wishes to nominate members for reappointment, the Selection and Nomination Committee checks whether the reappointments would fit in the Supervisory Board's profile. The amended profile will be discussed at the 2010 AGM and has been discussed with ASML's Works Council.

Pursuant to the law applicable to large corporations ("structuurregime"), members of the Supervisory Board are appointed by the General Meeting of Shareholders based on nominations proposed by the Supervisory Board. The Supervisory Board informs the General Meeting of Shareholders and the Works Council about upcoming resignations at the AGM in the year preceding the actual resignation(s) to ensure that the General Meeting of Shareholders and the Works Council have sufficient opportunity to recommend candidates for the upcoming vacancies. The Supervisory Board has the right to reject the proposed recommendations. Furthermore, the Works Council has an enhanced right to make recommendations for one-third of the members of the Supervisory Board. The enhanced recommendation right implies that the Supervisory Board may only reject the Works Council's recommendations for the following reasons: (i) if the relevant person is unsuitable or (ii) if the Supervisory Board would not be duly composed if the recommended person were appointed as Supervisory Board member. If no agreement on the recommended person(s) can be reached between the Supervisory Board and the Works Council, the Supervisory Board may request the Enterprise Chamber of the Amsterdam Court of Appeal to declare that the Supervisory Board's objection is legitimate. Any decision of the Enterprise Chamber on this matter is non-appealable.

The first Supervisory Board member nominated – and appointed – based on the Works Council's enhanced recommendation right was Ms. Ieke van den Burg, in 2005. In 2009, Ms. Van den Burg's reappointment was also based on this enhanced recommendation right. The second Supervisory Board member nominated – and appointed – in accordance with the enhanced recommendation right was Mr. Rolf Deusinger, in 2007. After Mr. Deusinger's resignation in June 2008, his successor, Ms. Van der Meer Mohr, was nominated – and appointed – per the Works Council's enhanced recommendation right in 2009.

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 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.

For newly appointed Supervisory Board members, the Company prepares an introduction program which contains, among other topics, an overview of ASML's history, organization, operations, strategy, industry and technology, ASML's financial and legal affairs, and ASML's human resources. Separately, Supervisory Board members also receive a technical tutorial to maintain and increase their knowledge of ASML's ever progressing technology. In addition, specific training is provided for new committee members based on individual needs. Annually, the Supervisory Board members determine their need for further training on specific topics.

Supervisory Board members serve for a maximum term of four years from the date of their appointment, or a shorter period as may be set forth in the rotation schedule adopted by the Supervisory Board. Members may be reappointed, provided that their entire term of office does not exceed 12 years. The rotation schedule is available in the Corporate Governance section on ASML's 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 lack of confidence. In such case, the Enterprise Chamber of the Amsterdam Court of Appeal shall appoint one or more Supervisory Board members at the request of the Board of Management.

Currently, none of the Supervisory Board members exceeds the maximum number of five memberships of supervisory boards of Dutch listed companies (with a chairmanship counting double).

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

Mr. Van der Poel is the Chairman of ASML's Supervisory Board; Mr. Fröhlich was appointed Vice-Chairman. The role and responsibilities of the Chairman of the Supervisory Board are described in its Rules of Procedure. The Chairman determines the agenda of the Supervisory Board meetings, he 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 among others also ensure that:

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

The company secretary, Mr. Robert F. Roelofs, assists the Supervisory Board in the performance of its duties. The company secretary ensures that the correct procedures are followed and that the Supervisory Board acts in accordance with its legal and statutory obligations. The company secretary assists the Chairman of the Supervisory Board in the organization of the affairs of the Supervisory Board and its committees. The company secretary is appointed by and may also be dismissed by the Board of Management after prior approval from the Supervisory Board. The company secretary is assisted by a deputy company secretary, Ms. Christel G.C.M. Keizer.

Composition and Role of the four Committees of the Supervisory Board

Although the Supervisory Board retains ultimate responsibility, the Supervisory Board has delegated certain of its tasks to the following four committees: the Audit Committee, the Remuneration Committee, the Selection and Nomination Committee, and the Technology and Strategy Committee. Their roles and functions are described in separate chapters in the Supervisory Board's Rules of Procedure. The Report of the Supervisory Board describes the composition of the committees, the number of meetings, and items discussed in those meetings.

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

Annually, the Supervisory Board as well as each committee performs a self-evaluation to assess the functioning of the Supervisory Board, the committees and its individual members. A summary of the observations and conclusions is included in the Supervisory Board report.

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 2009, the Audit Committee met five times and held five conference calls to discuss, among other topics, the quarterly results and the press releases. In the first quarter, the Audit Committee focused on the annual results, the audit over the financial year 2008 and ASML's financial policy especially in view of the intended dividend payment over the financial year 2008 and the worsening of the macro-economic situation at that time. Throughout the year, the Audit Committee discussed ASML's financial position and financing strategy, also in view of the global financial market crisis and economic downturn. Furthermore, frequent topics were ASML's internal controls and risk management systems, the testing of internal controls over financial reporting in light of Section 404 of the Sarbanes-Oxley Act, and the supervision of the enforcement of the relevant legislation and regulations. For more details about the internal risk management and control systems, reference is also made to the relevant paragraphs and chapters in the 2009 Annual Reports.

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

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

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

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

Remuneration Committee

In general, the Remuneration Committee prepares and the Supervisory Board establishes ASML's Remuneration Policy for members of the Board of Management, and oversees the development and implementation of the Remuneration Policy. The Remuneration Policy is revised regularly (typically every two years) to keep up with market developments. In cooperation with the Audit Committee and the Technology and Strategy Committee, 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. Also in cooperation with the Audit Committee and the Technology and Strategy Committee, the Remuneration Committee further evaluates the performance of members of the Board of Management in view of those goals and objectives, and recommends to the Supervisory Board appropriate compensation levels for the Board of Management based on this evaluation.

In 2009, the Remuneration Committee met six times formally and several times on an ad-hoc basis to discuss, besides the regular topics such as the targets and remuneration package for the Board of Management, the stock option plans and the Remuneration report, especially the proposed revision of the 2008 Remuneration Policy. Independent experts, in the field of remuneration for members of Boards of Management in Dutch listed companies, assisted the Remuneration Committee in the above activities. These experts do not provide remuneration advice to the Board of Management.

Generally, the CEO and CFO attend the Remuneration Committee meetings upon invitation of the Committee, but the Remuneration Committee also frequently meets without Board of Management members present.

Based on the 2008 Remuneration Policy, the Remuneration Committee proposed the remuneration packages for the individual Board of Management members for the year 2009.

The Remuneration Committee prepared the 2009 Remuneration Report. This report contains a section describing the manner in which the 2008 Remuneration Policy was implemented and executed in 2009.

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

Selection and Nomination Committee

The Selection and Nomination Committee, chaired by Mr. Westerburgen, meets at least twice a year, and more frequently when deemed necessary. In 2009, the Committee conducted three scheduled meetings, but most meetings took place on an ad-hoc basis. The main topic of those meetings was the selection of a fifth Board of Management member.

The Selection and Nomination Committee also 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.

Depending on the topics to be discussed, the Selection and Nomination Committee generally invites the CEO and CFO to its meetings, but also frequently meets without these Board of Management members present.

In view of the continuously increasing importance of corporate governance, it has been decided that from this year on, the responsibilities of the Selection and Nomination Committee will be expanded to include monitoring of corporate governance developments, and inherent thereto, also advising the Supervisory Board and the Company on this topic.

Related to its composition, the Supervisory Board has announced that no Supervisory Board members will retire by rotation per the AGM to be held on March 24, 2010.

Technology and Strategy Committee

The Technology and Strategy Committee, chaired by Mr. Siegle, meets at least twice a year, and more frequently when deemed necessary. As in previous years, the Technology & Strategy Committee also met three times in 2009. These meetings last in general a full day. The Technology and Strategy Committee provides advice to the Supervisory Board with respect to ASML's technological strategies and ASML's technology and product roadmaps. External experts as well as experts from within ASML may, and frequently do, act as advisors to the Technology and Strategy Committee with respect to the subjects to be reviewed and discussed in this Committee. In 2009 three external advisors participated in committee meetings. The advisors do not have voting rights. External experts may include suppliers and R&D partners to increase the Committee's understanding of the technology and research necessary for the development of ASML's leading-edge systems.

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

The main subjects of the meetings of the Technology and Strategy Committee in 2009 were the Company's technology roadmap, including NXT (a platform for TWINSCAN immersion technology), Extreme Ultra Violet ("EUV") lithography, double patterning and holistic lithography (including, for example, Brion and metrology technologies).

The Committee also reviews the proposals for the Technology Leadership Index ("TLI"), being one of the performance targets for the Board of Management to provide the Remuneration Committee with its advice on this topic. And the Committee also provides its opinion to the Remuneration Committee with respect to the level of achievement of the TLI.

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. A Supervisory Board member shall, among other things, have a conflict of interest if he has a material amount of securities in industry-related companies, or in companies with which ASML has entered or intends to enter into a business relationship. The member concerned shall immediately report any potential conflicts of interest to the Chairman of the Supervisory Board and to the other members of the Supervisory Board. During the financial year 2009, no transactions occurred that could have given the appearance of conflicts of interest or that effectively involved conflicts of interest. Besides potential transactions that could cause conflicts of interest situations, the Supervisory Board also carefully considers potential conflicts of interest situations in view of other positions or functions of Supervisory Board members.

Remuneration of the Supervisory Board

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

The Supervisory Board members do not receive ASML shares, or rights to acquire ASML shares, as part of their remuneration. In case members acquire or have acquired ASML shares or rights to acquire ASML shares, these must be for the purpose of long-term investment only. No member of ASML's Supervisory Board currently owns ASML shares or rights to acquire ASML shares.

In concluding transactions in ASML shares, Supervisory Board members must comply with ASML's Insider Trading Rules. Detailed information on the Supervisory Board's remuneration can be found in the 2009 Annual Reports.

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

ASML has not granted any personal loans, guarantees, or the like to members of the Supervisory Board. ASML's Articles of Association provide for the indemnification of the members of the Supervisory Board against claims 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 for each member of the Supervisory Board.

IV. Shareholders and General Meeting of Shareholders

Powers

A General Meeting of Shareholders is held at least once a year and generally takes place in Veldhoven. In this meeting, the following items are always 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 material change in the corporate governance structure of ASML (if occurred); 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 statement of financial position 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 by shareholders, provided that they have submitted the proposals in accordance with the provisions of ASML's Articles of Association, are discussed and resolved upon. Shareholders are entitled to place agenda items on the AGM agenda at the latest sixty days before the AGM, and provided that they represent at least 1 percent of ASML's outstanding share capital or a value of at least Euro 50,000,000. About two weeks before the term of sixty days closes, ASML notifies its shareholders about the closing of the term on its website.

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

A simple majority is required for the authorization to issue shares; for the authorization to exclude the pre-emptive rights a simple majority is required in case at least fifty percent of ASML's issued share capital is present or represented at the AGM; otherwise a majority of two thirds of the votes cast is required. The Board of Management must obtain the approval of the Supervisory Board for the issuance of ASML shares as well as for excluding the pre-emptive rights.

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 a resolution of the General Meeting of Shareholders to issue shares and/ or to exclude the shareholders' pre-emptive rights and may thus hinder the financial flexibility of ASML.

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

In the previous three years, ASML requested shareholder approval for the proposal to repurchase and cancel three times 10 percent of the then issued share capital. In 2007, the intent of this proposal was to buy and cancel up to a total of approximately 27 percent of the then outstanding shares, in order to return excess cash to the shareholders and to mitigate dilution. However, because of the Dutch tax regulations applicable at the time, the execution of share buyback programs – when not used to cover for existing employee stock options – was not the most efficient method to return cash to shareholders. Therefore, a capital repayment combined with a reduction of ordinary shares outstanding by 11 percent (synthetic share buyback), was executed in the course of 2007. Notwithstanding the fact that the tax regulations have not changed drastically since the 2007 AGM, and the economic outlook is still not clear, ASML wants to request approval for this item again, to have optimal flexibility in order to be able to return capital to its shareholders if and when the timing is right.

Also in 2010, a resolution of the General Meeting of Shareholders will be asked for the distribution of dividend.

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

Logistics of the General Meeting of Shareholders

To facilitate the attendance of shareholders at ASML's General Meetings of Shareholders, ASML sets a record date. Shareholders registered at such date are entitled to attend the meeting and to exercise other shareholder rights during the meeting, notwithstanding the subsequent sale of their shares after the record date. ASML's practice is and will (as long as Dutch law does not prescribe otherwise) continue to set the convocation date at thirty days, and the record date at twenty-one days before the AGM. The custodians in the Netherlands will not apply blocking of the shares registered to attend the AGM, provided that a record date is set.

The Board of Management and Supervisory Board shall provide the shareholders with the facts and circumstances relevant to the proposed resolutions, through an explanation to the agenda, as well as through other documents necessary and/or helpful for this purpose. All documents relevant to the General Meeting of Shareholders, including the agenda with explanations, shall be posted in the Investor Relations and Corporate Governance sections on ASML's website. The agenda clearly indicates which agenda items are voting items, and which items are for discussion only.

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 shareholder participation without having to attend in person. Shareholders who voted through internet proxy voting are required, however, to appoint a proxy to officially represent them at the General Meeting of Shareholders in person. ASML also provides the possibility for shareholders to issue voting proxies or voting instructions to an independent third party (public notary) prior to the AGM.

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

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

There are no depositary receipts for shares in the Company's capital issued with the cooperation of ASML.

Information to the Shareholders

To ensure fair disclosure, ASML distributes Company information that may influence the share price to shareholders and other parties in the financial markets simultaneously and through means that are public to all interested parties. In case of bilateral contacts with shareholders, ASML follows the procedure related thereto as published on ASML's website.

When ASML's annual and quarterly results are published by means of a press release, interested parties, including shareholders, can participate through conference calls, listen to a webcast and view the presentation of the results on ASML's website. The schedule for communicating the annual financial results is in general published through a press release and is posted on ASML's website. In addition, ASML provides information to its shareholders at ASML's AGM. Also ASML publishes a Sustainability Report on its website every year, reporting on Environmental, Health, Social and Safety performance.

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

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

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

ASML's only anti-takeover device is the Preference Shares Foundation. The mechanisms of this Foundation are described in more detail in the next chapter on Required information Article 10 Takeover Directive and the 2009 Annual Reports.

Relationship with Institutional Investors

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

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 Dutch law and regulatory requirements.

The Audit Committee reviews and approves the external auditor's Audit Plan for the audits planned during the financial year. The Audit Plan also includes the activities of the external auditor with respect to their reviews of the quarterly results other than the annual accounts. These reviews are based on agreed upon procedures and are approved by the Audit Committee. The external auditor regularly updates the Audit Committee on the progress of the audits and other activities.

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

In accordance with Dutch 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.

Every four years, an extensive evaluation of the external auditor's performance is conducted by the Audit Committee and the Board of Management. The last time this evaluation was done, was in 2008, the results of which were presented in the 2008 AGM. The next formal evaluation is planned for the first quarter in 2012, after the 2011 results.

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

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

Annually, the Board of Management and the Audit Committee provide the Supervisory Board with a report on the relationship with the external auditor, including the required auditor independence. To determine the External Auditor's independence, the relationship between the audit services and the non-audit services provided by the external auditor is important, as well as the rotation of the responsible lead audit partner every five years. Non-audit services (including tax fees and non audit-related fees) performed by the external auditor comprised 36 percent of the external auditor's services in 2009. Based on the proportion audit fees versus non-audit related fees, it was concluded – and confirmed by the external auditor – that the external auditor acts independently.

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.

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. In principle the external auditor attends all meetings of the Audit Committee, unless this is deemed not necessary by the Audit Committee. The findings of the external auditor are discussed at these meetings.

The Audit Committee reports on all issues discussed with the external auditor to the Supervisory Board, including the external auditor's report with regard to the audit of the annual accounts as well as the content of the annual accounts. In the audit report, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters requiring communication under the auditing standards generally accepted in the Netherlands and in the United States.

Internal Audit Function

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

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 Dutch law by means of a decree of April 5, 2006. Pursuant to this decree, Dutch 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 26, 2009, 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 26, 2010, representing up to a maximum of 5 percent of our issued share capital as of the date of authorization (March 26, 2009), plus an additional 5 percent of our issued share capital as of the date of authorization (March 26, 2009) that may be issued in connection with mergers and acquisitions. As the authorization will expire on September 26, 2010, ASML's shareholders will be asked at the 2010 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 24, 2010 through September 24, 2011. As a result thereof the previous authorization will cease to apply.

Holders of ASML's 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. Holders of ASML's ordinary shares 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 2009 Annual General Meeting of Shareholders, the shareholders granted this authority through September 26, 2010. As the authorization will expire on September 26, 2010, ASML's shareholders will be asked at the 2010 Annual General Meeting of Shareholders to continue this authorization of the Board of Management for a period of 18 months from March 24, 2010 through September 24, 2011. As a result thereof the previous authorization will cease to apply. In a separate agenda item, the shareholders will be asked to grant authority to the Board of Management to issue shares or options under the employee and Board of Management equity based arrangements. These authorizations will each be granted for a period of 18 months.

The Company may repurchase its issued ordinary shares at any time, subject to compliance with the requirements of Dutch law and our Articles of Association. Although Dutch law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, our current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such repurchases 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 ASML's Annual General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through September 26, 2010 up to a maximum of approximately 27 percent of our issued share capital (three (3) times 10 percent) as of the date of authorization (March 26, 2009) at a price between the nominal value of the ordinary shares purchased and 110 percent of the market price of these securities on Euronext Amsterdam or NASDAQ. At our Annual General Meeting of Shareholders to be held on March 24, 2010, ASML's shareholders will be asked to extend this authority through September 24, 2011.

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

Cumulative preference shares

In 1998, the Company granted to the foundation, "Stichting Preferente Aandelen ASML" (the "Foundation") an option to acquire cumulative preference shares in the capital of the Company (the "Preference Share Option"). This option was amended and extended in 2003 and 2007. A third amendment to the option agreement between the Foundation and ASML has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares, when issued.

The Foundation may exercise the Preference Share Option in situations where, in the opinion of the Board of Directors of the Foundation, the interests of the Company, its business or the interests of its stakeholders are at stake. This may be the case if a public bid for the ordinary shares of the Company has been announced or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the Company. The same may apply if one shareholder, or more shareholders acting in concert, hold a substantial percentage of the issued ordinary shares of the Company without making an offer or if, in the opinion of the Board of Directors of the Foundation, the (attempted) exercise of the voting rights by one shareholder or more shareholders, acting in concert, is materially in conflict with the interests of the Company, its business or its stakeholders.

In such cases the Supervisory Board and the Board of Management, in accordance with their statutory responsibilities, will evaluate all available options with a view to serving the best interest of the Company, its shareholders and other stakeholders. In general the Supervisory Board and the Board of Management reserve the right to use all powers available to them in the interest of the Company.

The objects of the Foundation are to look after the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated in a group with ASML, in such way that the interests of ASML, of those enterprises and of all parties concerned are safeguarded in the best possible way, and influences in conflict with these interests which might affect the independence or the identity of ASML and those companies are deterred to the best of the Foundation's ability, and everything related to the above or possibly conducive thereto. The Foundation seeks to realize its objects by the acquiring and holding of cumulative preference shares in the capital of ASML and by exercising the rights attached to these shares, particularly the voting rights attached to these shares.

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. Exercise of the Preference Share Option could effectively dilute the voting power of the ordinary shares then outstanding by one-half. Only one-fourth of the subscription price is payable at the time of initial issuance of the cumulative preference shares.

Cancellation and repayment of the issued cumulative preference shares by the Company requires the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management, which proposal needs prior approval by the Supervisory Board. If the Preference Share Option is exercised and as a result cumulative preference shares are issued, the Company, at the request of the Foundation, will initiate the repurchase or cancellation of all cumulative preference shares held by the Foundation as a result of such issuance with repayment of the amount paid and exemption from the obligation to pay up on the cumulative preference shares. In that case the Company is obliged to effect the repurchase and cancellation respectively as soon as possible.

If the Foundation will not request the Company to repurchase or cancel all cumulative preference shares held by the Foundation within 20 months after issuance of these shares, the Company will be obliged to convene a General Meeting of Shareholders in order to decide on a repurchase or cancellation of these shares.

The Foundation is independent of the Company. The Board of Directors of the Foundation comprises four independent voting members from the Netherlands' business and academic communities: Mr. R.E. Selman, Mr. M.W. den Boogert, Mr. J.M. de Jong and Mr. A. Baan.

Limitations to transfers of shares in the share capital of ASML

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

Reporting obligations under the Act on the supervision of financial markets ("Wet op het financieel toezicht", the "Wft")

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

The disclosure obligations under the Wft apply to any person or entity that acquires, holds or disposes of an interest in the voting rights and/or the capital of a public limited company incorporated under Dutch law whose shares are admitted to trading on a regulated market within the European Union (the "EU"). Disclosure is required when the percentage of voting rights or capital interest of a person or an entity reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 or 95 percent (as a result of an acquisition or disposal by such person, or as a result of a change in our total number of voting rights or capital issued). 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.

It is expected that in the course of 2010 a legislative proposal will be adopted pursuant to which the 5 percent threshold will be replaced by a 3 percent threshold. Under the same proposal each holder of a 3 percent interest would need to declare, in a filing to be publicly made with the AFM, whether it has any objections to our strategy as publicly submitted to the AFM. The proposal would also introduce a mechanism pursuant to which ASML would be able to identify, and communicate with, beneficial holders of its shares through the respective custodians.

According to AFM's public registry (www.afm.nl/registers) on December 31, 2009, the following notifications of voting rights or capital interest above 5 percent have been made pursuant to the Wft:
Stichting Preferente Aandelen ASML (100 percent option rights).

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

Limitation voting rights on shares
There are currently no limitations, either under Dutch law 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 of Shareholders 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 of Shareholders 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 of Shareholders.

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
Because their appointment to the Board of Management took place before March 31, 2004, the employment agreements with Messrs. Wennink and Van den Brink do not contain specific provisions regarding benefits upon termination of those agreements. Potential severance payments will be according to applicable law.

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

Board of Management members appointed after March 31, 2004 shall also be entitled to the aforementioned severance payments in the event ASML or its legal successor gives notice of termination in connection with a Change of Control (as defined in the employment agreement) or if such Board of Management member gives notice of termination directly related to such Change of Control, and such notice is given within twelve months from the date on which the Change of Control occurs.

VII. Deviations from the Code

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

II.2.1/II.2.2

The scenario analyses to be performed as per mentioned provisions, will be done in the course of 2010.

II.2.5

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 arrangements for the Board of Management on March 23, 2006 and April 3, 2008, respectively.

II.2.8

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

II.2.9

ASML has not granted any personal loans, guarantees, or the like to members of the Board of Management. However, stock option plans that were issued before 2001 were constructed with a virtual financing arrangement in compliance with the applicable laws and after obtaining the necessary corporate approvals, whereby ASML loaned the tax value of the options granted to employees and members of the Board of Management (being Messrs. Van den Brink and Wennink) subject to the Dutch 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 at the time, including the loans, as these were part of the Stock Option Plan.

II.2.10/II.2.11

Although the Supervisory Board of ASML – per the recommendation of its Remuneration Committee – has decided to implement the Ultimum Remedium and Claw Back provisions in the contractual relationship between the individual members of the Board of management and ASML, the Supervisory Board anticipates that, given the legal implications and the need for a diligent process, the actual implementation of these provisions will be finalized in the course of 2010. In so far that actual implementation has not yet happened, the Company deviates from these provisions of the Code.

The Board of Management and the Supervisory Board,
Veldhoven, February 16, 2010

Management Board Report

About ASML

ASML is one of the world's leading providers of lithography equipment that is critical to the production of ICs or chips. ASML's market share based on revenue was approximately 68 percent in 2009 (2008: 65 percent). This is according to the latest available data up to and including November 2009 as reported by SEMI, an independent semiconductor industry organization. Headquartered in Veldhoven, the Netherlands, ASML operates globally, with activities in Europe, the United States and Asia. As of December 31, 2009 we employed approximately 6,500 payroll employees (2008: 6,900) and approximately 1,100 temporary employees (2008: 1,300), measured in full-time employees ("FTEs"). ASML operated in 15 countries through over 60 sales and service locations.

In 2009, we generated net sales of EUR 1,596 million and operating loss of EUR 78 million or 4.9 percent of net sales. Net loss in 2009 amounted to EUR 81 million or 5.1 percent of net sales, representing EUR 0.19 net loss per ordinary share.

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

Risk Factors

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks relate to our operational processes, while others relate to our business environment. It is important to understand the nature of these risks and the impact they may have on our business, financial condition and results of operations. Some of the more relevant risks are described below. These risks are not the only ones that ASML faces. Some risks may not yet be known to ASML and certain risks that ASML does not currently believe to be material could become material in the future.

Summary

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

Risks Related to the Semiconductor Industry
- The Semiconductor Industry is Highly Cyclical and We May Be Adversely Affected by Any Downturn
- Our Business Will Suffer If We Do Not Respond Rapidly to Commercial and Technological Changes in the Semiconductor Industry
- We Face Intense Competition

Governmental, Legal and Compliance Risks
- Failure to Adequately Protect the Intellectual Property Rights Upon Which We Depend Could Harm Our Business
- Defending Against Intellectual Property Claims Brought by Others Could Harm Our Business
- We Are Subject to Risks in Our International Operations
- Because of Labor Laws and Practices, Any Workforce Reductions That We May Seek to Implement in Order to Reduce Costs Company-Wide May Be Delayed or Suspended

Operational Risks
- The Number of Systems We Can Produce Is Limited by Our Dependence on a Limited Number of Suppliers of Key Components
- The Pace of Introduction of Our New Products Is Accelerating and Is Accompanied by Potential Design and Production Delays and by Significant Costs
- We Are Dependent on the Continued Operation of a Limited Number of Manufacturing Facilities
- We May Be Unable to Make Desirable Acquisitions or to Integrate Successfully 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

Financial Risks
- A High Percentage of Net Sales Is Derived from a Few Customers
- Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations

Risks Related to Our Ordinary Shares

- The Price of Our Ordinary Shares is Volatile
- Restrictions on Shareholder Rights May Dilute Voting Power

Strategic Risks

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 (70 units in 2009 and 151 units in 2008), with an average selling price ("ASP") in 2009 of EUR 16.8 million (EUR 21.1 million for new systems and EUR 7.9 million for used systems) and an ASP in 2008 of EUR 16.7 million (EUR 20.4 million for new systems and EUR 4.8 million for used systems). As a result, the timing of recognition of revenue from a small number of product sales may have a significant impact on our net sales and operating results for a particular reporting period. Specifically, the failure to receive anticipated orders, or delays in shipments near the end of a particular reporting period, due, for example, to:

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

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

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

Risks Related to the Semiconductor Industry

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

As a supplier to the global semiconductor industry, we are subject to the industry's business cycles, the timing, duration and volatility of which are difficult to predict. The semiconductor industry has historically been cyclical. Sales of our lithography 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;
- changes in semiconductor inventory levels;
- general economic conditions; and
- access to capital.

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

In an industry downturn, our ability to maintain profitability will depend substantially on whether we are able to lower our costs and break-even level, which is the level of sales that we must reach in a year to achieve net income. If sales levels decrease significantly as a result of an industry downturn and we are unable to adjust our costs over the same period, our net income may decline significantly or we may suffer losses. As we need to keep certain levels of inventory on hand to meet anticipated product demand, we may also incur increased costs related to inventory obsolescence in an industry downturn. In addition, industry downturns generally result in overcapacity, resulting in downward pressure on prices and impairment of machinery and equipment, which in the past has had, and in the future could have, a material adverse effect on our business, financial condition and results of operations.

The current financial crisis affecting the banking system and global financial markets is in many respects unprecedented in the history of our Company. The continued concern over the instability of the financial markets and the global economic downturn could result in a number of follow-on effects on our business, including: declining business and consumer confidence resulting in reduced, delayed or shorter-term capital expenditures for our products; insolvency of key suppliers resulting in product delays; the inability of customers to obtain credit to finance purchases of our products, delayed payments from our customers and/or customer insolvencies; and other adverse effects that we cannot currently anticipate. If global economic and market conditions remain uncertain or deteriorate further, we are likely to experience continuing material adverse impacts on our business, financial condition and results of operations.

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

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 ("R&D") 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 production facilities and upgrades of existing facilities, which would have a material adverse effect on our business, financial condition and results of operations.

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

The success of EUV will be particularly dependent on light source (laser) availability and continuing technical advances as well as infrastructure developments in masks and resists, without which the tools cannot achieve the productivity and yield that are required to justify their capability economically.

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 lithography system;
- the value of ownership of that system based on its purchase price, maintenance costs, productivity and customer service and support;
- a strengthening of the euro particularly against the Japanese yen which results in lower prices and margins;
- the strength and breadth of our portfolio of patents and other intellectual property rights; and
- our customers' desire to obtain lithography equipment from more than one supplier.

Our competitiveness increasingly depends upon our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis, as well as our ability to protect and defend our intellectual property rights.

ASML's primary competitors are Nikon Corporation ("Nikon") and Canon Kabushika Kaisha ("Canon"). 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 lithography systems. In addition, adverse market conditions, industry overcapacity or a further decrease in the value of the Japanese yen in relation to the euro or the U.S. dollar could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations.

Governmental, Legal and Compliance Risks

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

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

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

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

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

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

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

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

We Are Subject to Risks in Our International Operations

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

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

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

In particular, approximately 28 percent of our 2009 revenues and approximately 12 percent of our 2008 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.

Because of Labor Laws and Practices, Any Workforce Reductions That We May Seek 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.

Operational Risks

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

In addition to Zeiss’ current position as our single supplier of lenses, the excimer laser illumination systems that provide the ultraviolet light source, referred to as “deep UV”, used in our high resolution steppers and Step & Scan systems, and the extreme ultraviolet light source, referred to as EUV, used in our next generation EUV systems, are available from only a very limited number of suppliers.

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.

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

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

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

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 cleanroom facilities located in Veldhoven, the Netherlands, in Wilton, Connecticut, the United States and in Linkou, Taiwan. 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.

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 depend 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.

Financial Risks

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. We expect customer concentration to increase because of continuing consolidation in the semiconductor manufacturing industry. Consequently, 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 2009, sales to our largest customer accounted for EUR 349 million, or 21.9 percent of net sales, compared to EUR 754 million, or 25.5 percent of net sales, in 2008. 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 (based on net sales) accounted for 44.0 percent of accounts receivable at December 31, 2009, compared to 42.2 percent at December 31, 2008. 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.

Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations

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

In addition, a substantial portion of our assets and liabilities and operating results are denominated in U.S. dollars, and a small portion of our assets, liabilities and operating results are denominated in currencies other than the euro and the U.S. dollar. Our consolidated financial statements are expressed in euro. Accordingly, our results of operations and assets and liabilities are exposed to fluctuations in various exchange rates. In general, our customers run their businesses in U.S. dollars, and therefore a further weakening of the U.S. dollar against the euro might impact the ability of our customers to purchase our products.

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

Risks Related to Our Ordinary Shares

The Price of Our Ordinary Shares is Volatile

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

Restrictions on Shareholder Rights May Dilute Voting Power

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

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

Financial risk management

ASML is exposed to a variety of financial risks: market risks (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance. See Note 5 of the consolidated financial statements for further information.

Semiconductor Equipment Industry

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

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

The costs to develop new lithography equipment are high. Accordingly, the lithography equipment industry is characterized by the presence of only a few primary suppliers: ASML, Nikon and Canon. ASML is one of the world’s leading providers of lithography equipment with a market share based on revenue of approximately 68 percent in 2009 (2008: 65 percent). This is according to the latest available data up to and including November 2009 as reported by SEMI, an independent semiconductor industry organization.

Total lithography equipment shipped by the industry as a whole in the five years ended December 31, 2008 is set out in the following table:

Year ended December 31	2004	2005	2006	2007	2008
Total units shipped	694	536	633	604	344
Total value (in millions USD)	5,268	4,988	6,386	7,144	5,388

(Source: Gartner Dataquest)

For the year 2009, the latest indications of independent market analysts show a drop in total lithography equipment shipped to the market by the industry of 61 percent in unit volume and 49 percent in value. The year 2009 was characterized by the financial and economic crisis which has led to lower overall semiconductor end-demand. Against this background, in the first half of 2009, our customers implemented inventory corrections, production capacity adjustments and experienced a lack of capital. In the second half of 2009, non-leading-edge production capacity additions were still delayed. However, demand increased compared to the first half of 2009 as our customers invested in leading-edge immersion technology, with DRAM customers introducing new memory devices and Foundry customers beginning to ramp up 40 nm products.

Business strategy

The long-term growth of the semiconductor industry is the result of the principle that the power, cost and time required for every computation on a digital electronic device can be reduced by shrinking the size of transistors on chips. Today’s transistors are around 250 times smaller than they were in the early 1970s. Using advanced semiconductors in industrial and consumer products often provides economic benefits, user-friendliness and increased safety. The technology revolution powered by semiconductors has brought many advantages: not only can information be more widely disseminated than ever before, affordable chip intelligence has also enabled industry and services sectors to create and distribute products and ideas at lightning speed.

Smarter, smaller and more energy-efficient chips are made with more sophisticated lithography systems like the ones produced by ASML. Lithography systems are crucial to the roadmaps of chipmakers to smaller transistors on chips. ASML's business strategy is based on achieving and further developing a position as a technology leader in semiconductor lithography. When executed, this strategy results in the delivery of lithography systems which enable customers to produce highest performance and lowest cost chips. The superior value of ownership offered to customers as a result of ASML's strategy also maximizes ASML's own financial performance, aligning the interests of ASML and our customers. We implement our strategy through customer focus, strategic investment in R&D, and operational excellence.

Customer focus

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

Through 2009, 18 of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. We also have a significant share of customers outside the top 20 and we strive for continued business growth with all customers.

In 2009, we achieved a top three position in customer satisfaction rankings amongst large suppliers of semiconductor equipment, according to VLSI Research, an independent industry research firm that surveyed customers representing 95 percent of the world's total semiconductor market. Our satisfaction ratings by customers surpassed every lithography competitor for the seventh year in a row.

Strategic investment in research and development

Our customer-base relies on ASML to deliver the right technology at the right time to meet long-term roadmaps which often extend many years into the future. In order to meet these demands, ASML is committed to significant long-term investments into R&D that are not significantly impacted by short-term cyclical swings. In 2009, R&D expenses (which include R&D costs and additions to other intangible assets regarding development expenditures) amount to EUR 467 million (2008: 534 million).

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

We have focused our R&D investments on three core programs: immersion, double patterning and EUV.

Our innovative immersion lithography systems place a fluid between the wafer and a system's projection lens, to enhance focus and enable circuit line-width to shrink to even smaller dimensions than what is possible with "dry" lithography systems. ASML pioneered this "wet" technology and has experienced strong demand for immersion-based systems, driven initially by NAND Flash solid state memory chipmakers which have aggressive shrink roadmaps to reduce cost per memory function. Shrinking the feature sizes on chips by means of immersion systems has meanwhile been adopted by most of our customers in all other semiconductor market segments, including DRAM memory chip, as well as the Logic chip segment including the Foundry contract chip manufacturers.

With immersion becoming the cornerstone of the modern chip factory, we have developed different immersion systems for different needs. We have optimized our TWINSCAN XT immersion systems for cost-effective imaging down to 40 nm patterning, while we have simultaneously developed a new dual wafer stage system called TWINSCAN NXT with improved positioning ("overlay") and imaging. The NXT platform enables next generations of semiconductors through the so-called Double Patterning technique which requires two exposures per layer on a chip. Imaging patterns and lines between one another without creating contacts is very demanding on the exact placement of lines and patterns and this overlay requirement is uniquely served by our NXT planar wafer stage and breakthrough grid metrology. Our first TWINSCAN NXT system was shipped in the third quarter of 2009 and achieved overlay below the specification of 3 nm, which is only 12 silicon atoms across, or the length a human hair grows in just half a second.

We complement our scanner products with a rapidly expanding portfolio of software and metrology products to help our customers achieve better imaging at aggressive resolutions, offering significant revenue-generating and cost-saving opportunities to our customers. As customers optimize their scanner performance by taking into account the entire chip creation process, from design to volume manufacturing, we have called this approach "holistic lithography". During the chip design phase ASML's holistic lithography software uses actual scanner profiles and tuning capabilities to create a design with the maximum process window for a given node and application. During manufacturing, ASML's holistic lithography leverages unique metrology techniques and feedback loops to monitor overlay and Critical Dimension Uniformity (CDU) performance to continuously maintain the system centered in the process window. During 2009 we launched new products such as FlexRay™ programmable illumination, Source Mask Optimization (SMO) tools and BaseLiner™ scanner stability, while announcing deals for sales of these products with major chip manufacturers.

Also in 2009, we confirmed our roadmap for EUV lithography with the first shipment of our pre-production system (for which we have received five orders) scheduled for the second half of 2010. EUV derives its name from the light source it uses the wavelength of which is 15 times shorter than the Deep Ultraviolet ArF light source used in our most advanced immersion systems. Despite the financial and economic crisis, assembly of our first pre-production systems started in 2009 in the new EUV cleanroom facility at our headquarters in Veldhoven, which was opened on schedule in May 2009. The NXE (EUV) system, which will be built on an evolved TWINSCAN platform, will enable our customers to extend their roadmap with chip features down to 22 nm and smaller. Industry support for EUV was boosted by the publication of excellent imaging results from many customers who have been working on our Alpha Demo Tools located at two major industry R&D centres (IMEC in Leuven, Belgium and CNSE Albany NanoTech in New York State, U.S.). Also, there was considerable progress reported publicly in EUV infrastructure development, ranging from reticles and resists to source power improvements. We have published a roadmap to develop a range of EUV models, offering the greatest extendibility at the lowest cost of ownership for the future of lithography.

Operational excellence

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

Our business strategy includes outsourcing the majority of components and subassemblies that make up our products. We work in partnership with suppliers, collaborating on quality, logistics, technology and total cost. By operating our strategy of value sourcing, we strive to attain flexibility and cost efficiencies from our suppliers through mutual commitment and shared risk and reward. Value sourcing also allows the flexibility to adapt to the cyclicality of the world market for semiconductor lithography systems. As a result of an increase in the number of orders in the second half of 2009, our suppliers went from very low to very high levels of deliveries to ASML. Our supply-base has been able to handle the volatility well, as they have mirrored our flexible business model and have reduced their exposure to ASML compared with the previous economic downturn. ASML more than doubled the frequency of planning communication with its supply chain during the financial and economic crisis, in order to assist those suppliers and maintain their viability throughout the crisis. Our supply-base proved to be robust in coping with the volume swings.

ASML has a flexible labor model with a mix of fixed and flexible contracted labor in its manufacturing and R&D facilities located in Veldhoven. This reinforces our ability to adapt more quickly to semiconductor market cycles, including support for potential 24-hour, seven days-a-week production activities. By maximizing the flexibility of our high-tech workforce, we can shorten lead-times: a key driver of added value for customers. Flexibility also reduces our working capital requirements. The flexibility in our business model was used in response to the sharp downturn. We reduced our workforce by approximately 1,000 temporary employees, including 700 in Veldhoven. We rehired approximately 400 temporary employees in 2009.

In view of the economic volatility of the semiconductor industry, we continue to strive to improve efficiencies in our operations: addressing our cost structure and strengthening our capability to generate cash. We started cost reduction initiatives in the second quarter of 2008 and by the end of 2009 we had cut our costs by more than EUR 200 million per year, of which we expect approximately 75 percent is sustainable during an economic upturn up to a sales level of approximately EUR 800 million per quarter. If the sales level increases above EUR 800 million per quarter, cost levels are expected to increase. We maintained our high R&D investments for our strategic R&D projects as well as our machinery and equipment capacity at our productions facilities, which is expected to give us a strong position for the anticipated recovery in demand for our products.

Business Model

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

- offering ongoing improvements in productivity, imaging and overlay by introducing advanced technology based on modular platforms and advanced applications outside the traditional lithography business, each 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 R&D to offer the most advanced technology suitable for high-throughput and low-cost volume production at the earliest possible date;

- enhancing the capabilities of the installed base of our customers through ongoing field upgrades of key value drivers (productivity, imaging and overlay) based on further technology developments;
- reducing the cycle time between a customer's order of a system and the use of that system in volume production on-site;
- expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world class partners, including outsourcing companies;
- improving the reliability and uptime of our installed system base; and
- providing refurbishing 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 subassembly and testing of certain modules and the final assembly and fine tuning / testing of a finished system from components and modules that are manufactured to our specifications by third parties and by us. All of our manufacturing activities (subassembly, final assembly and system fine tuning / testing) are performed in cleanroom facilities located in Veldhoven, the Netherlands, in Wilton, Connecticut, the United States and in Linkou, Taiwan. We procure stepper and scanner system components and subassemblies from a single supplier or a limited group of suppliers in order to ensure overall quality and timeliness of delivery. We jointly operate a formal strategy with suppliers known as "value sourcing", which is based on competitive performance in quality, logistics, technology and total cost. The essence of value sourcing is to maintain a supply base that is world class, globally competitive and globally present.

Our value sourcing strategy is based on the following strategic principles:
- maintaining long-term relationships with our suppliers;
- sharing risks and rewards with our suppliers;
- dual sourcing of knowledge, globally, together with our suppliers; and
- single, dual or multiple sourcing of products, where possible or required.

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

Zeiss is our sole external supplier of main optical systems and one of the suppliers of other components. In 2009, approximately 24 percent of our aggregate cost of sales was purchased from Zeiss (2008: 31 percent)

Zeiss is highly dependent on its manufacturing and testing facilities in Oberkochen and Wetzlar, Germany, and its suppliers. Moreover, Zeiss has a finite 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 2009, our sales were not limited by the deliveries from Zeiss.

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

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

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

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

ASML operations update on key performance indicators

Significant Effects of the Financial and Economic Crisis on ASML

In the fourth quarter of 2008, the financial and economic crisis started to impact ASML severely and resulted in a sharp decrease in customer demand. As a result, and in anticipation of a continued decrease in customer demand in 2009, ASML started to reduce costs through a comprehensive company-wide efficiency program, without impacting key R&D projects and recognized impairment charges of EUR 20.8 million on property, plant and equipment, inventory obsolescence charges of EUR 94.6 million and restructuring costs of EUR 22.4 million in the fourth quarter of 2008.

The actions taken in 2008 resulted in cost savings of more than EUR 200 million in 2009 and approximately EUR 30 million in 2008. The cost savings in 2009 and 2008 mainly related to efficiency improvements in our operations and the use of our flexible business model, reducing the cost of temporary employees, consultancy and other out-of-pocket expenses.

In addition, cost savings in 2009 also included the effects of the Labor Time Reduction Program. From January 5, 2009 until June 21, 2009, ASML participated in the Labor Time Reduction Program, a Netherlands government program that helped companies to reduce working hours for employees without impacting their salaries. On average 1,033 employees participated in this program which reduced our operating loss by approximately EUR 6 million.

Finally, the cost savings in 2009 included the effects from the restructuring measures taken by ASML in the fourth quarter of 2008 which resulted in a decrease in employee expenses of a EUR 6.5 million and a decrease in rental expenses of EUR 2.7 million.

We expect approximately 75 percent of all these savings to be sustainable during an economic upturn up to a sales level of EUR 800 million per quarter. If the sales level increases above EUR 800 million, cost levels are expected to increase. The actual savings are in line with the savings that the Company anticipated at the end of 2008. These actions resulted in an approximately similar positive effect on cash flows from operating activities.

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)	**2008** EUR		**2009** **EUR**	
Sales				
Market share (based on revenue)[1]	65%		**68%**[1]	
Net sales	2,954		**1,596**	
Decrease in net sales	(21.6)%		**(46.0)%**	
Net system sales	2,517		**1,175**	
Sales of systems (in units)	151		**70**	
Average selling price of system sales	16.7		**16.8**	
Value of systems backlog	755		**1,853**	
Systems backlog (in units)	41		**69**	
Average selling price of systems backlog	18.4		**26.8**[2]	
Technical achievement:				
Immersion systems shipped (in units)	56		**36**	
Profitability				
Gross profit on sales	938	31.7%	**385**	**24.1%**
Operating income (loss)	370	12.5%	**(78)**	**(4.9)%**
Net income (loss)	377	12.8%	**(81)**	**(5.1)%**
Liquidity				
Cash and cash equivalents	1,109		**1,037**	
Operating cash flow	442		**269**	

1 According to the latest available data up to and including November 2009 as reported by SEMI, an independent semiconductor industry organization.
2 In 2009, the ASP of the systems backlog for new systems amounts to EUR 28.9 million, and the ASP of the systems backlog for used systems amounts to EUR 9.0 million.

Sales

Notwithstanding the depth of the financial and economic crisis in 2009, we expect our longer term sales level to grow based on industry analysts IC growth forecasts. Based on these forecasts, our general strategy is to seek to grow net sales to a

EUR 5 billion level. The timing of growth to such level depends on three growth drivers: market growth, market share growth and a broadening of our product and services scope.

In 2009, net sales decreased by 46.0 percent to EUR 1,596 million from EUR 2,954 million in 2008. The decrease in net sales was caused by the collapse in semiconductor equipment demand. In the first half of 2009, our customers implemented inventory corrections, production capacity adjustments and experienced a lack of capital. In the second half of 2009, non-leading-edge production capacity additions were still delayed. However, demand increased compared to the first half of 2009 as our customers invested in leading-edge immersion technology, with DRAM customers introducing new memory devices and Foundry customers beginning to ramp up 40 nm products.

The ASP of our systems increased by 0.6 percent to EUR 16.8 million in 2009 from EUR 16.7 million in 2008. This slight increase was mainly driven by an increased ASP of our leading-edge technology systems due to shipment of our new NXT: 1950i systems, partly offset by the increased number of used systems sold as a percentage of the total number of systems sold (2009: 33 percent; 2008: 24 percent) reflecting our customers' response to the financial and economic crisis.

As of December 31, 2009, our systems backlog was valued at EUR 1,853 million and included 69 systems with an ASP of EUR 26.8 million. As of December 31, 2008, the systems backlog was valued at EUR 755 million and included 41 systems with an ASP of EUR 18.4 million. The significantly increased value and number of systems backlog reflects the accelerated technology investments by our customers in the DRAM memory segments and technology and capacity investments by our customers in the Foundry segments after a period of very low capital investment. The increase in ASP of our systems in the systems backlog mainly results from a relatively low proportion of used systems compared to December 31, 2008 and a high number of new immersion systems.

During 2009, we shipped our first TWINSCAN NXT systems with improved overlay and imaging compared to the TWINSCAN XT immersion systems. The NXT platform enables next generations of semiconductors through the so-called Double Patterning technique which requires two exposures per layer on a chip. The systems were shipped on explicit request of our customers, although these TWINSCAN NXT systems did not meet all specifications. For the remaining performance obligations a portion of the sales price has been deferred. Management expects to resolve the remaining performance obligation in the course of 2010.

Profitability

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

Operating income decreased from EUR 370 million or 12.5 percent of net sales in 2008 to an operating loss of 78 million or 4.9 percent of net sales in 2009. This EUR 448 million decrease was substantially the result of a decrease in gross profit on sales of EUR 552.4 million or 58.9 percent which was partially offset by a decrease in operating expenses of EUR 104.0 million or 18.3 percent.

Gross profit on sales decreased from EUR 938 million or 31.7 percent of net sales in 2008 to 385 million or 24.1 percent of net sales in 2009. The lower gross profit was mainly attributable to a significant decrease in net sales as a result of the collapse of demand for semiconductor equipment caused by the financial and economic crisis. 2009 gross margin was favorably impacted by the absence of restructuring and impairment charges that were included in 2008 gross margin and the release of the provision for inventory obsolescence as a result of a subsequent increase in net realizable value. However, this was more than offset by the increased portion of used systems sold, with a lower margin, as a percentage of total systems sold in 2009 compared to 2008 and underutilization of our production facilities, mainly in the first half of 2009.

At the end of 2008, customers in the market segment for Logic technology underestimated the ramp-up of 45 nm technology used in, among others, advanced internet devices and smart phones, which unexpectedly increased demand for our non-leading-edge immersion systems in 2009 (mainly XT:1700i). As a result, the net realizable value of inventory previously written down increased which led to a release of the provision for inventory obsolescence of EUR 67 million.

Operating expenses showed a decrease of EUR 104 million in 2009 compared to 2008 due to a decrease of selling, general and administrative ("SG&A") costs by EUR 55 million, or 25.6 percent and a decrease of R&D costs net of credits by EUR 49 million, or 14.0 percent. The SG&A costs were reduced as part of our cost reduction program.

R&D efforts (which include R&D costs and additions to other intangible assets regarding development expenditures) decreased by EUR 67 million or 12.6 percent from EUR 534 million in 2008 (EUR 354 million R&D costs and EUR 180 million addition to other intangible assets regarding development expenditures) to EUR 467 million (EUR 305 million R&D costs and EUR 162 million addition to other intangible assets regarding development expenditures) in 2009. This decrease reflects the operational savings in

R&D, and is limited because we continued strategic investment in technology leadership in 2009 through investments in the development and enhancement of the next generation TWINSCAN™ systems based on immersion, double patterning and EUV.

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

Net loss in 2009 amounted to EUR 81 million or 5.1 percent of net sales, representing EUR 0.19 net loss per ordinary share compared with net income in 2008 of EUR 377 million or 12.8 percent of net sales, representing EUR 0.87 net income per ordinary share.

Liquidity

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

As of December 31, 2009 our cash and cash equivalents amounted to EUR 1.0 billion. Our cash and cash equivalents decreased from EUR 1,109 million as of December 31, 2008 to EUR 1,037 million as of December 31, 2009. We generated cash from operations of EUR 269 million in 2009, which was offset by a cash outflow of EUR 82 million from financing activities, mainly as a result of our 2009 dividend payment (EUR 86 million), and EUR 260 million cash used in investing activities mainly related to capitalization of development expenditures and the completion of the first part of the EUV and NXT production facilities in Veldhoven.

In addition to its existing EUR 500 million credit facility, the Company signed a EUR 200 million loan facility with the European Investment Bank in April 2009 to support the Company's EUV investment efforts. This loan can be drawn in tranches until October 2010. It is repayable in annual installments four years after drawdown, with a final repayment seven years after drawdown. No amounts were outstanding under the EUR 500 million credit facility and the EUR 200 million loan facility as of December 31, 2009.

ASML did not repurchase any shares in 2009. The cumulative amount returned to shareholders in the form of share buybacks and capital repayment between May 2006 and December 2009 was EUR 2,137 million. In April 2009, the Company paid a dividend of EUR 0.20 per ordinary share of EUR 0.09 or EUR 86 million in total.

A proposal will be submitted to the Annual General Meeting of Shareholders on March 24, 2010 to declare a dividend for 2009 of EUR 0.20 per ordinary share of EUR 0.09.

Results of Operations

Set forth below are our consolidated income statement data for the two years ended December 31, 2008 and 2009:

Year ended December 31 (in millions)	**2008** EUR	**2009** **EUR**
Total net sales	2,953.7	**1,596.1**
Cost of sales	2,016.1	**1,210.9**
Gross profit on sales	937.6	**385.2**
Research and development costs[1]	354.3	**304.8**
Selling, general and administrative costs	212.9	**158.4**
Operating income (loss)	370.4	**(78.0)**
Interest income (charges), net	18.0	**(5.9)**
Income (loss) before income taxes	388.4	**(83.9)**
Benefit from (provision for) income taxes	(11.5)	**2.5**
Net income (loss)	376.9	**(81.4)**

1 As of 2009, R&D credits are presented as part of R&D costs. The comparative figures for 2008 have been adjusted accordingly.

The following table shows a summary of sales (revenue and units sold), gross profit on sales and ASP data on an annual and semiannual basis for the years ended December 31, 2008 and 2009.

	2008			2009		
	First half year	Second half year	Full year	**First half year**	**Second half year**	**Full year**
Net sales (EUR million)	1,763	1,191	2,954	**460**	**1,136**	**1,596**
Net system sales (EUR million)	1,546	971	2,517	**284**	**891**	**1,175**
Net service and field option sales (EUR million)	217	220	437	**176**	**245**	**421**
Total sales of systems (in units)	89	62	151	**21**	**49**	**70**
Total sales of new systems (in units)	74	41	115	**11**	**36**	**47**
Total sales of used systems (in units)	15	21	36	**10**	**13**	**23**
Gross profit as a percentage of net sales	38.4	21.9	31.7	**3.3**	**32.6**	**24.1**
ASP of system sales (EUR million)	17.4	15.7	16.7	**13.5**	**18.2**	**16.8**
ASP of new system sales (EUR million)	20.0	21.2	20.4	**20.1**	**21.5**	**21.1**
ASP of used system sales (EUR million)	4.6	4.9	4.8	**6.3**	**9.1**	**7.9**

Consolidated sales and gross profit

Net sales decreased by EUR 1,358 million or 46.0 percent from EUR 2,954 million in 2008 to EUR 1,596 million in 2009. The decrease in net sales mainly relates to a decrease in net system sales of EUR 1,342 million or 53.3 percent from EUR 2,517 million in 2008 to EUR 1,175 million in 2009 mainly attributable to a lower number of systems shipped. Net service and field option sales decreased from EUR 437 million in 2008 to EUR 421 million in 2009.

The number of systems shipped decreased by 53.6 percent from 151 systems in 2008 to 70 systems in 2009. The year 2009 was characterized by the financial and economic crisis which has led to lower overall semiconductor end-demand. Against this background, in the first half of 2009, our customers implemented inventory corrections, production capacity adjustments and experienced a lack of capital. In the second half of 2009, non-leading-edge production capacity additions were still delayed. However, demand increased compared to the first half of 2009 as our customers invested in leading-edge immersion technology, with DRAM customers introducing new memory devices and Foundry customers beginning to ramp up 40 nm products.

The ASP of our systems increased by 0.6 percent to EUR 16.8 million in 2009 from EUR 16.7 million in 2008. This slight increase was mainly driven by an increased ASP of our leading-edge technology systems sold due to shipment of our new TWINSCAN NXT systems, partly offset by the increased number of used systems sold compared to total number of systems sold (2009: 33 percent; 2008: 24 percent) reflecting our customers' response to the financial and economic crisis.

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 2009 decreased to 23 from 36 in 2008. The ASP for used systems increased from EUR 4.8 million in 2008 to EUR 7.9 million in 2009, reflecting a further shift from our older PAS family to our newer TWINSCAN family.

Through 2009, 18 of the top 20 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. In 2009, sales to our largest customer accounted for EUR 349 million, or 21.9 percent of our net sales. In 2008, sales to our largest customer accounted for EUR 754 million, or 25.5 percent of our net sales.

Gross profit on sales decreased from EUR 938 million or 31.7 percent of net sales in 2008 to 385 million or 24.1 percent of net sales in 2009. The lower gross profit was mainly attributable to a significant decrease in net sales as a result of the collapse of demand for semiconductor equipment caused by the financial and economic crisis. 2009 gross margin was favorably impacted by the absence of restructuring and impairment charges that were included in 2008 gross margin and the release of the provision for obsolete inventories as a result of a subsequent increase in net realizable value. However, this was more than offset by the increased portion of used systems sold, with a lower margin, as a percentage of total systems sold in 2009 compared to 2008 and underutilization of our production facilities, mainly in the first half of 2009.

We started 2009 with a systems backlog of 41 systems. In 2009, we booked orders for 108 systems, received order cancellations or push-outs beyond 12 months for 10 systems and recognized sales for 70 systems. This resulted in a systems backlog of 69 systems as of December 31, 2009. The total value of our systems backlog as of December 31, 2009 amounted to EUR 1,853 million with an ASP of EUR 26.8 million, compared with a systems backlog of EUR 755 million with an ASP of EUR 18.4 million as of December 31, 2008.

The significantly increased value and number of systems backlog reflects the accelerated technology investments by our customers in the DRAM memory segments and technology and capacity investments by our customers in the Foundry segments after a period of very low capital investment. The increase in ASP of our systems in the systems backlog mainly results from a relatively low proportion of used systems compared to December 31, 2008 and a high number of new immersion systems included.

Research and development

R&D efforts (which include R&D costs and additions to other intangible assets regarding development expenditures) decreased by EUR 67 million or 12.6 percent from EUR 534 million in 2008 (EUR 354 million R&D costs and EUR 180 million addition to other intangible assets regarding development expenditures) to EUR 467 million (EUR 305 million R&D costs and EUR 162 million addition to other intangible assets regarding development expenditures) in 2009. This decrease reflects the operational savings in R&D, and is limited because we continued strategic investment in technology leadership in 2009 through investments in the development and enhancement of the next generation TWINSCAN™ systems based on immersion, double patterning and EUV.

Selling, general and administrative costs

Selling, general and administrative costs decreased by 25.6 percent from EUR 213 million in 2008 to EUR 158 million in 2009 as a result of our cost savings program.

Net interest income / charges

Net interest decreased from EUR 18 million income in 2008 to EUR 6 million charge in 2009. Our interest income relates to interest earned on our cash and cash equivalents. In 2009 interest income decreased as a result of a lower average cash balance and significant lower interest rates. Interest income was more than offset by net interest charge on our outstanding debt. While operating cash flows remained positive, the average cash balance decreased mainly as a result of the dividend paid in 2009 and cash used for capital expenditures.

Income taxes

Income taxes represented 3.0 percent of loss before taxes in 2009, compared to 2.9 percent of income before taxes in 2008. In 2008, ASML recognized tax income of approximately EUR 70 million or approximately 18 percent of income before income taxes attributable to three main items on which it reached agreement with the Netherlands tax authorities. These items were the treatment of taxable income related to ASML's patent portfolio (application of the "Royalty Box") in 2007, the valuation of intellectual property rights acquired in the past against historical exchange rates, and the treatment of taxable income related to a temporarily depreciated investment in ASML's United States subsidiary, all of which had a favorable impact on the effective tax rate for 2008. In 2009, ASML recognized tax expense of approximately EUR 40 million or approximately 48 percent of loss before income taxes attributable to the reversal of the 2007 Royalty Box benefit, which had an unfavorable impact on the effective tax rate for 2009. In 2009, based on a tax law change effective January 1, 2010, ASML decided to reverse the Royalty Box benefits of 2007 as management expects that a clean start of the Innovation Box (which under Netherlands law replaces the Royalty Box as of January 1, 2010) in 2010 and beyond will result in a higher cumulative benefit for ASML.

Liquidity

ASML's principal sources of liquidity consist of EUR 1,037 million of cash and cash equivalents as of December 31, 2009, EUR 700 million of available credit facilities as of December 31, 2009 and expected future cash-flows from operations.

The EUR 700 million of available credit facilities consist of two separate facilities: a EUR 500 million credit facility and a EUR 200 million loan facility. The EUR 500 million credit facility contains a restrictive covenant that the Company maintains a minimum financial condition ratio, calculated in accordance with a contractually agreed formula. ASML was in compliance with the covenant as of December 31, 2009 and December 31, 2008. The EUR 200 million loan facility is related to the Company's EUV investment efforts, and was entered into in 2009 with the European Investment Bank. This loan can be drawn in tranches until October 2010. It is repayable in annual installments four years after drawdown, with final repayment seven years after drawdown. This facility contains a covenant that restricts the maximum indebtedness. ASML was in compliance with the covenant as of December 31, 2009. ASML does not expect any difficulty in continuing to meet these covenant requirements.

In addition to cash and available credit facilities, from time to time we may raise additional capital in debt and equity markets. Our liquidity needs are affected by many factors, some of which are based on the normal ongoing operations of the business, and others that relate to the uncertainties of the global economy and the semiconductor industry. Although our cash requirements fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash balances, are sufficient to satisfy our requirements in the foreseeable future.

We expect that our capital expenditures (purchases of property, plant and equipment) in 2010 could be approximately EUR 100 million, in line with 2009 capital expenditures. Capital expenditures in 2010 will mainly consist of investments in capacity expansions. We expect to finance 2010 capital expenditures out of our cash flow from operations and available cash and cash equivalents.

As general strategy we seek to maintain our strategic target level of cash and cash equivalents between EUR 1.0 and 1.5 billion. To the extent that our cash and cash equivalents exceed this target and there are no investments opportunities that we wish to pursue, we will consider returning excess cash to our shareholders, through share buybacks, dividends or capital repayment.

We have repayment obligations in 2017, amounting to EUR 600 million, on our 5.75 percent senior notes due 2017. We currently intend to fund any future repayment obligations primarily with cash on hand and cash generated through operations. A description of our senior bond and lines of credit is provided in Note 19 to our consolidated financial statements.

Cash Flows from Operating Activities

ASML generated cash from operating activities of EUR 442 million and EUR 269 million in 2008 and 2009, respectively. The primary components of cash provided by operating activities in 2009 were cash inflows reflecting the net loss of EUR 81 million which was more than offset by non-cash expense items such as depreciation (EUR 238 million) and inventory obsolescence (EUR 19 million) and cash inflows as a result of changes in assets and liabilities (EUR 61 million). The changes in assets and liabilities mainly relate to higher income taxes payable of EUR 31 million, lower accounts receivable of EUR 98 million, higher accounts payable of EUR 10 million and higher accrued and other liabilities of EUR 49 million, which are partly offset by higher inventories of EUR 114 million.

Cash Flows from Investing Activities

ASML used EUR 439 million for investing activities in 2008 and EUR 260 million in 2009. The majority of the 2009 and 2008 expenditures were attributable to the capitalization of development expenditures and the finalization of the first part of the construction of the new production facilities in Veldhoven. Further, the 2008 expenditures also included the finalization of the construction of the ASML Center of Excellence (“ACE”).

Cash Flows from Financing Activities

Net cash used in financing activities was EUR 166 million in 2008 compared to EUR 82 million in 2009. In 2009 net cash used in financing activities mainly included EUR 86 million as a result of the dividend payment. In 2008, cash used by financing activities mainly included EUR 108 million for our dividend payment and EUR 88 million for share buyback programs.

2010 Perspectives

Despite the financial and economic crisis, which has led to lower overall semiconductor end-demand, 2009 ended with improved sales and strong bookings, as the semiconductor business recovers, driven by technology buys from the DRAM memory market segments and technology and capacity buys from major Foundry customers.

The following table sets forth our systems backlog as of December 31, 2008 and 2009.

Year ended December 31	2008	2009
New systems backlog (in units)	33	**62**
Used systems backlog (in units)	8	**7**
Total systems backlog (in units)	41	**69**
Value of new systems backlog (EUR million)	719	**1,790**
Value of used systems backlog (EUR million)	36	**63**
Total value of systems backlog (EUR million)	755	**1,853**
ASP of new systems backlog (EUR million)	21.8	**28.9**
ASP of used systems backlog (EUR million)	4.5	**9.0**
ASP of total systems backlog (EUR million)	18.4	**26.8**

Our systems 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 systems backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

The significant increase in the total value of the systems backlog reflects accelerated technology investments in the DRAM memory and Foundry segments after a nine month period ended June 28, 2009 of very low capital spending. This recovery mainly supports new IC product introductions instead of an overall significant wafer capacity increase. Of our backlog, 49 units are for new immersion systems, including 17 advanced NXT:1950i scanners.

We expect that shipments will continue to grow in the first half of 2010, with the first quarter somewhat restricted, due to long equipment industry production lead times and new product introduction challenges, followed by a much higher second quarter. ASML expects first quarter 2010 net sales of approximately EUR 700 million.

As a result of our continued investments in R&D, we have been able to ramp up our new mid- and top-range platforms, respectively the XT:1950Hi and the NXT:1950i scanners. In parallel, we are progressing with our next generation EUV technology, as system integration and source performance development confirms shipments of the first pre-production systems in the second half of 2010.

We ended a challenging year, having generated cash from operations, set up a more efficient cost structure and built a strong product portfolio.

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 29 to the Consolidated Financial Statements 2009.

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 and Note 29 to the Consolidated Financial Statements 2009.

Corporate Governance

ASML continuously monitors and assesses applicable Dutch, U.S., and other relevant corporate governance codes, rules, and regulations. ASML is subject to the Dutch Corporate Governance Code (the “Code”), as ASML is registered in the Netherlands and is listed on Euronext Amsterdam. For more details see corporate governance chapter included in this report on pages 14 to 32.

Managing Directors’ Statement

The Managing Directors’ Statement is included in this report on page 54.

Internal Control Statement

The Internal Control Statement is included in this report on page 55 and 56.

Sustainability Report 2009

Responsibility to execute ASML’s strategy in a Sustainable way

In our fifth sustainability report we provide information on our progress in Environmental, Health, Safety and Social areas. ASML retained its ISO 14001 certification in 2009. The full Sustainability Report 2009 will available on our website at www.asml.com by March 2010. Below is a summary of the main developments in Environmental, Health, Safety and Social areas.

Smarter, smaller and more energy-efficient chips are made with more sophisticated lithography machines like the ones produced by ASML. Lithography machines are key to chip makers’ roadmap to smaller transistors on chips. ASML’s business strategy is based on achieving and further developing a position as a technology leader in semiconductor lithography. This strategy results in the delivery of lithography systems which enable customers to produce highest performance and lowest cost semiconductors.

The superior value of ownership offered to customers as a result of ASML's strategy also maximizes ASML's own financial performance, aligning the interests of ASML and our customers. We implement our strategy through customer focus, strategic investment in research and development, and operational excellence.

By executing our strategy successfully for the past 25 years, ASML has enabled chip makers to double the computing power per chip, at equivalent power consumption for half the price and during every 1.5 to 2 years.

This makes the semiconductor industry a unique industry, because it is capable of continuing rapid improvements in performance and productivity, which are unmatched by any other industry. This progress is powered by better imaging capabilities from companies like ASML which enable chip makers project smaller structures on a silicon wafer, increasing the computing capacity per chip at roughly stable costs. Today, chip makers can image electronic circuits and features that are over 6,000 times smaller than they were in the early 1970s. This trend was first observed by Intel co-founder Gordon Moore in 1965 and has held true ever since. Moore's Law has resulted in our information society with fast wired and wireless communications which has improved work, trading and living conditions on all continents.

Moore's Law also has an impact on energy usage of chips. Smaller geometries allow for much lower electrical currents to operate the chip. High on the heels of Moore's Law follows the trend that the number of computations per unit of electricity doubles every 1.5 years. This has helped to contain the world's energy consumption despite the proliferation of affordable computing. With the advent of mobile computing chip developers are even more focused on energy-efficiency in order to reduce the drain on batteries while still being able to offer good performance. This is being achieved by a combination of transistor scaling, enabled by ASML machines, as well as innovative new chip designs.

Still, it is clear that the affordability of computing power is fuelling the usage. According to the U.S. Environmental Protection Agency (EPA), the energy consumption of data centers, for instance, has doubled in the past five years and is expected to nearly double again in the next five years. However, introduction of new chip technology brings two kinds of benefits: the first being that technology helps to execute existing tasks more efficiently. The second benefit is that every improvement in cost, size and energy efficiency of semiconductors opens new possibilities and markets to use advanced technology. In our Sustainability report we list a number of concrete examples. Whilst economic growth has become substantially less energy-intensive over the past decade, more benefits of technology substitution need to be realized in order to cut absolute energy usage, The Washington DC-based American Council for an Energy-Efficient Economy (ACEEE) has found in a study commissioned by the Semiconductor Industry Association that there is potential to reduce energy consumption from the reference scenario from the US Department of Energy.

ASML's contribution to this sustainability trend is to continue improving the imaging capabilities of our scanners every year, thereby offering radical energy performance improvements of semiconductors and through semiconductor technology.

Investing in innovation

Our rapid strides in technological advancement are the result of large investments in Research & Development (R&D). In order to meet expectations from our customers, ASML is committed to significant long-term investments into R&D that are not significantly impacted by short-term cyclical swings. In 2009, despite experiencing the impact of a severe global economic downturn caused by the global financial and economic crisis, these investments amounted to EUR 467 million versus EUR 534 million in 2008. This makes ASML the second biggest R&D investor in Europe per employee.

Our customers – 18 of the top 20 chip makers in the world was an ASML customer in 2009 – want us to deliver the right technology at the right time to meet long-term roadmaps which often extend many years into the future. ASML has the capacity to execute on its R&D commitment by targeting a cash buffer of at least EUR 1 billion to guarantee continued investments.

We currently focus our R&D investments on three core programs, centered around immersion, double patterning and EUV. To develop new products, ASML also works with universities and independent external research institutes which bring in specialist knowledge for specific projects. This cross-fertilization increases development speed and makes both ASML and its research partners stronger. For instance in EUV, research groups introduced knowledge about vacuum technology while ASML expanded vacuum technology applications.

A number of suppliers also carry out their own R&D. This leverages ASML's own R&D investments significantly. ASML targets to increase supplier R&D over the coming years, enabling even faster and efficient R&D. This means that ASML is at the heart of a cooperative knowledge network which improves competencies throughout the chain. Our collaborative approach to business is also reflected in the way we engage with suppliers and customers. Suppliers are treated as partners who get insight into ASML's planning and operations so they can best prepare for global economic trends and customer requests. Customers are served by getting early access to new lithography technology at open research institutes where pre-competitive chip process development is carried out in order to help define roadmaps and determine efficient investments.

Sustainability focus areas

Whilst our own environmental footprint is modest, we acknowledge our responsibility as a responsible corporate citizen and commit to being responsible with energy and other resources and waste emissions. Using 2010 as our base, we have set an ambitious corporate target to reduce CO_2 emissions by 50 percent in 2015. We will work towards this goal by means of improving energy conservation, recycle energy on site, reducing CO_2 emissions from co-generation plants and purchasing of renewable energy.

Furthermore we plan to recycle 90 percent of our non-hazardous waste by 2015 (2009: 52 percent) by introducing improved recycling systems and redesigned packaging.

In order to become more efficient with water, we will make water conservation part of our 2010-2015 construction plans at our manufacturing site and headquarters in Veldhoven and elsewhere.

In our equipment there's a significant waste stream of immersion water from the immersion system which can be re-used by the customer for less critical applications (e.g. rinsing of wafers), while we also see potential for EUV cooling water re-use. We believe there may be more opportunities and we will investigate these in 2010 and report on targets in next year's Sustainability report.

ASML machines comply with standards set by SEMI, the global industry organization serving the advanced manufacturing supply chain.

ASML is successful as a result of its employees' commitment and creativity. ASML aims to offer a safe and fulfilling work environment for talented people from all backgrounds and gender, as we recognize that our work is highly knowledge-intensive and can only be done well if employees feel supported, free and encouraged to give it their best. Supporting our mission are a set of policies to realize this vision.

In the area of safety we have started a program to improve our performance with the aim to reduce incidents by at least 20 percent.

As we entered 2009, ASML was challenged by the global economic downturn which threatened job security as we needed to reduce our cost base. We reduced our total workforce by approximately 1,000 employees mainly in temporary staff. Despite these adjustments, we have been able to offer job security to almost all staff that was on payroll. This sense of security has allowed our employees to focus on the execution of very important projects. It is thanks to their hard work on these programs that we have emerged from the downturn with stronger technology, new products and improved work processes.

U.S. GAAP and Netherlands Statutory Annual Reports

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 based on Netherlands law and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). 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 adopted by the EU as from January 1, 2005.

The consolidated financial statements included in this Statutory Annual Report are based on IFRS as adopted by the EU. For internal and external reporting purposes, ASML follows U.S. GAAP. U.S. GAAP is ASML's primary accounting standard for the Company's setting of financial and operational performance targets.

ASML's U.S. GAAP report, based on Form 20-F, may contain additional information next to its Statutory Annual Report. ASML also publishes quarterly IFRS financial figures and a statutory interim report. The U.S. GAAP Annual Report and the U.S. GAAP and IFRS quarterly press releases, statutory interim report and statutory report are available on ASML's website at www.asml.com.

For the periods presented in this statutory annual report, the main differences between IFRS and U.S. GAAP for ASML relate to the following:

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Net income (loss) under U.S. GAAP	322,370	**(150,925)**
Capitalization of development expenditures	80,708	**50,522**
Impairment of capitalized development expenditures	(18,292)	**(767)**
Share-based payments	(2,528)	**2,401**
Reversal of write-downs	—	**17,104**
Income taxes	(5,360)	**222**
Net income (loss) under IFRS	376,898	**(81,443)**

As of December 31 (in thousands)	2008 EUR	2009 EUR
Equity under U.S. GAAP	1,988,769	**1,774,768**
Capitalization of development expenditures	201,717	**251,556**
Share-based payments	(6,537)	**2,397**
Reversal of write-downs	—	**17,104**
Income taxes	4,794	**4,982**
Equity under IFRS	2,188,743	**2,050,807**

Capitalization of development expenditures

Under IFRS, ASML applies IAS 38, "Intangible Assets". In accordance with IAS 38, development expenditures are capitalized and 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 ASC 730, "Research and Development". In accordance with ASC 730, ASML charges costs relating to research and development to operating expense as incurred.

Share-based payments

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

Under U.S. GAAP, ASML applies ASC 718 "Compensation- Stock Compensation" as of January 1, 2006 which 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. ASC 718's general principle is that a deferred tax asset is established as the Company recognizes compensation costs for commercial purposes for awards that are expected to result in a tax deduction under existing tax law. Under U.S. GAAP, the deferred tax recorded on share-based compensation is computed on the basis of the expense recognized in the financial statements. Therefore, changes in the Company's share price do not affect the deferred tax asset recorded in the Company's financial statements.

Reversal of write-downs

Under IFRS, ASML applies IAS 2 (revised), "Inventories". In accordance with IAS 2, reversal of a prior period write-down as a result of a subsequent increase in value of inventory should be recognized in the period in which the value increase occurs.

Under U.S. GAAP, ASML applies ASC 330 "Inventory". In accordance with ASC 330 reversal of a write-down is prohibited as a write-down creates a new cost basis.

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.

Statutory Interim Report 2009

As a result of the incorporation of the EU transparency directive in Dutch Law as of January 1, 2009 ASML is required to publish a Statutory Interim Report in accordance with the EU transparency directive and IAS 34 (IFRS). On July 24, 2009 we published our Statutory Interim Report for the six-month period ended June 28, 2009. This report includes Consolidated Condensed Interim Financial Statements prepared in accordance with IAS 34, an Interim Management Board Report, and a Managing Directors' Statement. The Statutory Interim Report is available on our website www.asml.com. The Statutory Interim Report comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Great People at ASML

As of December 31, 2009, we employed 6,548 payroll employees in FTEs primarily in goodsflow, research and development and customer support activities. As of December 31, 2008, the total number of payroll employees in FTEs was 6,930. In addition, as of December 31, 2009, the total number of temporary employees in FTEs was 1,137. As of December 31, 2008, the total number of temporary employees in FTEs was 1,329. For a more detailed description of payroll employee information, including a breakdown of our employees in FTEs by sector, see Notes 22 and 28 to our consolidated financial statements, which are incorporated herein by reference. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products.

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

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

The Board of Management,
Veldhoven, February 16, 2010

Managing Directors' Statement

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

The Board of Management,

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

Veldhoven, February 16, 2010

In Control Statement

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

Financial reporting risks

To comply with our duties in the area of internal risk management and control systems with respect to financial reporting risks, we use various measures among which:
- monthly operational review meetings of the Board of Management with ASML’s senior management on financial performance and realization of operational objectives and responses to emerging issues;
- bi-annual financial planning meetings of the Board of Management with ASML’s senior management;
- monthly meetings with ASML’s Chief Executive Officer, Chief Financial Officer and senior finance management focusing on monthly financial figures and internal control evaluations;
- monthly and quarterly financial reporting, mainly to ASML’s senior management;
- letters of representation that are signed by ASML’s key senior management members on an annual basis in which they confirm that for their responsible area based upon their knowledge (i) an effective system of internal controls and procedures is maintained and (ii) the financial reports fairly present the financial position, results of operations and cash flows;
- assessments by ASML’s Disclosure Committee with respect to the timely review, disclosure, and evaluation of periodic (financial) reports;
- assessments by ASML’s Internal Control Committee with respect to internal controls in light of among other things the requirements under the Sarbanes-Oxley Act of 2002 and the Dutch Corporate Governance Code;
- discussions on management letters and audit reports provided by the Company’s internal and external auditors within our Board of Management and Supervisory Board;
- ASML’s Business Control Principles;
- ASML’s Internal Guidelines on Ethical Business Conduct, including the Complaints Procedure and Whistleblower’s Procedure; and
- ASML’s Anti-Fraud Policy, which facilitates the development of controls which will aid in prevention, deterrence and detection of fraud against ASML.

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

Summary

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

(i) the above-mentioned measures provide a reasonable level of assurance that ASML’s financial statements as of and for the year ended December 31, 2009 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, 2009 do not contain any material inaccuracy;

(ii) the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and have worked adequately in 2009; and

(iii) there are no indications that the Company’s internal controls over financial reporting will not operate effectively in 2010.

ASML’s Board of Management is currently not aware of any significant change in the Company’s internal control over financial reporting that occurred during 2009 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 regulatory 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 regulatory risks, we use various measures among which:

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

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

The Board of Management,

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

Veldhoven, February 16, 2010

Statutory Financial Statements

Consolidated Financial Statements

Consolidated Income Statement

Notes	Year ended December 31 (in thousands, except per share data)	2008 EUR	2009 EUR
27	Net system sales	2,516,762	**1,174,858**
	Net service and field option sales	436,916	**421,205**
27	**Total net sales**	2,953,678	**1,596,063**
	Cost of system sales	1,709,104	**925,593**
	Cost of service and field option sales	306,997	**285,254**
28	**Total cost of sales**	2,016,101	**1,210,847**
	Gross profit on sales	937,577	**385,216**
28, 30	Research and development costs[1]	354,256	**304,795**
28	Selling, general and administrative costs	212,927	**158,372**
	Operating income (loss)	370,394	**(77,951)**
31	Interest income	73,138	**51,139**
31	Interest charges	(55,179)	**(57,135)**
	Income (loss) before income taxes	388,353	**(83,947)**
25	(Provision for) benefit from income taxes	(11,455)	**2,504**
	Net income (loss)	376,898	**(81,443)**
7	Basic net income (loss) per ordinary share	0.87	**(0.19)**
	Diluted net income (loss) per ordinary share	0.87	**(0.19)**
	Number of ordinary shares used in computing per share amounts (in thousands):		
	Basic	431,620	**432,615**
	Diluted	434,205	**432,615**

1 As of 2009, R&D credits are presented as part of R&D costs. The comparative figures for 2008 have been adjusted accordingly.

Consolidated Statement of Comprehensive Income

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Net income (loss)	376,898	**(81,443)**
Other comprehensive income (loss):		
Foreign currency translation, net of taxes:		
Gains (losses) on the hedge of a net investment	1,902	**(13,116)**
Gains (losses) on translation of foreign operations	(12,455)	**4,573**
Derivative financial instruments, net of taxes:		
Fair value gains (losses) in the year	(51,168)	**5,217**
Transfers to net income (loss)	7,589	**1,277**
Other comprehensive (loss) for the period, net of taxes	(54,132)	**(2,049)**
Total comprehensive income (loss) for the period, net of taxes	322,766	**(83,492)**
Attributable to Equity holders	322,766	**(83,492)**

Consolidated Statement of Financial Position

(Before appropriation of net income / loss)

Notes	As of December 31 (in thousands)	2008 EUR	**2009 EUR**
	Assets		
8	Property, plant and equipment	550,921	**625,560**
9	Goodwill	139,626	**139,636**
10	Other intangible assets	289,530	**346,936**
25	Deferred tax assets	225,544	**266,653**
11	Finance receivables	31,030	—
13	Derivative financial instruments	53,206	**55,948**
14	Other assets	29,449	**16,070**
	Total non-current assets	1,319,306	**1,450,803**
15	Inventories	999,150	**986,341**
25	Current tax assets	87,560	**11,286**
13	Derivative financial instruments	39,240	**47,436**
11	Finance receivables	6,225	**21,553**
16	Accounts receivable	463,273	**377,439**
14	Other assets	170,680	**145,944**
17	Cash and cash equivalents	1,109,184	**1,037,074**
	Total current assets	2,875,312	**2,627,073**
	Total assets	4,194,618	**4,077,876**
	Equity and liabilities		
18	**Equity**	2,188,743	**2,050,807**
19	Long-term debt	661,483	**668,309**
13	Derivative financial instruments	19,743	**1,935**
25	Deferred and other tax liabilities	260,360	**263,972**
20	Provisions	15,495	**12,694**
21	Accrued and other liabilities	50,293	**42,424**
	Total non-current liabilities	1,007,374	**989,334**
20	Provisions	4,678	**2,504**
13	Derivative financial instruments	48,051	**15,536**
25	Current tax liabilities	20,039	**15,032**
21	Accrued and other liabilities	732,043	**798,437**
	Accounts payable	193,690	**206,226**
	Total current liabilities	998,501	**1,037,735**
	Total equity and liabilities	4,194,618	**4,077,876**

Consolidated Statement of Changes in Equity

(in thousands)	Issued and outstanding shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings EUR	Treasury Shares at cost EUR	Other Reserves[2] EUR	Net Income (Loss) EUR	Total EUR
Balance at January 1, 2008	435,626	40,176	909,336	493,262	(199,863)	81,105	715,051	**2,039,067**
Appropriation of net income	—	—	—	715,051	—	—	(715,051)	**—**
Components of statement of comprehensive income								
Net income	—	—	—	—	—	—	376,898	**376,898**
Foreign currency translation, net of taxes	—	—	—	—	—	(10,553)	—	**(10,553)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(43,579)	—	**(43,579)**
Total comprehensive income	—	—	—	—	—	(54,132)	376,898	**322,766**
Share-based payments	—	—	8,839	—	—	—	—	**8,839**
Purchase of shares in conjunction with share-based payment plans	(5,000)	—	—	—	(87,605)	—	—	**(87,605)**
Dividend paid	—	—	—	(107,841)	—	—	—	**(107,841)**
Issuance of shares and stock options	1,448	131	(2,718)	(16,508)	32,612	—	—	**13,517**
Development expenditures	—	—	—	(81,692)	—	81,692	—	**—**
Balance at December 31, 2008	432,074	40,307	915,457	1,002,272	(254,856)	108,665	376,898	**2,188,743**
Appropriation of net income	—	—	—	376,898	—	—	(376,898)	**—**
Components of statement of comprehensive income								
Net loss	—	—	—	—	—	—	(81,443)	**(81,443)**
Foreign currency translation, net of taxes	—	—	—	—	—	(8,543)	—	**(8,543)**
Derivative financial instruments, net of taxes	—	—	—	—	—	6,494	—	**6,494**
Total comprehensive income	—	—	—	—	—	(2,049)	(81,443)	**(83,492)**
Share-based payments	—	—	20,542	—	—	—	—	**20,542**
Dividend paid[3]	—	—	—	(86,486)	—	—	—	**(86,486)**
Issuance of shares and stock options	1,565	141	(12,512)	(11,362)	35,233	—	—	**11,500**
Development expenditures	—	—		(65,830)	—	65,830	—	**—**
Balance at December 31, 2009	433,639	40,448	923,487	1,215,492	(219,623)	172,446	(81,443)	**2,050,807**

1 As of December 31, 2009, the number of issued shares was 444,480,095 This includes the number of issued and outstanding shares of 433,638,976 and the number of treasury shares of 10,841,119. As of December 31, 2008, the number of issued shares was 444,480,095. This included the number of issued and outstanding shares of 432,073,534 and the number of treasury shares of 12,406,561.

2 Other reserves consist of the hedging reserve, the currency translation reserve and the reserve for capitalized development expenditures. See Note 18 for further information.

3 In 2009, ASML paid out a dividend of EUR 86 million to its shareholders, see Note 18 further information.

Consolidated Statement of Cash Flows

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Cash Flows from Operating Activities		
Net income (loss)	376,898	**(81,443)**
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	197,298	**238,207**
Loss on disposals of property, plant and equipment	4,257	**4,053**
Impairment charges	43,401	**16,925**
Share-based payments	12,809	**13,394**
Allowance for doubtful debts	188	**1,889**
Allowance for obsolete inventory	139,628	**19,481**
Deferred income taxes	(46)	**(27,339)**
Accounts receivable	132,147	**97,540**
Inventories	(98,086)	**(113,828)**
Other assets	(78,981)	**(13,601)**
Accrued and other liabilities	(2,843)	**49,449**
Accounts payable	(94,375)	**10,430**
Income taxes payable	11,359	**30,994**
Cash generated from operations	643,654	**246,151**
Interest received	6,396	**26,003**
Interest paid	(40,247)	**(40,235)**
Income taxes (paid) received	(167,360)	**36,705**
Net cash provided by operating activities from operations	442,443	**268,624**
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(259,770)	**(104,959)**
Proceeds from sale of property, plant and equipment	—	**6,877**
Purchase of intangible assets	(179,563)	**(161,965)**
Net cash used in investing activities from operations	(439,333)	**(260,047)**
Cash Flows from Financing Activities		
Purchase of shares in conjunction with share-based payment plans	(87,605)	**—**
Dividend paid	(107,841)	**(86,486)**
Net proceeds from issuance of shares and stock options	11,475	**11,073**
Net proceeds from other long-term debt	19,975	**32**
Redemption and/or repayment of debt	(2,411)	**(6,958)**
Net cash used in financing activities from operations	(166,407)	**(82,339)**
Net cash flows	(163,297)	**(73,762)**
Effect of changes in exchange rates on cash	845	**1,652**
Net decrease in cash and cash equivalents	(162,452)	**(72,110)**
Cash and cash equivalents at beginning of the year	1,271,636	**1,109,184**
Cash and cash equivalents at end of the year	1,109,184	**1,037,074**

Notes to the Consolidated Financial Statements

1. General information

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

ASML's shares are listed for trading in the form of registered shares on the NASDAQ Stock Market LLC ("NASDAQ") and in the form of registered shares on Euronext Amsterdam by NYSE Euronext ("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 16, 2010 and will be filed at the Trade Register of the Chamber of Commerce in Eindhoven, the Netherlands within eight days after adoption by the General Meeting of Shareholders, scheduled on March 24, 2010.

2. Adoption of new and revised International Financial Reporting Standards

The financial statements for the years ended December 31, 2008 and 2009 have been prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). New Standards and Interpretations, which became effective in 2009, did not have a material impact on ASML's consolidated financial statements.

Standards and Interpretations effective in 2009

IAS 1 (Revised) "Presentation of Financial Statements" (effective for annual periods beginning on or after January 1, 2009). This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements: the consolidated income statement and the consolidated statement of comprehensive income.

IFRS 2 (Amendment), "Share-based Payment" (effective for annual periods beginning on or after January 1, 2009). The amended Standard deals with vesting conditions for share based compensation and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are non- vesting conditions. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. ASML applies IFRS 2 (Amendment) as of January 1, 2009. The adoption of this amendment did not have any effect on the Company's consolidated financial statements.

In 2009 ASML has adopted IFRS 7 (Amendment), "Disclosures". The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment resulted in additional disclosures to the Company's consolidated financial statements; See Note 4, "Fair Value Measurements" for more information.

IFRS 8, "Operating Segments" (effective for annual periods beginning on or after January 1, 2009). IFRS 8 sets out requirements for disclosure of information about entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The Company determined that the operating segment is the same as the segment previously determined under IAS 14 Segment Reporting. Segment performance is evaluated by the Company's management based on U.S. GAAP operating profit or loss which in certain respects is measured differently from operating profit or loss reported by the Company in its statutory annual report. Therefore, the adoption of this Standard has resulted in additional disclosures about this segment, which are presented in Note 27, including revised comparative information.

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

IFRS 2 (Amendments), "Group Cash-settled Share-based Payment Transactions" (effective for annual periods beginning on or after January 1, 2010). The amendments are subject to endorsement by the European Union. The amendments to IFRS 2 clarify the accounting for group cash-settled share-based payment transactions. The amendments clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments make clear that: (a) an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash and (b) in IFRS 2 a 'group' has the same meaning as in IAS 27, that is, it includes only a parent and its subsidiaries. ASML is currently in the process of determining the impact of adopting the revised standard on the Company's consolidated financial statements.

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

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2013). IFRS 9 is subject to endorsement by the European Union. IFRS 9 addresses the classification and measurement of financial assets. The publication of IFRS 9 represents the completion of the first part of a three-part project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity. ASML is currently in the process of determining the impact of adopting this standard on the Company's consolidated financial statements.

IAS 24 (Revised), "Related Party Disclosures" (effective for annual periods beginning on or after January 1, 2011). This revised standard has not yet been endorsed by the EU. The revised standard simplifies the disclosure requirements for government-related entities by providing a partial exemption for government-related entities and clarifies the definition of a related party. ASML is currently in the process of determining the impact of adopting the revised standard on the Company's consolidated financial statements.

IAS 32 (Amendment) "Classification of Rights Issues" (effective for annual periods beginning on or after February 1, 2010). The amendment to IAS 32 is subject to endorsement by the European Union. The amendment to IAS 32 addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. ASML is currently in the process of determining the impact of adopting the amended Standard on the Company's consolidated financial statements.

IAS 39 (Amendment), "Eligible Hedged Items" (effective for annual periods beginning on or after July 1, 2009). The amendment clarifies how the principles that determine whether a risk or portion of cash flows that is eligible for designation should be applied in particular situations. ASML is currently in the process of determining the impact of adopting the amendment on the Company's consolidated financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

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

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

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

Use of estimates

The preparation of ASML's consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the dates of the statement of financial position and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Basis of consolidation

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

Subsidiaries

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

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

Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in euros, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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 statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange rate differences arising, if any, are classified as equity and transferred to the Company's currency translation reserve. Such translation differences are recognized in the income statement in the period in which the foreign operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of foreign subsidiaries and translated at closing rate.

Property, plant and equipment

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

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

Land is not depreciated.

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

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

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually on September 30, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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

Other intangible assets

Other intangible assets include internally-generated intangible assets, acquired intellectual property rights, developed technology, customer relationships, in-process Research and Development ("R&D") and other intangible assets.

Internally-generated intangible assets – research and development expenditures

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

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

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

For certain development programs, it was not possible to separate development activities from research activities (approximately EUR 14 million and EUR 24 million for 2009 and 2008, respectively). Consequently, ASML was not able to reliably determine the amount of development expenditures incurred for these programs.

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

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

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

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

In-process research and development

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Financial assets

Financial assets are classified as at fair value through profit or loss and loans and receivables.

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 date of statement of financial position. These are classified as non-current assets. The Company's loans and receivables comprise accounts receivable, finance receivables and other non-current and current assets and cash and cash equivalents in the statement of financial position.

Loans and receivables are measured at their approximate fair value.

ASML assesses at each date of statement of financial position 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 date of statement of financial position. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial liabilities and equity instruments issued by the Company

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

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

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

Derivative financial instruments and hedging activities

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

- A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk (fair value hedge);
- A hedge of the exposure of variability in the cash flows of a recognized asset or liability, of a forecasted transaction, that is attributable to a particular risk (cash flow hedge); or
- A hedge of the foreign currency exposure of a net investment in a foreign operation (net investment hedge).

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 4, Note 12 and 13. Movements in the hedging reserve within equity are shown in Note 18. The fair value part of a derivative that has a remaining term of less or equal to 12 months is classified as current asset or liability. When the fair value part of a derivative has a term of more than 12 months it is classified as non-current.

Fair value hedge

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

The gain or loss relating to the ineffective portion of foreign currency hedging instruments is recognized in the income statement as "net sales" or "cost of sales".

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

Cash flow hedge

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

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

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

Net investment hedge

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

Inventories

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

Inventory provisions are recognized for slow-moving, obsolete or unsalable inventory. Impairment losses for inventory are determined based on the expected demand which is derived from the sales forecasts as well as the expected market value of the inventory. A new assessment of net realizable value is made in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

Accounts receivable

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

Cash and cash equivalents

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

Equity

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

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

Provisions

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

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

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

Onerous contracts

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

Employee contract termination benefits

Provisions for employee contract termination benefits are recognized when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan and has raised a valid expectation to those affected that it will carry out the plan by starting to implement the plan or announcing its main features to those affected by it. The measurement of a provision for employee contract termination benefits includes only the direct expenditures arising from the termination.

Accounts payable

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

Revenue recognition

In general, ASML recognizes the revenue from the sale of a system upon shipment and the revenue from the installation of a system upon completion of that installation at the customer site. Each system undergoes, prior to shipment, a “Factory Acceptance Test” in ASML’s cleanroom 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. In case not all specifications are met and the remaining performance obligation is not essential to the functionality of the system but substantive rather than inconsequential or perfunctory a portion of the sales price is deferred. Although each system’s performance is re-tested upon installation at the customer’s site, the Company has never failed to successfully complete installation of a system at a customer’s premises.

In connection with future introductions of new technology, ASML 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 pre-determined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML’s results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2009 and 2008, ASML had no deferred revenue from shipments of new technology. During the two years ended December 31, 2009, no revenue from new technology was recorded that had been previously deferred. As ASML’s systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely “new” technology occurs infrequently, and in the past ten years, has occurred on only one occasion in 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, 2009 and 2008, ASML had no repurchase commitments.

A portion of the Company's revenue is derived from contractual arrangements with its 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 extended and enhanced (optic) warranty contracts is recognized over the term of the contract.

The deferred revenue balance from installation and training services amounted to approximately EUR 3 million (2008: 3 million) and EUR 10 million (2008: 15 million), respectively, as of December 31, 2009.

The deferred revenue balance from prepaid extended and enhanced (optic) warranty contracts amounted to approximately EUR 126 million as of December 31, 2009 (2008: EUR 173 million).

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

The award credits are accounted for as a separately identifiable component of the sales transaction in which the award credits are granted. The fair value of the consideration received for the sales transaction is allocated between the award credits and the other components of the sales transaction. The consideration allocated to the award credit is recognized as deferred revenue until the award credits are delivered to the customer.

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

Warranty

The Company provides 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, the Company calculates the charge of average service hours and parts per system to determine the estimated warranty charge. On a semiannual basis, the Company assesses, and updates if necessary, its accounting estimates used to calculate the standard warranty provision based on the latest actual historical warranty expenses and expected future warranty expenses. The extended and enhanced (optic) warranty on our systems and certain optical parts is accounted for as a separate element of multiple element revenue recognition transactions.

Accounting for shipping and handling fees and costs

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

Cost of sales

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

Cost of field option sales comprise direct product costs such as materials, labor, cost of warranty, shipping and handling costs and related 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 statement of financial position 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 taxes represent the sum of the current tax position and deferred tax.

The current tax position is based on taxable base for the year. Taxable base differs from results as reported in the consolidated income statement because it excludes items of income or charges that are taxable or deductible in prior or later years, for example timing differences between taxable base and financial results, and it further excludes items that are never taxable or deductible, for example permanent differences between taxable base and financial results . The Company's tax position is calculated using tax rates that have been enacted or substantively enacted by the date of statement of financial position.

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 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.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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 on the statement of financial position when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

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

Current and deferred tax are recognized as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the Company's interest in the net fair value of the acquired entity'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 24 to the consolidated financial statements. In connection with these proceedings and claims our management evaluated, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case, management determined that either a loss was not probable or was not reasonably estimable. As a result, no estimated losses were recorded as a charge to our consolidated income statement in 2008 and 2009. Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, we may agree to settle or to terminate a claim or proceeding in which we believe that we would ultimately prevail where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in an expensive and protracted litigation, the outcome of which is uncertain.

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

Share-based payments

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on ASML's estimate of the equity instruments that will eventually vest. At each statement of financial position date, ASML revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the income statement in the period in which the revision is determined, with a corresponding adjustment to equity. The policy described above is applied to all equity-settled share-based payments that were granted after November 7, 2002 that vested after January 1, 2005. No amount has been recognized in the financial statements in respect of other equity-settled share-based payments.

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

Retirement benefit costs

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

Consolidated statement of cash flows

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

4. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement hierarchy prioritizes the inputs to valuation techniques used to measure fair value as follows:

- Level 1: Valuations based on inputs such as quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

- Level 2: Valuations based on inputs other than level 1 inputs such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3: Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument's fair value is based on the lowest level of any input that is significant in the fair value measurement hierarchy.

Cash and cash equivalents include short-term deposits, investments in money market funds and interest-bearing bank accounts for which fair value measurements are all based on quoted prices for similar assets or liabilities.

The principal market in which ASML executes its derivative contracts is the institutional market in an over-the-counter environment with a high level of price transparency. The market participants usually are large commercial banks. The valuation inputs for ASML's derivative contracts are based on quoted prices and quoting pricing intervals from public data sources; they do not involve management judgment.

The valuation technique used to determine the fair value of forward contracts (used for hedging purposes) is the Net Present Value technique which is the estimated amount that a bank would receive or pay to terminate the forward contracts at the reporting date, taking into account current interest rates and current exchange rates. The valuation technique used to determine the fair value of forward contracts approximates the net present value of future cash flows.

The valuation technique used to determine the fair value of interest rate swaps (used for hedging purposes) is the Net Present Value technique which 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. The valuation technique used to determine the fair value of interest rate swaps approximates the net present value of future cash flows.

The carrying amount of the Eurobond consists of its principal amount adjusted for fair value changes in interest rate swaps. The Eurobond serves as a hedged item in a fair value hedge relationship in which ASML hedges the variability of changes in the market value of fixed loan coupons payable on the Company's Eurobond due to changes in market interest rates; the fair value changes of the interest rate swaps are recorded on the statement of financial position under derivative financial instruments (within current and non-current assets). Therefore, the value disclosed in the table below is only adjusted for fair value changes in interest rate swaps. For the actual fair value, including credit risk considerations, we refer to Note 19.

The following table presents the Company's financial assets and financial liabilities that are measured at fair value:

As of December 31, 2008 (in thousands)	**Level 1** EUR	**Level 2** EUR	**Level 3** EUR	**Total** **EUR**
Assets				
Derivative financial instruments[1]	—	92,446		**92,446**
Cash and cash equivalents	—	1,109,184	—	**1,109,184**
Total	—	1,201,630	—	**1,201,630**
Liabilities				
Long-term debt[2]	—	661,483	—	**661,483**
Derivative financial instruments[1]	—	67,794	—	**67,794**
Total	—	729,277	—	**729,277**

As of December 31, 2009 (in thousands)	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Assets				
Derivative financial instruments[1]	—	103,384	—	**103,384**
Cash and cash equivalents	—	1,037,074	—	**1,037,074**
Total	—	1,140,458	—	**1,140,458**
Liabilities				
Long-term debt[2]	—	668,309	—	**668,309**
Derivative financial instruments[1]	—	17,471	—	**17,471**
Total	—	685,780	—	**685,780**

1 The derivative financial instruments consist of forward contracts and interest rate swaps. See Note 5, Financial Risk Management.
2 The long-term debt mainly relates to the Company's EUR 600 million Eurobond and excludes accrued interest. For further details see Note 19, Long-term debt.

As of December 31, 2009, the Company did not have any assets or liabilities measured at fair value using significant unobservable inputs (Level 3) in its consolidated statement of financial position.

5. Financial Risk Management

Financial risk factors

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

ASML believes that market information is the most reliable and transparent means of measurement for its derivative instruments that are measured at fair value.

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 except for the following: In 2009, the Company decided to change its policy to manage material currency translation exposures resulting predominantly from ASML's U.S. dollar net investments by hedging these partly with forward contracts. The Company decided to no longer hedge these U.S. dollar net investments exposures.

Foreign currency risk management

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

It is the Company's policy to hedge material transaction exposures, such as forecasted sales and purchase transactions and accounts receivable and payable. The Company hedges these exposures through the use of currency contracts (foreign exchange options and forward contracts). In 2009, the Company identified four ineffective cash flow hedges related to forecasted sales transactions. This resulted in a loss recognized in sales for an amount of EUR 10.7 million (2008: loss of EUR 18.0 million). The effectiveness of all outstanding hedge contracts is monitored on a quarterly basis throughout the life of the hedges.

As of December 31, 2009 equity includes EUR 56.1 million loss (net of taxes: EUR 41.8 million loss; 2008: EUR 49.2 million loss) representing the total anticipated loss to be released to sales, and EUR 0.7 million gain (net of taxes: EUR 0.5 million gain; 2008: EUR 1.4 million gain) to be charged to cost of sales, which will offset the higher EUR equivalent of foreign currency denominated forecasted sales and purchase transactions. It is anticipated that an amount of EUR 34.7 million loss will be charged to sales and EUR 0.7 million gain will be released to cost of sales over the next twelve months, as the forecasted sales and purchase transactions occur. The remainder of the loss is anticipated to be charged to sales between one and two years, as the forecasted sales 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.

The foreign currency translation amount included in cumulative translation adjustment for the year 2009 was EUR 13.1 million loss. The cumulative gain included in cumulative translation adjustment relating to the net investment hedge would be reclassified from equity to the consolidated income statement only in the event the Company's U.S. subsidiary is (partially) disposed or sold.

Interest rate risk management

The Company has both assets and liabilities that bear interest, which expose the Company to fluctuations in the prevailing market rate of interest. The Company uses interest rate swaps to align the interest typical terms of interest-bearing assets with the interest typical terms of interest-bearing liabilities. There might be some residual interest rate risks to the extent that the asset and liability positions do not fully offset.

Furthermore, the Company uses interest rate swaps to hedge changes in market value of fixed loan coupons payable on its 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 its cash and cash equivalents.

Financial instruments

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

As of December 31 (in thousands)	2008 Notional Amount EUR	Fair Value EUR	**2009 Notional Amount EUR**	**Fair Value EUR**
Currency contracts[1]	896,642	(38,521)	**527,816**	**7,428**
Interest rate swaps[2]	641,500	63,173	**641,500**	**78,485**

(Source: Bloomberg Finance LP)

1 Relates to forward contracts assigned as a hedge to forecasted sales and purchase transactions, to monetary assets and liabilities and to net investments in foreign operations (only 2008), mainly in U.S. dollar and Japanese Yen.

2 Relates to interest rate swaps assigned as a hedge to interest bearing assets and liabilities mainly related to the EUR 600 million Eurobond; the fair value of the interest rate swaps includes accrued interest.

Sensitivity analysis financial instruments

Foreign currency sensitivity

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

(in thousands)	2008 Impact on income before income taxes EUR	Impact on equity EUR	**2009 Impact on income before income taxes EUR**	**Impact on equity EUR**
U.S. dollar	(2,915)	14,118	**(3,689)**	**24,903**
Japanese yen	(14,501)	(38,886)	**(1,711)**	**(32,416)**
Other currencies	(1,285)	8,482	**(1,620)**	**12,080**
Total	(18,701)	(16,286)	**(7,020)**	**4,567**

It is the Company's policy to limit the currency effects through the consolidated income statement. The negative effect on income before income taxes as presented in the table above for 2009 and 2008 is mainly attributable to timing differences between the arising of exposures and the hedging thereof. The increase in the U.S. dollar effect on income before income taxes in 2009 compared to 2008 is caused by a higher U.S. dollar liability position at year end. The large negative Japanese yen effect in 2008 was mainly caused by ineffective system sales hedges.

The revaluation effects of investments in foreign entities are recognized in equity. The movements of currency rates therefore might have a significant effect on equity. The increased U.S. dollar effect on equity in 2009 compared to 2008 is caused by the fact that early 2009 the Company decided to no longer hedge its U.S. dollar net investments exposures. The effect on equity for other currencies mainly relates to investments in foreign entities in Taiwan dollar, Korean won and Singapore dollar.

Fair value movements of cash flow hedges, entered into for U.S. dollar and Japanese yen transactions, are recognized in equity.

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 taxes and equity. For the sensitivity for a 10 percent weakening of both the U.S. dollar and Japanese yen against the euro, there would be a lower opposite effect than presented in the table shown above of EUR 4.5 million and EUR 5.9 million on equity, respectively.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the statement of financial position date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The table below shows the effect of a one percent increase in interest rates on the Company's income before income taxes and equity. As a result of the current low market interest rates, a one percent decrease in interest rates is not possible, therefore there would be a smaller and opposite effect on income before income taxes and equity. A positive amount indicates an increase in income before income taxes and equity.

(in thousands)	2008 Impact on income before income taxes EUR	Impact on equity EUR	**2009** **Impact on income before income taxes** **EUR**	**Impact on equity** **EUR**
	6,018	2,465	**4,425**	**2,336**

The positive effect on equity is mainly attributable to the fair value movements of the interest rate swaps designated as cash flow hedges. The effect on income before income taxes has decreased, mainly due to a decrease in cash and cash equivalents in 2009 compared to 2008.

Credit risk management

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

Cash and cash equivalents and derivative instruments contain an element of risk of the counterparties being unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML's counterparties to a sufficient number of major financial institutions. Furthermore, in view of the continuing higher volatility of the financial markets, ASML's cash and cash equivalents have mainly been placed on short-term deposits with highly rated financial institutions and have partly been invested in AAAm-rated money market funds that invest in highly rated short-term debt securities of financial institutions and governments. ASML does not expect the counterparties to default given their high credit quality.

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

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

As of December 31, 2009 the cash and cash equivalents amounted to EUR 1.0 billion and the Company has available credit facilities for a total amount of EUR 700 million (2008: EUR 500 million). The EUR 700 million of available credit facilities consist of two separate facilities: a EUR 500 million credit facility and a EUR 200 million loan facility.

The EUR 500 million credit facility, which will expire in May 2012, contains a covenant that requires the Company to maintain a minimum financial condition ratio, calculated in accordance with a contractually agreed formula. ASML was in compliance with the covenant at the end of 2009 and 2008. Outstanding amounts under this credit facility will bear interest at EURIBOR or LIBOR plus a margin that is dependent on the Company's liquidity position. No amounts were outstanding under this credit facility at the end of 2009 and 2008.

The EUR 200 million loan facility is related to the Company's EUV investment efforts and was entered into in 2009 with the European Investment Bank. This loan can be drawn in tranches until October 2010. It is repayable in annual installments four years after drawdown, with final repayment seven years after drawdown. This facility contains a covenant that restricts the maximum indebtedness. ASML was in compliance with the covenant at the end of 2009. Outstanding amounts under this loan facility will bear interest at EURIBOR or LIBOR plus a margin. No amounts were outstanding under this loan facility at the end of 2009.

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

Payments due by period (in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Long-term debt obligations, including interest expenses[1]	**949,346**	41,455	72,303	69,000	766,588
Operating lease obligations	**122,357**	26,136	42,074	27,912	26,235
Purchase obligations	**1,431,247**	1,388,902	40,985	788	572
Liability for uncertain tax positions	**133,270**	8,535	41,544	35,699	47,492
Total	**2,636,220**	**1,465,028**	**196,906**	**133,399**	**840,887**

1 See Note 19 to the consolidated financial statements for the amounts excluding interest charges.

For more information on the Company's contractual obligations see Note 23. Furthermore, the Company's liquidity analysis consists of the following derivative financial instruments:

(in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Cash outflows					
Currency contracts	**724,977**	724,977	—	—	—
Interest rate swaps	**840,755**	10,236	66,523	56,688	707,308
Cash inflows					
Currency contracts	**733,343**	733,343	—	—	—
Interest rate swaps	**925,396**	34,778	87,660	70,795	732,163

6. 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 statement of financial position 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. On a semiannual basis, the Company assesses, and updates if necessary, its accounting estimates used to calculate the standard warranty provision based on the latest actual historical warranty expenses and expected future warranty expenses. 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. In 2009, the reassessments of the warranty reserve, and resulting change in accounting estimate, were based on lower than expected historical warranty expenses as a result of an improved learning curve concerning our systems.

Impairment of non-financial assets

Non-financial assets include goodwill, other intangible assets and property, plant and equipment.

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

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

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

During 2009, we recorded impairment charges of EUR 15.9 million in property, plant and equipment and EUR 1.0 million in other intangible assets of which we recorded EUR 3.1 million in cost of sales, EUR 9.1 million in R&D costs and EUR 4.7 million in SG&A costs. The impairment charges in property, plant and equipment mainly relate to certain non leading-edge systems and machinery and equipment that are ceased to be used or will cease to be used during the expected economic life, and which management no longer believes can be sold because of lack of demand for these products. The impairment charges were determined based on the difference between the assets' recoverable amount (being EUR 7.0 million) and their carrying amount. In determining the recoverable amount of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of the semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that we use to manage our business.

Capitalization of development expenditures

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

Accounts receivable

A majority of our accounts receivable are derived from sales to a limited number of large multinational semiconductor manufacturers throughout the world. In order to monitor potential credit losses, we perform ongoing credit evaluations of our customers' financial condition. An allowance for doubtful accounts is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. The allowance for doubtful accounts is reviewed periodically to assess the adequacy of the allowance. In making this assessment, management takes into consideration (i) any circumstances of which we are aware regarding a customer's inability to meet its financial obligations; and (ii) our judgments as to potential prevailing economic conditions in the industry and their potential impact on the Company's customers. Where we deem it prudent to do so, we may require some form of credit enhancement, such as letters of credit, down payments and retention of ownership, before shipping systems to certain customers. Retention of ownership enables ASML to recover the systems in the event a customer defaults on payment. We have not incurred any material accounts receivable credit losses during the past three years. Our three largest customers (based on net sales) accounted for 44.0 percent of accounts receivable at December 31, 2009, compared to 42.2 percent at December 31, 2008. A business failure of one of our main customers could result in a substantial credit loss in respect to amounts owed to the Company by that customer, which could adversely affect our results of operations and financial condition.

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

Present obligations arising under onerous contracts are recognized and measured as provisions. Onerous contracts are considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under the contract. As of December 31, 2009, the provision for onerous contracts amounts to EUR 15.2 million (2008: EUR 17.9 million) and relates to an operating lease contract for a building for which no economic benefits are expected.

Provisions for employee contract termination benefits are recognized when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where valid expectations are created that the obligation will be discharged, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. As of December 31, 2009, ASML had no obligations arising from employee contract termination benefits.

The restructuring in 2008 resulted in cost savings of EUR 9.2 million in 2009, consisting of a EUR 2.7 million decrease in rental expenses and EUR 6.5 million decrease in employee expenses. The actual savings are in line with the savings that the Company anticipated at the end of 2008. These actions resulted in an approximately similar positive effect on cash flows from operating activities.

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 unsalable 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.

During 2009, the Company released an amount of EUR 67.2 million from its provision for inventory obsolescence as a result of a subsequent increase in net realizable value. This change in accounting estimate was caused as in 2009, customer demand for non-leading edge systems (mainly XT:1700s) unexpectedly increased. At the end of 2008, customers in the market segment for Logic technology underestimated the ramp-up of 45 nm technology used in, among others, advanced internet devices and smart phones, which unexpectedly increased demand for our non-leading-edge immersion systems in 2009 (mainly XT:1700i).

As of December 31, 2009, the provision for inventory obsolescence amounted to EUR 210.7 million (2008: EUR 189.9 million). The increase in the provision for inventory obsolescence is mainly due to reassessment by the Company in 2009 of expected future demand based on the unexpected customers' response to the financial and economic crisis. This resulted in additional provision for inventory obsolescence for different types of non leading-edge systems compared to prior year and additional parts which management no longer believes can be sold.

Contingencies and litigation
We refer to Note 3.

Share-based payments
The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant date fair value of stock options and stock. The grant date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes option valuation model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk-free interest rate used in the model is determined, based on a Euro government bond with a life equal to the expected life of the equity-settled share-based payments. See Note 22 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 13.4 million in 2009 (2008: EUR 12.8 million).

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

Income taxes

We also refer to Note 3. We operate in various tax jurisdictions in Asia, the United States and Europe and must comply with the tax laws of each of these jurisdictions.

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 statement of financial position 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. We continuously assess our ability to realize our deferred tax assets resulting, among others, from net operating loss carry-forwards. The total amount of tax effect of the loss carry-forwards as of December 31, 2009 was EUR 107.1 million, which resides with ASML Holding N.V. and Netherlands based subsidiaries of ASML Holding N.V. and ASML US, Inc. and US based subsidiaries of ASML US Inc. We believe that all losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable operating income and possible tax planning alternatives available to us.

The calculation of our tax liabilities involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is highly judgmental. However, we believe that we have adequately provided for uncertain tax positions. Settlement of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations, financial condition and cash flows. The Company recognizes a liability for uncertain tax positions when it is probable that an outflow of economic resources will occur. Measurement of the liability for uncertain tax positions is based on management's best estimate of the amount of tax benefit that will be realized upon settlement.

We provide for the uncertain tax positions for the duration of the statute of limitations which differs per tax jurisdiction and generally ranges up to seven years, or in case of an earlier settlement, when the uncertain tax position is settled with the tax authorities before the statute of limitations period lapses. As of December 31, 2009 the liability for this liability for uncertain tax positions amounts to EUR 133.3 million (December 31, 2008: EUR 124.2 million) and are included in deferred and other tax liabilities on the consolidated statement of financial position.

In the course of 2008, we reached agreement in principle with the Netherlands tax authorities on determination of the tax benefits resulting from application of the so-called "Royalty Box", a Netherlands tax measure intended to stimulate innovation. The Royalty Box mechanism partly exempts income attributable to research efforts and protected by patents from taxation, resulting in taxation of so called patent income at an effective corporate income tax rate of 10 percent instead of a nominal tax rate of 25.5 percent. This agreement in principle covered the Royalty Box for the year 2007 and the years thereafter. However, the Royalty Box benefit calculation technique includes a benefits threshold to be surpassed before the effective tax rate on these benefits is reduced to 10 percent. The threshold is required to be exceeded each financial year, and when not exceeded — the remainder of — the threshold rolls over to future years resulting in a cumulating threshold. In a loss year, the threshold will not be exceeded. In addition, a loss for the year itself will increase the threshold for future years. As 2008 and 2009 are loss years for the relevant Netherlands entities, the threshold for the years 2008 and 2009 will roll over to 2010 and beyond. For 2010 and future years, the Royalty Box has been replaced under Netherlands law by the Innovation Box, and the effective tax rate on Innovation Box income has been reduced from 10 percent to 5 percent. Based on our calculations, a clean start of the Innovation Box (which under Netherlands law replaces the Royalty Box as of January 1, 2010) in 2010 will result in a higher cumulative benefit for ASML. In the light of this analysis, in 2009, the Company has decided to forego the 2007 Royalty Box benefit in lieu of a fresh start of the Innovation Box as per 2010. The reversal of the 2007 Royalty Box benefit has resulted in a tax charge of approximately EUR 40 million, which has an unfavorable impact on the tax rate during 2009 of approximately 48 percent.

7. Earnings per share

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

As of December 31 (in thousands, except per share data)	2008 EUR	2009 EUR
Basic EPS computation:		
Net income (loss) available to holders of common shares	376,898	**(81,443)**
Weighted average number of shares outstanding (after deduction of treasury stock) during the year	431,620	**432,615**
Basic earnings per share	0.87	**(0.19)**
Diluted EPS computation:		
Net income (loss) available to holders of common shares	376,898	**(81,443)**
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	—	**—**
Net income (loss) available to holders of common shares plus effect of assumed conversions	376,898	**(81,443)**
Weighted average number of shares:	431,620	**432,615**
Plus shares applicable to:		
Stock options	2,585	**—**
Dilutive potential common shares	2,585	**—**
Adjusted weighted average number of shares[1]	434,205	**432,615**
Diluted earnings per share[1]	0.87	**(0.19)**

1 The calculation of diluted net income (loss) per ordinary share assumes the exercise of options issued under ASML stock option plans for periods in which exercises would have a dilutive effect. The calculation of diluted net income (loss) per ordinary share does not assume exercise of such options when such exercises would be anti-dilutive.

8. Property, Plant and Equipment

Property, plant and equipment consist of the following:

(in thousands)	Land, buildings and constructions EUR	Machinery and equipment EUR	Leasehold improvements EUR	Furniture, fixtures and other equipment EUR	Total **EUR**
Cost					
Balance, January 1, 2008	183,159	466,930	149,117	257,102	**1,056,308**
Additions	172,002	117,374	12,319	30,625	**332,320**
Disposals	(382)	(91,024)	(8,037)	—	**(99,443)**
Effect of exchange rates	752	399	425	570	**2,146**
Balance, December 31, 2008	355,531	493,679	153,824	288,297	**1,291,331**
Additions	**74,135**	**179,050**	**3,484**	**7,258**	**263,927**
Disposals	**(2,247)**	**(127,152)**	**(2,403)**	**(9,457)**	**(141,259)**
Effect of exchange rates	**360**	**(2,162)**	**61**	**386**	**(1,355)**
Balance, December 31, 2009	**427,779**	**543,415**	**154,966**	**286,484**	**1,412,644**
Accumulated depreciation					
Balance, January 1, 2008	47,049	336,989	92,839	198,537	**675,414**
Depreciation	6,604	54,081	14,961	31,918	**107,564**
Impairment charges	266	22,324	423	1,544	**24,557**
Disposals	(558)	(59,671)	(7,201)	—	**(67,430)**
Effect of exchange rates	548	(255)	80	(68)	**305**
Balance, December 31, 2008	53,909	353,468	101,102	231,931	**740,410**
Depreciation	**22,611**	**67,041**	**15,851**	**27,568**	**133,071**
Impairment charges	—	**11,185**	**155**	**4,556**	**15,896**
Disposals	**(2,247)**	**(88,815)**	**(2,191)**	**(9,298)**	**(102,551)**
Effect of exchange rates	**(30)**	**41**	**12**	**235**	**258**
Balance, December 31, 2009	**74,243**	**342,920**	**114,929**	**254,992**	**787,084**
Carrying amount[1]					
December 31, 2008	301,622	140,211	52,722	56,366	550,921
December 31, 2009	**353,536**	**200,495**	**40,037**	**31,492**	**625,560**

As of December 31, 2009, the carrying amount includes assets under construction for land, buildings and constructions of EUR 5.9 million (2008: EUR 122.1 million), machinery and equipment of EUR 30.4 million (2008: EUR 4.6 million), leasehold improvements of EUR 0.5 million (2008: EUR 2.4 million) and furniture, fixtures and other equipment of EUR 1.9 million (2008: EUR 8.6 million).

As of December 31, 2009, the carrying amount of land amounts to EUR 34.5 million (2008: EUR 34.0 million).

As of December 31, 2009, the carrying amount of machinery and equipment includes an amount of EUR 73.9 million with respect to evaluation and rental systems (2008: nil).

Additions to land, buildings and constructions mainly relate to the finalization of the first part of the new production facilities in Veldhoven.

The majority of the Company's disposals in 2008 and 2009 relate to machinery and equipment, primarily consisting of prototypes, demonstration, evaluation and training systems. These systems are similar to those that ASML sells in its ordinary course of business. The systems are capitalized under property, plant and equipment because they are held for own use, for rental and for evaluation purposes and, at the time they are placed in service, expected to be used for a period longer than one year. These systems are recorded at cost and depreciated over their useful life. From the time that these assets are no longer held for own use but intended for sale, they are reclassified from property, plant and equipment to inventory at the lower of their carrying value or fair market value. When sold, the proceeds and cost of these systems are recorded as net sales and cost of sales, respectively, identical to the treatment of other sales transactions. The cost of sales for these systems includes the inventory value and the additional costs of refurbishing (materials and labor).

During 2009, the Company recorded impairment charges of EUR 15.9 million (2008: EUR 24.6 million) of which it recorded EUR 2.1 million (2008: EUR 20.8 million) in cost of sales, EUR 9.1 million (2008: EUR 2.2 million) in R&D costs and EUR 4.7 million (2008: EUR 1.6 million) in SG&A costs.

The impairment charges recorded in 2009 mainly related to machinery and equipment (EUR 11.2 million). The Company impaired certain non-leading-edge systems and machinery and equipment that have ceased to be used or will cease to be used during the expected economic life, and which management no longer believes can be sold because of lack of demand for these products. The impairment charges were determined based on the difference between the assets' estimated value in use (being EUR 7.0 million) and their carrying amount. In determining the value in use of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and the Company's sales and cost expectations which are consistent with the plans and estimates that it uses to manage its business.

The impairment charges recorded in 2008 mainly related to machinery and equipment (EUR 22.3 million). The Company impaired certain non-leading-edge machinery and equipment that have ceased to be used during the expected economic life, and which management no longer believes can be sold for two reasons, both relating to the financial and economic crisis. The first reason relates to ASML's customers' decision to delay non-leading-edge capacity additions which increases the risk that certain systems will become technologically obsolete. The second reason has to do with the expected plant closures by ASML's high-tech customers to reduce certain non-leading-edge capacity, which management believes will result in a high supply of used systems and a downward pressure on sales prices. The impairment charges were determined based on the difference between the asset's estimated value in use (being EUR 5.4 million) and their carrying amount.

During 2009, the Company recorded depreciation charges of EUR 133.1 million (2008: EUR 107.6 million) of which we recorded EUR 83.6 million (2008: EUR 50.3 million) in cost of sales, EUR 25.4 million (2008 EUR 25.5 million) in R&D costs and EUR 24.1 million (2008: EUR 31.8 million) in SG&A costs.

During 2009, we capitalized borrowing costs of EUR 3.4 million (2008: EUR 6.8 million). The capitalization rate used in determining the borrowing costs in 2009 is 5.75 percent (2008: 5.75 percent).

9. Goodwill

Changes in goodwill are summarized as follows:

(in thousands)	2008 EUR	**2009** **EUR**
Cost		
Balance, January 1	136,246	**139,626**
Effect of exchange rates	3,380	**10**
Balance, December 31	139,626	**139,636**
Carrying amount, December 31	139,626	**139,636**

The goodwill relates to the acquisition of Brion in March 2007. Goodwill is tested annually for impairment on September 30. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit Brion. The recoverable amount of the cash-generating unit Brion is calculated based on the value in use. These calculations use pre-tax discounted cash flow projections based on a strategic plan approved by management.

The material assumptions used by management for the value in use calculation of the cash-generating unit are:

- The pre-tax cash flow projections for the first six years are based on a significant growth scenario, reflecting the start-up nature of Brion. Projections are built bottom-up, using estimates for revenue, gross profit, R&D costs and SG&A costs.
- Brion would reach maturity in the final year of this six year start-up period and grow at a weighted average growth rate of three percent, which Management believes is a reasonable estimate that does not exceed the long-term historical average growth rate for the lithography business in which Brion operates.
- A pre-tax discount rate of 19.5 percent representing Brion's weighted average cost of capital (WACC), was determined using an adjusted version of the Capital Asset Pricing Model. The discount rate increased compared to prior year which reflects the increased market uncertainty.

ASML performed sensitivity analyses on each of these assumptions and concluded that any reasonably likely change in these assumptions would not have caused the carrying amount of Brion to exceed its value in use. A discussion of the sensitivity analysis is set out below:

- Estimated cash flows associated with Brion's initial six year start-up period accounted for approximately 42 percent of the cash-generating unit's value in use. These estimated cash flows could be reduced by 39 percent without causing the value in use of Brion to decrease below its carrying amount of EUR 160.1 million. Management does not believe that such a decline is reasonably likely based on historical evidence of the reliability of the estimated cash flows and management's future expectations on the development of these cash flows.
- Estimated cash flows associated with Brion's operations after the initial six year period accounted for approximately 58 percent of the cash-generating unit's value in use, based on the assumed three percent growth rate. Assuming Management's estimate of cash flows for the initial six year period is unchanged; growth in subsequent years could reduce to zero percent without Brion's value in use falling below its carrying amount of EUR 160.1 million. Management does not believe, however, that such a long-term no growth scenario is reasonably likely, given that the long-term historical growth rate of the lithography industry exceeds three percent.
- The discount rate used in the value in use calculation could increase from 19.5 percent to 21.9 percent without causing the value in use of Brion to decrease below its carrying amount.

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**
Cost							
Balance, January 1, 2008	324,475	47,215	23,901	8,063	20,715	2,141	**426,510**
Additions	179,528	35	—	—	—	—	**179,563**
Effect of exchange rates	1,304	—	593	200	514	54	**2,665**
Balance, December 31, 2008	505,307	47,250	24,494	8,263	21,229	2,195	**608,738**
Additions	**161,965**	—	—	—	—	—	**161,965**
Effect of exchange rates	**(207)**	—	**1**	—	**1**	**1**	**(204)**
Balance, December 31, 2009	**667,065**	**47,250**	**24,495**	**8,263**	**21,230**	**2,196**	**770,499**
Accumulated depreciation							
Balance, January 1, 2008	166,477	37,797	3,765	839	—	724	**209,602**
Amortization	74,374	5,780	3,840	1,005	3,734	867	**89,600**
Impairment charges	18,292	—	552	—	—	—	**18,844**
Effect of exchange rates	782	—	249	50	39	42	**1,162**
Balance, December 31, 2008	259,925	43,577	8,406	1,894	3,773	1,633	**319,208**
Amortization	**89,635**	**3,436**	**4,019**	**1,075**	**5,471**	**254**	**103,890**
Impairment charges	**1,029**	—	—	—	—	—	**1,029**
Effect of exchange rates	**(183)**	—	**(157)**	**(42)**	**(163)**	**(19)**	**(564)**
Balance, December 31, 2009	**350,406**	**47,013**	**12,268**	**2,927**	**9,081**	**1,868**	**423,563**
Carrying amount							
December 31, 2008	245,382	3,673	16,088	6,369	17,456	562	289,530
December 31, 2009	**316,659**	**237**	**12,227**	**5,336**	**12,149**	**328**	**346,936**

Development expenditures relate to the capitalized expenditures regarding certain development programs such as NXT, XT4, EUV and metrology.

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

The recoverable amount of the relevant assets has been determined on the basis of their fair value less cost to sell, which is higher than the value in use. The impairment charges were determined based on the difference between the assets' recoverable amount (being EUR 0.0 million) and their carrying amount. In determining the recoverable amount of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that it uses to manage its business.

During 2009, we recorded amortization charges of EUR 103.9 million (2008: EUR 89.6 million) which were fully recorded in cost of sales in 2009 and 2008.

During 2009, we capitalized borrowing costs of EUR 12.1 million (2008: EUR 7.7 million). The capitalization rate used in determining the borrowing costs in 2009 is 5.75 percent (2008: 5.75 percent).

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

(in thousands)	EUR
2010	220,182
2011	106,180
2012	17,656
2013	1,698
2014	1,037
Thereafter	183
Total	**346,936**

11. Finance receivables

The finance receivables consist of leases that transfer ownership of the systems to the lessee by the end of the lease term. The average lease term is two years. The following table lists the components of the finance receivables as of December 31, 2009:

As of December 31 (in thousands)	**2008** EUR	**2009** **EUR**
Finance receivables, gross	40,866	**22,444**
Unearned interest	(3,611)	**(891)**
Finance receivables, net	37,255	**21,553**
Current portion of finance receivables, gross	6,781	**22,444**
Current portion of unearned interest	(556)	**(891)**
Non-current portion of finance receivables, net	31,030	—

At December 31, 2009, the finance receivables due for payment in each of the next five years and thereafter are as follows:

(in thousands)	EUR
2010	22,444
2011	—
2012	—
2013	—
2014	—
Thereafter	—
Total	**22,444**

12. Financial instruments by category

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

As of December 31, 2008 (in thousands)	Loans and receivables EUR	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	**Total** **EUR**
Assets as per statement of financial position date				
Derivative financial instruments	—	23,257	69,189	**92,446**
Accounts receivable	463,273	—	—	**463,273**
Finance receivables	37,255	—	—	**37,255**
Other non-current and current assets	56,513	—	—	**56,513**
Cash and cash equivalents	1,109,184	—	—	**1,109,184**
Total	1,666,225	23,257	69,189	**1,758,671**

As of December 31, 2008 (in thousands)	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Other financial liabilities EUR	**Total** **EUR**
Liabilities as per statement of financial position date				
Long-term debt	—	—	661,483	**661,483**
Derivative financial instruments	4,265	63,529	—	**67,794**
Accrued and other liabilities	—	—	320,876	**320,876**
Accounts payable	—	—	193,690	**193,690**
Total	4,265	63,529	1,176,049	**1,243,843**

As of December 31, 2009 (in thousands)	Loans and receivables EUR	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	**Total** **EUR**
Assets as per statement of financial position date				
Derivative financial instruments	—	19,981	83,403	**103,384**
Accounts receivable	377,439	—	—	**377,439**
Finance receivables	21,553	—	—	**21,553**
Other non-current and current assets	56,188	—	—	**56,188**
Cash and cash equivalents	1,037,074	—	—	**1,037,074**
Total	1,492,254	19,981	83,403	**1,595,638**

As of December 31, 2009 (in thousands)	Derivatives at fair value through profit or loss EUR	Derivatives for which hedge accounting is applied EUR	Other financial liabilities EUR	Total EUR
Liabilities as per statement of financial position date				
Long-term debt	—	—	668,309	**668,309**
Derivative financial instruments	923	16,548	—	**17,471**
Accrued and other liabilities	—	—	322,939	**322,939**
Accounts payable	—	—	206,226	**206,226**
Total	923	16,548	1,197,474	**1,214,945**

See Note 4 for the fair value measurement hierarchy.

The carrying amounts of the accounts receivable and other assets approximate their fair value.

There are no significant concentrations of credit risk for loans and receivables designated at fair value through profit or loss as of December 31, 2009. The amounts reflected above represent the Company's maximum exposure to credit risk for such loans and receivables.

Credit quality of financial assets

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

Financial instruments contain an element of risk that the counterparties are unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML's counterparties to a sufficient number of major financial institutions. Also, in response to the increased volatility of the financial markets, a material part of the cash and cash equivalents has been invested in government related securities. ASML does not expect the counterparties to default given their high credit quality. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the statement of financial position.

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

13. Derivative financial instruments

As of December 31 (in thousands)	2008 Assets EUR	Liabilities EUR	2009 Assets EUR	Liabilities EUR
Interest rate swaps – cash flow hedges	—	1,644	**—**	**3,326**
Interest rate swaps – fair value hedges	64,817	—	**81,811**	**—**
Forward foreign exchange contracts – cash flow hedges	6,030	65,753	**1,592**	**13,222**
Forward foreign exchange contracts – net investment hedges	2,034	—	**—**	**—**
Forward foreign exchange contracts – other hedges (no hedge accounting)	19,565	397	**19,981**	**923**
Foreign exchange option contracts – cash flow hedges	—	—	**—**	**—**
Total	92,446	67,794	**103,384**	**17,471**
Less non-current portion:				
Interest rate swaps – cash flow hedges	—	1,087	**—**	**1,935**
Interest rate swaps – fair value hedges	53,206	—	**55,948**	**—**
Forward foreign exchange contracts – cash flow hedges	—	18,656	**—**	**—**
Total non-current portion	53,206	19,743	**55,948**	**1,935**
Total current portion	39,240	48,051	**47,436**	**15,536**

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 2009 arising from fair value hedges, EUR 10.7 million ineffectiveness (loss) was recognized in the income statement in 2009 arising from cash flow hedges (2008: EUR 0.0 million and EUR 18.0 million, loss, from fair value hedges and cash flow hedges, respectively). There was no ineffectiveness recognized in the income statement in 2009 and 2008 arising from hedges of net investments in foreign entities.

Currency contracts

The notional principal amounts of the outstanding currency contracts in the main currencies U.S. dollar and Japanese yen at December 31, 2009 are U.S. dollar 152.9 million and Japanese yen 57.1 billion (2008: U.S. dollar 352.0 million and Japanese yen 89.1 billion).

The hedged highly probable forecasted transactions denominated in foreign currency are expected to occur at various dates during the coming two years. Gains and losses recognized in the hedging reserve in equity on forward contracts as of December 31, 2009 are recognized in the income statement in the period or periods during which the hedged forecasted transaction affects the income statement.

We recognized a net amount of EUR 29.3 million gain (2008: EUR 19.2 million gain) in the income statement resulting from exchange differences excluding those arising on financial instruments measured at fair value through profit or loss.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts as of December 31, 2009 were EUR 641.5 million (2008: EUR 641.5 million).

Hedge of net investment in foreign entities

In 2009, the Company decided to change its hedging policy of managing material currency translation exposures resulting predominantly from ASML's U.S. dollar net investments by hedging these partly with forward contracts. The Company decided to no longer hedge these U.S. dollar translation exposures. The related foreign currency translation amounts included in cumulative translation adjustment for the year 2009 was EUR 13.1 million loss. The cumulative gain included in cumulative translation adjustment relating to the net investment hedge would be reclassified from equity to the consolidated income statement only in the event the Company's U.S. subsidiary is (partially) disposed or sold.

14. Other assets

The other non-current assets consist of the following:

As of December 31 (in thousands)	2008 EUR	**2009** **EUR**
Loan to Micronic	13,000	**—**
Compensation plan assets[1]	7,103	**8,520**
Subordinated loan granted to lessor in respect of Veldhoven headquarters[2]	5,445	**5,445**
Other	3,901	**2,105**
Total other non-current assets	29,449	**16,070**

1 For further details on compensation plan refer to Note 22.
2 For further details on loan granted to lessor in respect of Veldhoven headquarters refer to Note 23.

The loan to Micronic related to a license agreement between Micronic Laser Systems AB and ASML which was fully repaid in 2009.

The other current assets consist of the following:

As of December 31 (in thousands)	2008 EUR	**2009** **EUR**
Advance payments to Zeiss	103,798	**73,759**
VAT	18,693	**25,211**
Prepaid expenses	31,314	**21,442**
Other	16,875	**25,532**
Total other current assets	170,680	**145,944**

Zeiss is our sole supplier of lenses and, from time to time, receives non-interest bearing advance payments from us that assist in financing Zeiss' work-in-process and thereby secure lens deliveries to us. Amounts owed under these advance payments are repaid through lens deliveries.

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)	2008 EUR	**2009** **EUR**
Raw materials	140,615	**175,045**
Work-in-process	655,505	**799,390**
Finished products	392,910	**222,639**
Total inventories, gross	1,189,030	**1,197,074**
Provision for obsolescence and/or lower market value	(189,880)	**(210,733)**
Total inventories, net	999,150	**986,341**

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

As of December 31 (in thousands)	2008 EUR	2009 EUR
Balance at beginning of year	(129,045)	**(189,880)**
Addition of the year	(139,628)	**(86,636)**
Effect of exchange rates	(17)	**(260)**
Release of the provision	2,113	**67,155**
Utilization of the provision	76,697	**20,137**
Transfers from property, plant and equipment	—	**(21,249)**
Balance at end of year	(189,880)	**(210,733)**

In 2009, the addition for the year is recorded in cost of sales for an amount of EUR 68.1 million and R&D costs for an amount of EUR 18.5 million (2008: cost of sales EUR 139.6 million).

As of December 31, 2009 the provision for inventory obsolescence amounted to EUR 210.7 million (2008: EUR 189.9 million). The increase in the provision for inventory obsolescence is mainly due to a reassessment by the Company in 2009 of expected future demand based on the unexpected customers' response to the financial and economic crisis. This resulted in an increase in provision for inventory obsolescence for different types of non-leading-edge systems compared to prior year and additional parts which management believes cannot be sold.

During 2009, the Company released an amount of EUR 67.2 million from its provision for inventory obsolescence as a result of a subsequent increase in net realizable value. This change in accounting estimate was caused as in 2009 customer demand for non-leading edge systems (mainly XT:1700s) unexpectedly increased. At the end of 2008, customers in the market segment for Logic technology underestimated the ramp-up of 45 nm technology used in, among others, advanced internet devices and smart phones, which unexpectedly increased demand for our non-leading-edge immersion systems in 2009 (mainly XT:1700i).

The cost of inventories recognized as expense and included in cost of sales amounted to EUR 0.7 billion (2008: EUR 1.4 billion).

16. Accounts receivable

The accounts receivable consist of the following:

As of December 31 (in thousands)	2008 EUR	2009 EUR
Accounts receivable, gross	464,703	**380,678**
Allowance for doubtful debts	(1,430)	**(3,239)**
Accounts receivable, net	463,273	**377,439**

The carrying amount of the accounts receivable approximates the fair value. The maximum exposure to credit risk at December 31, 2009 is the fair value of the accounts receivable mentioned above. ASML has taken additional measures to mitigate credit risk when considered appropriate by means of e.g. letters of credit, down payments and retention of ownership, which is intended to enable ASML to recover the systems in the event a customer defaults on payment.

Accounts receivable are impaired and provided for on an individual basis. As of December 31, 2009, accounts receivable of EUR 46.1 million (2008: EUR 15.9 million) were past due but not impaired. These balances relate to customers for whom there is no recent history of default. The table below shows the ageing analysis of the accounts receivable that are up to three months past due and over three months past due. Accounts receivable are past due when the payment term has expired.

As of December 31 (in thousands)	2008 EUR	2009 EUR
Accounts receivable:		
Up to three months past due	12,022	**41,474**
Over three months past due	3,843	**4,631**
Total	15,865	**46,105**

ASML provided extended payment terms to some of its customers. The average days outstanding increased from 57 days in 2008 to 87 days in 2009.

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

Movements in the allowance for doubtful debts are as follows:

(in thousands)	2008 EUR	2009 EUR
Balance, January 1	(1,385)	**(1,430)**
Addition for the year[1]	(188)	**(1,889)**
Receivables written off during the year as uncollectible	143	**80**
Balance, December 31	(1,430)	**(3,239)**

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

17. Cash and cash equivalents

Cash and cash equivalents at December 31, 2009 include short-term deposits of EUR 652 million (2008: EUR 833 million), investments in money market funds of EUR 303 million (2008: EUR 201 million) and interest-bearing bank accounts of EUR 82 million (2008: EUR 75 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.

18. 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 433,638,976 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid in. The number of issued shares was 444,480,095, which includes the number of repurchased ("treasury") shares of 10,841,119.

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 ASML's annual General Meeting of Shareholders, held on March 26, 2009, the Board of Management was granted the authorization to issue shares and/or rights thereto representing up to a maximum of 5 percent of the Company's issued share capital as of the date of authorization, plus an additional 5 percent of the Company's issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 24, 2011.

Holders of ASML's ordinary shares have a preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to ASML's 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 ASML's annual General Meeting of Shareholders, held on March 26, 2009, the Board of Management was authorized, subject to the aforementioned approval, to restrict or exclude preemptive rights of holders of ordinary shares. At ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to grant this authority through September 24, 2011. At this annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares and options separately for a period of 18 months.

The Company may repurchase its issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and its Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, the Company's current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to the Company's Articles of Association) of shareholders at ASML's 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 26, 2010 up to a maximum of approximately 27 percent of the Company's issued share capital as of the date of authorization (March 26, 2009) 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 ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to extend this authority through September 24, 2011.

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 and 2007. A third amendment to the option agreement between the Foundation and ASML has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares when issued.

The Foundation may exercise the Preference Share Option in situations where, in the opinion of the Board of Directors of the Foundation, the interests of the Company, its business or the interests of its stakeholders are at stake. This may be the case if a public bid for the ordinary shares of the Company has been announced or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the Company. The same may apply if one shareholder, or more shareholders acting in concert, hold a substantial percentage of the issued ordinary shares of the Company without making an offer or if, in the opinion of the Board of Directors of the Foundation, the (attempted) exercise of the voting rights by one shareholder or more shareholders, acting in concert, is materially in conflict with the interests of the Company, its business or its stakeholders.

The objects of the Foundation are to look after the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated in a group with ASML, in such way that the interests of ASML, of those enterprises and of all parties concerned are safeguarded in the best possible way, and influences in conflict with these interests which might affect the independence or the identity of ASML and those companies are deterred to the best of the Foundation's ability, and everything related to the above or possibly conducive thereto. The Foundation seeks to realize its objects by the acquiring and holding of cumulative preference shares in the capital of ASML and by exercising the rights attached to these shares, particularly the voting rights attached to these shares.

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. Exercise of the Preference Share Option could effectively dilute the voting power of the ordinary shares then outstanding by one-half. Only one-fourth of the subscription price is payable at the time of initial issuance of the cumulative preference shares.

Cancellation and repayment of the issued cumulative preference shares by the Company requires the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management which proposal needs prior approval by the Supervisory Board. If the Preference Share Option is exercised and as a result cumulative preference shares are issued, the

Company, at the request of the Foundation, will initiate the repurchase or cancellation of all cumulative preference shares held by the Foundation as a result of such issuance with repayment of the amount paid and exemption from the obligation to pay up on the cumulative preference shares. In that case the Company is obliged to effect the repurchase and cancellation respectively as soon as possible.

If the Foundation will not request the Company to repurchase or cancel all cumulative preference shares held by the Foundation within 20 months after issuance of these shares, the Company will be obliged to convene a General Meeting of Shareholders in order to decide on a repurchase or cancellation of these shares.

The Foundation is independent of the Company. The Board of Directors of the Foundation comprises four independent voting members from the Netherlands business and academic communities: Mr. R.E. Selman, Mr. M.W. den Boogert, Mr. J.M. de Jong and Mr. A. Baan.

Other reserves

Changes in other reserves during 2008 and 2009 were as follows:

	Legal reserves			
(in thousands)	Hedging reserve EUR	Currency translation reserve EUR	Capitalized development expenditures EUR	**Total EUR**
Balance at January 1, 2008	159,038	(259,079)	181,146	**81,105**
Components of statement of comprehensive income:				
Foreign currency translation, net of taxes:				
Gains (losses) on the hedge of a net investment	—	1,902	—	**1,902**
Gain (losses) on translation of foreign operations	—	(12,455)	—	**(12,455)**
Derivative financial instruments, net of taxes:				
Fair value gains (losses) in the year	(51,168)	—	—	**(51,168)**
Transfers to net income	7,589	—	—	**7,589**
Development expenditures	—	—	81,692	**81,692**
Balance at December 31, 2008	115,459	(269,632)	262,838	**108,665**
Components of statement of comprehensive income:				
Foreign currency translation, net of taxes:				
Gains (losses) on the hedge of a net investment	—	(13,116)	—	**(13,116)**
Gain (losses) on translation of foreign operations	—	4,573	—	**4,573**
Derivative financial instruments, net of taxes:				
Fair value gains (losses) in the year	5,217	—	—	**5,217**
Transfers to net loss	1,277	—	—	**1,277**
Development expenditures	—	—	65,830	**65,830**
Currency translation on development expenditures	—	(140)	140	**—**
Balance at December 31, 2009	121,953	(278,315)	328,808	**172,446**

Exchange rate differences relating to the translation from the Company's foreign subsidiaries into euro are recognized in the currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations (ended in 2009) are included in the currency translation reserve.

Hedging reserve represents hedging gains and losses on the effective portion of cash flow hedges. The cumulative gain or loss on the hedge is recognized in net income (loss) when the hedge transaction impacts net income (loss).

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 (loss)

Annually, the Board of Management will assess the amount of dividend that will be proposed to the Annual General Meeting of Shareholders. For 2008, a dividend was declared of EUR 0.20 per ordinary share of EUR 0.09 which was paid in 2009.

A proposal will be submitted to the Annual General Meeting of Shareholders on March 24, 2010 to declare a dividend for 2009 of EUR 0.20 per ordinary share of EUR 0.09. Dividends on ordinary shares are payable out of net income or retained earnings as 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 out of net income on any issued cumulative preference shares.

Share buyback programs

The following table provides a summary of shares repurchased by the Company between 2006 and 2009:

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

2006-2007 Share program

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

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

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

Capital repayment program 2007

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

2007-2008 Share program

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

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

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

Authorization of share repurchases

On March 26, 2009, the General Meeting of Shareholders authorized the repurchase of up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (March 26, 2009) through September 26, 2010. The Company did not buyback any shares in 2009.

19. Long-term debt

The Company's obligations to make principal repayments under the Eurobond and other borrowing arrangements as of December 31, 2009, for the next five years and thereafter and excluding interest charges are as follows:

(in thousands)	EUR
2010	6,955
2011	3,303
2012	—
2013	—
2014	—
Thereafter	600,000
Total	610,258
Less: current portion of long-term debt	6,955
Non-current portion of long-term debt	**603,303**

Eurobond

The following table summarizes the carrying amount of the Company's outstanding Eurobond, including transaction costs and the fair value of interest rate swaps used to hedge the change in the fair value of the Eurobond:

As of December 31 (in thousands)	**2008** EUR	**2009** **EUR**
5.75 percent Eurobond		
Principal amount[1]	594,458	**594,963**
Fair value hedge adjustment[2]	47,050	**63,088**
Total	641,508	**658,051**

1 The principal amount is adjusted for transaction costs.
2 The fair value of the interest rate swaps excludes accrued interest.

In June 2007, ASML completed an offering of EUR 600 million principal amount of its 5.75 percent notes due 2017, with interest payable annually on June 13 of each year. 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 Eurobond serves as a hedged item in a fair value hedge relationship in which ASML hedges the variability of changes in the market value of fixed loan coupons payable on the Company's Eurobond due to changes in market interest rates; the fair value changes of the interest rate swaps are recorded on the statement of financial position under derivative financial instruments (within current and non-current assets). Therefore, the carrying amount is only adjusted for fair value changes in interest rate swaps.

The following table summarizes the estimated fair value of our Eurobond:

As of December 31 (in thousands)	2008 Principal Amount EUR	Carrying Amount EUR	Fair Value EUR	2009 Principal Amount EUR	Carrying Amount EUR	Fair Value EUR
5.75 percent Eurobond	600,000	641,508	345,585	**600,000**	**658,051**	**599,232**

(Source: Bloomberg Finance LP)

The fair value of the Company's Eurobond is estimated based on the quoted market prices as of December 31, 2009. The fair value of the Eurobond is lower than the principal amount as a result of an increased implied credit spread.

Lines of credit

As of December 31, 2009, the Company has available credit facilities for a total amount of EUR 700 million (2008: EUR 500 million). The EUR 700 million of available credit facilities consist of two separate facilities: a EUR 500 million credit facility and a EUR 200 million loan facility. The EUR 500 million credit facility, which will expire in May 2012, contains a covenant that requires the Company to maintain a minimum financial condition ratio, calculated in accordance with a contractually agreed formula. ASML was in compliance with the covenant at the end of 2009 and 2008. Outstanding amounts under this credit facility will bear interest at EURIBOR or LIBOR plus a margin that is dependent on the Company's liquidity position. No amounts were outstanding under this credit facility at the end of 2009 and 2008.

The EUR 200 million loan facility is related to the Company's EUV investment efforts and was entered into in 2009 with the European Investment Bank. This loan can be drawn in tranches up until October 2010. It is repayable in annual installments four years after drawdown, with a final repayment seven years after drawdown. This facility contains a covenant that restricts the maximum indebtedness. ASML was in compliance with the covenant at the end of 2009. Outstanding amounts under this loan facility will bear interest at EURIBOR or LIBOR plus a margin. No amounts were outstanding under this loan facility at the end of 2009.

20. Provisions

Provisions consist of the following:

(in thousands)	Employee contract termination benefits EUR	Onerous contracts EUR	Total EUR
Balance at January 1, 2009	2,265	17,908	**20,173**
Utilization of the provision	(2,244)	(2,747)	**(4,991)**
Unwinding of discount	—	136	**136**
Effect of exchange rates	(21)	(99)	**(120)**
Balance at December 31, 2009	—	**15,198**	**15,198**
Less: current portion of provisions	—	2,504	**2,504**
Non- current portion of provisions	—	**12,694**	**12,694**

In December 2008, ASML announced a restructuring that resulted in the discontinuation of its training center in the United States, downsizing of the United States headquarters and closure of several other locations, reflecting the continuous migration of the semiconductor manufacturing activities to Asia which was accelerated by the financial and economic crisis. The total restructuring costs consisted of employee contract termination benefits and lease contract termination costs.

Provision for employee contract termination benefits relates mainly to the reduction of approximately 105 jobs and comprises only personnel costs. The provision for employee contract termination benefits was fully utilized in 2009.

Provision for lease contract termination costs relates to an operating lease contract for a building for which no economic benefits are expected. The provision for lease contract termination costs is expected to be utilized by 2017.

The restructuring in 2008 resulted in cost savings of EUR 9.2 million in 2009, consisting of a EUR 2.7 million decrease in rental expenses and EUR 6.5 million decrease in employee expenses. The actual savings are in line with the savings that the Company anticipated at the end of 2008. These actions resulted in an approximately similar positive effect on cash flows from operating activities.

21. Accrued and other liabilities

Accrued and other liabilities consist of the following:

As of December 31	2008	2009
(in thousands)	EUR	**EUR**
Deferred revenue	252,515	**215,990**
Costs to be paid	190,225	**208,684**
Advances from customers	169,250	**274,074**
Personnel related items	130,651	**114,255**
Warranty	35,225	**23,208**
Other	4,470	**4,650**
Total accrued and other liabilities	782,336	**840,861**
Less: non-current portion of accrued and other liabilities	50,293	**42,424**
Current portion of accrued and other liabilities	732,043	**798,437**

Deferred revenue mainly consists of prepaid extended and enhanced (optic) warranty contracts and award credits regarding free or discounted products or services.

Cost to be paid mainly relate to accrued cost for unbilled services provided by vendors including contracted labor, outsourced services and consultancy.

Advances from customers consist of down payments made by customers prior to shipment for systems included in ASML's current product portfolio or systems currently under development.

Personnel related items mainly consist of accrued management bonuses, accrued vacation days, accrued vacation allowance, accrued wage tax, social securities and accrued pension premiums.

Changes in product warranty liabilities for the years 2008 and 2009 are as follows:

	2008	2009
(in thousands)	EUR	**EUR**
Balance, January 1	73,198	**35,225**
Additions of the year	30,322	**15,047**
Utilization of the provision	(35,233)	**(19,360)**
Release of the provision	(33,409)	**(7,666)**
Effect of exchange rates	347	**(38)**
Balance, December 31	35,225	**23,208**

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.

22. Employee Benefits

Deferred Compensation Plans

In February 1997, SVG (a company that merged with ASML in May 2001) adopted a non-qualified deferred compensation plan that allowed a select group of management and highly compensated employees and directors to defer a portion of their salary, bonus and directors fees. The plan allowed SVG to credit additional amounts to participants' account balances, depending on the amount of the employee's contribution, up to a maximum of 5.0 percent of an employee's annual salary and bonus. In addition, interest is credited to the participants' account balances at 120 percent of the average Moody's corporate bond rate. For calendar years 2008 and 2009, participants' accounts were credited at 7.34 percent and 9.07 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 2008 and 2009, the expense incurred under this plan was EUR 0.2 million and 0.2 million, respectively. As of December 31, 2008 and 2009 the Company's liability under the deferred compensation plan was EUR 2 million and EUR 2 million respectively.

In July 2002, ASML adopted a non-qualified deferred compensation plan for its United States employees that allows a select group of management or highly compensated employees to defer a portion of their salary, bonus, and commissions. The plan allows ASML to credit additional amounts to the participants' account balances. The participants divide their funds among the investments available in the plan. Participants elect to receive their funds in future periods after the earlier of their employment termination or their withdrawal election, at least three years after deferral. There were minor plan expenses in 2007, 2008 and 2009. On December 31, 2008 and 2009, the Company's liability under the deferred compensation plan was EUR 5 million and EUR 7 million, respectively.

Pension plans

ASML maintains various pension plans covering substantially all of its employees. The Company's approximately 3,600 payroll employees in FTEs in the Netherlands participate in a multi-employer union plan ("Bedrijfstakpensioenfonds Metalektro") determined in accordance with the collective bargaining agreements effective for the industry in which ASML operates. This multi-employer plan spans approximately 1,250 companies and 156,000 contributing members. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Netherlands governmental authorities. By law (the Netherlands Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan's assets to its obligations. This coverage ratio must exceed 100 percent for the total plan. Every company participating in a Netherlands multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The pension rights of each employee are based upon the employee's average salary during employment.

ASML accounts for its multi-employer defined benefit plan as if it were a defined contribution plan as PME informed ASML that its internal administrative systems are not organized to provide ASML with the required company-specific information to enable ASML to account for the plan as a defined benefit plan. ASML's net periodic pension cost for this multi-employer plan for any fiscal period is the amount of the required contribution for that period. A contingent liability may arise from, for example, possible actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity or any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

The coverage ratio of the multi-employer plan increased to 100 percent as of November 30, 2009 (November 30, 2008: 91 percent). For 2010, the pension premium will not increase. The current premium level, which is 23 percent of the total pensionable salaries, is the maximum premium determined in the articles of association of the Pension Company. The coverage ratio is calculated by dividing the fund's capital by the total sum of pension liabilities and is based on actual market interest.

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

The Company's pension costs for all employees for the two years ended December 31, 2009 were:

Year ended December 31 (in thousands)	**2008** EUR	**2009** **EUR**
Pension plan based on multi-employer union plan	30,579	**30,930**
Pension plans based on defined contribution	8,466	**8,895**
Total	39,045	**39,825**

Bonus plan

ASML has a performance-related bonus plan for senior management, who are not members of the Board of Management. Under this plan, the bonus amount is dependent on the actual performance on corporate, departmental and personal targets. The bonus for members of senior management can range between 0 percent and 40 percent, or 0 percent and 70 percent of their annual salaries, depending upon their seniority. The performance targets for 2009 are set per half year. The bonus of the first half of 2009 has been paid in the second half of 2009, partly in shares and partly in cash. The bonus of the second half is accrued for in the consolidated statement of financial position as of December 31, 2009 and is expected to be paid in the first quarter of 2010. The Company's bonus expenses for all participants under this plan were:

Year ended December 31	2008	2009
(in thousands)	EUR	**EUR**
Bonus expenses	7,756	**9,167**

ASML has a retention bonus plan for employees and executives of Brion including three retention bonuses. The first retention bonus was conditional on the first year of employment after the acquisition date and was paid in March 2008. The second retention bonus is conditional on the second year of employment after the acquisition date and was paid 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	2008	2009
(in thousands)	EUR	**EUR**
Bonus expenses	5,031	**5,222**

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 2008 and 2009 was 6 percent and 0 percent, respectively.

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 12.8 million in 2008 and EUR 13.4 million in 2009.

Total compensation expenses related to non-vested awards to be recognized in future periods amount to EUR 15.4 million as per December 31, 2009 (2008: EUR 17.5 million). The weighted average period over which these costs are expected to be recognized is calculated at 1.2 years (2008: 1.5 years).

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price per share (EUR)
Outstanding, January 1, 2007	23,423,350	23.40
Granted	1,438,100	8.59
Exercised	(4,345,322)	15.29
Forfeited	(172,560)	13.33
Expired	(5,293,469)	33.40
Outstanding, December 31, 2007	15,050,099	20.89
Granted	990,526	14.38
Exercised	(1,119,426)	12.03
Forfeited	(984,832)	11.99
Expired	(2,008,620)	17.02
Outstanding, December 31, 2008	11,927,747	22.53
Granted	65,300	19.39
Exercised	(1,014,287)	10.73
Forfeited	(162,313)	14.93
Expired	—	—
Transfer to/from Board of Management[1]	79,536	23.40
Outstanding, December 31, 2009	**10,895,983**	**23.74**
Exercisable, December 31, 2009	9,688,912	24.81
Exercisable, December 31, 2008	9,731,391	24.29
Exercisable, December 31, 2007	10,696,587	24.37

1 In 2009, as a result of a change in the Board of Management stock options were transferred between employee benefits and Board of Management remuneration.

The estimated weighted average fair value of options granted during 2008 and 2009 was EUR 6.56 and EUR 8.75, respectively, on the date of grant.

The weighted average share price at the date of exercise for stock options was EUR 20.31 (2008: EUR 17.91).

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

Range of exercise prices (EUR)	Number outstanding December 31, 2009	Number exercisable December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options (EUR)
0.15 — 7.94	622,674	569,468	0.34	1.56
8.17 — 12.62	4,465,707	3,901,134	5.19	11.42
12.75 — 19.13	1,652,408	1,403,235	6.30	17.21
19.45 — 29.18	564,264	224,145	8.02	23.30
29.65 — 44.48	21,000	21,000	2.07	36.89
45.02 — 67.53	3,569,930	3,569,930	2.07	46.02
Total	**10,895,983**	**9,688,912**	**4.51**	**23.74**

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

As of December 31 (in thousands, except for contractual term)	2008	2009
Aggregate intrinsic value of stock options exercised (EUR)	5,894	**10,140**
Total fair value of shares vested during the year (EUR)	4,288	**8,465**
Aggregate remaining contractual term of currently exercisable options (years)	4.83	**4.03**
Aggregate intrinsic value of exercisable stock options (EUR)	—	—
Aggregate intrinsic value of outstanding stock options (EUR)	—	**7,398**

Stock transactions are summarized as follows:

Share plan	Year	Conditionally outstanding stock at January 1, 2009	Number of conditionally stock granted	Stock price (EUR)	Forfeited/ expired	Vested	Conditionally outstanding stock at December 31, 2009	End of vesting period
Employee plan	2007	45,151	—	24.26	(1,385)	—	43,766	19-10-2010
Brion stock plan	2007	221,349	—	17.50	—	(110,675)	110,674	07-03-2010
Brion performance stock plan	2007	81,490	—	23.12	—	(40,822)	40,668	31-12-2010
New hire performance stock plan	2007	24,546	—	22.00	—	—	24,546	31-12-2010
Senior management plan[1]	2007	69,074	—	17.80	(35,101)	—	33,973	19-10-2010
Employee plan	2008	35,761	—	14.87	(719)	—	35,042	18-07-2011
Brion performance stock plan	2008	200,032	—	12.95	—	(67,376)	132,656	31-12-2011
New hire performance stock plan	2008	39,408	—	14.83	—	—	39,408	31-12-2010
Senior management plan	2008	—	88,072	13.05	—	—	88,072	18-07-2011
Employee plan	2009	—	93,050	19.85	—	—	93,050	16-10-2012
Total		**716,811**	**181,122**		**(37,205)**	**(218,873)**	**641,855**	

Each year the Board of Management determines, by category of ASML personnel, the total available number of stock options and maximum number of shares that can be granted in that year. The determination is subject to the approval of the Supervisory Board of the Company. Options granted under ASML's stock option plans have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the applicable grant dates. Granted stock options generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

The fair value of the stock options is determined using a Black-Scholes option valuation model.

The Black-Scholes option valuation of the fair value of the Company's stock options is based on the following assumptions:

As of December 31	2008	2009
Weighted average share price (in EUR)	12.5	**16.7**
Volatility (in percentage)[1]	54.5	**51.7**
Expected life (in years)	4.9	**4.6**
Risk free interest rate	4.4	**3.2**
Expected dividend yield (in EUR)	1.15	**1.06**
Forfeiture rate[2]	—	**—**

1 The Company uses the expected (implied) volatility method to determine the volatility.
2 As per year-end 2008 and 2009 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.

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

The fair value of the stock options is determined using a Black-Scholes option valuation model. For the assumptions on which the Black-Scholes option valuation model is used see the disclosure above.

Senior management plan
The senior management plan consists of two parts, both including a half year performance condition based on a targeted Return On Average Invested Capital (“ROAIC”) and a three-year service condition. ROAIC is determined by dividing the average income (loss) from operations less provision for (benefit from) income taxes by the average invested capital. The average invested capital is determined by total assets less cash and cash equivalents, less current liabilities.

Stock and stock options are granted two times per year under the senior management plan. Stock options granted under the senior management plan have fixed exercise prices equal to the closing price of the Company’s ordinary shares on Euronext Amsterdam on the date the plan was communicated to senior management (announcement date). The fair value of stock is determined based on the closing price of the Company’s ordinary shares on Euronext Amsterdam on the announcement date. The announcement date may differ from the grant date for reason of later approval and mutual understanding of the performance condition. Granted awards generally vest over a two to three-year period with any unexercised stock options expiring ten years after the announcement date.

Employee plan
The employee plan includes a three-year service condition. Stock options granted under the employee plan have fixed exercise prices equal to the closing price of the Company’s ordinary shares on Euronext Amsterdam on the grant date. The fair value of stock is determined based on the closing price of the Company’s ordinary shares on Euronext Amsterdam on the grant date. Granted awards generally vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

New hire performance stock plan
Some new hires are eligible to conditional performance stock awards, under the conditions set out in the general terms and conditions. The maximum number of performance stock will be determined on the day of conditional grant and will be based upon the market fair value of an ASML share per that day. The ultimately awarded number of shares of performance stock will be determined on yearly targets over a three-year period of achievement. These targets are financial parameters relating to ROAIC parameters of a benchmark group.

Brion share-based payment plans
In March, 2007 ASML acquired Brion. As part of a retention package employees and executives of Brion have been granted stock awards, performance stock awards and the Brion stock options outstanding at the acquisition date have been converted to ASML stock options.

Brion stock plan
The Brion stock plan includes a three-year service condition. The fair value of the stock is determined based on the closing price of the Company’s ordinary shares on the NASDAQ on the grant date. Granted awards generally vest over a three-year period.

Brion performance stock plan
The performance stock awards are conditional on the executive completing a three to four-year requisite service period and on achievement of the performance conditions. The performance target is based on multiple metrics, each with its own weight. The fair value of the stock is determined based on the closing price of the Company’s ordinary shares on the NASDAQ on the grant date.

Brion stock option plan
At the effective date of the acquisition the existing stock options of Brion have been converted to ASML stock options leaving the vesting terms and conditions unchanged. The fair value of the stock options was determined using a Black-Scholes option valuation model. The fair value of the stock options relating to past services is part of the total purchase consideration. The fair value of the stock options relating to future services will be part of future compensation expenses. Granted awards generally vest over a four-year period.

Stock Option Extension Plans and Financing
In 2002, employees were offered an extension of the option period for options granted in 2000. As a result the option period was extended until 2012. Employees who accepted the extension became subject to additional exercise periods in respect of their options. At the modification date, there was no intrinsic value of the modified award because the exercise price under each plan still exceeded ASML's stock price on the modification date. As a result, these stock option extensions did not result in recognition of any compensation expense in accordance with IFRS 2.

Stock option plans that were issued before 2001 were constructed with a virtual financing arrangement in compliance with the applicable laws and after obtaining the necessary corporate approvals, whereby ASML loaned the tax value of the options granted to employees subject to the Netherlands tax-regime. The interest-free loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option is actually exercised. If the options expire unexercised, the loans are forgiven. ASML's Supervisory Board approved the Stock Option Plans 2000 at the time, including the loans, as these were part of the Stock Option Plan.

In 2006, the Company launched a stock option plan for Netherlands employees holding stock options granted in 2000 (option "A"), which expire in 2012. In this plan the Company 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 ASML 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, ASML issued new shares to satisfy the option rights of option holders upon exercise. In 2007, both new shares as well as repurchased shares were used to satisfy the option rights upon exercise. In 2008 and 2009, only repurchased shares were used to satisfy the option rights upon exercise.

23. 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 statement of financial position but are required to be disclosed.

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

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

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

The total equity investment at risk is approximately 3.6 percent of the lessor's total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders. Furthermore, we have no potential voting rights, we are not in the ability to sell, lease, or otherwise dispose of the entity's assets, to enter into contracts or commitments on behalf of the entity or to establish or take any action that could change the operating or capital policies of the entity, and finally, the entity is not an integral part of our business.

Finally, to make the determination of control, the expected losses and expected residual returns of the lessor were allocated to each holder of the lessor entity based on their contractual right to absorb expected losses and residual returns. The analysis of expected losses and expected residual returns involved determining the expected negative and positive variability in the fair value of the lessor's net assets exclusive of special interests through various cash flow scenarios based upon the expected market value of the lessor's net assets. Based on this analysis, ASML determined that the shareholders of the lessor entity will absorb the majority of the lessor's expected losses, and as a result, ASML does not control the entity.

ASML's maximum exposure to the lessor's expected losses is estimated to be approximately EUR 5.4 million. The resulting lease obligation is included in the line Operational Lease Obligations; refer to the table "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, 2009 can be summarized as follows:

Payments due by period (in thousands)	**Total** **EUR**	**Less than 1 year** EUR	**1-3 years** EUR	**3-5 years** EUR	**After 5 years** EUR
Long-term debt obligations, including interest expenses[1]	**949,346**	41,455	72,303	69,000	766,588
Operating lease obligations	**122,357**	26,136	42,074	27,912	26,235
Purchase obligations	**1,431,247**	1,388,902	40,985	788	572
Liability for uncertain tax positions	**133,270**	8,535	41,544	35,699	47,492
Total	**2,636,220**	**1,465,028**	**196,906**	**133,399**	**840,887**

1 We refer to Note 19 to the consolidated financial statements for the amounts excluding interest charges.

Long-term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. See Note 19 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 43 million and EUR 37 million for the years ended December 31, 2008 and 2009, respectively.

Several operating leases for the Company's 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, 2009 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	**55,736**	—	8,250	8,999	38,487

Purchase obligations include purchase commitments with vendors in the ordinary course of business. ASML expects that it will honor these purchase obligations to fulfill future sales, in line with the timing of those future sales. If not, the general terms and conditions of the agreements relating to the major part of the Company's purchase commitments as of December 31, 2009 contain clauses that enable ASML to delay or cancel delivery of ordered goods and services up to the dates specified in the corresponding purchase contracts. These terms and conditions that ASML has agreed with its supply chain partners give ASML additional flexibility to adapt its purchase obligations to its requirements in light of the inherent cyclicality of the industry in which the Company operates. The Company establishes a provision for cancellation fees when it is probable that the liability has been incurred and the amount of cancellation fees is reasonably estimable.

For further disclosure regarding the liability for uncertain tax positions, see Note 25.

Furthermore, the Company's contractual obligations consist of the following derivative financial instruments:

(in thousands)	Total EUR	Less than 1 year EUR	1-3 years EUR	3-5 years EUR	After 5 years EUR
Cash outflows					
Currency contracts	**724,977**	724,977	—	—	—
Interest rate swaps	**840,755**	10,236	66,523	56,688	707,308
Cash inflows					
Currency contracts	**733,343**	733,343	—	—	—
Interest rate swaps	**925,396**	34,778	87,660	70,795	732,163

For further disclosure regarding these derivative financial instruments, see Note 5.

Tax unity

ASML Holding N.V. forms a tax unity together with its Netherlands subsidiaries for purposes of Netherlands tax law and are as such jointly and severally liable for the tax debts of the unity.

24. 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.

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

25. Income Taxes

The components of income (loss) before income taxes are as follows:

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Netherlands	220,923	**(177,496)**
Non-Netherlands	167,430	**93,549**
Total	388,353	**(83,947)**

In addition to the income tax benefit recognized in the consolidated income statement, current and deferred tax of EUR 7.7 million have been recognized in equity in the year 2009 related to share-based payment plans and derivative financial instruments (2008: EUR 23.0 million gain).

The Netherlands statutory tax rate amounted to 25.5 percent in 2009 and 2008. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The reconciliation between the (provision for) benefit from income taxes shown in the consolidated income statement, based on the effective tax rate, and expense based on the Netherlands tax rate, is as follows:

Year ended December 31 (in thousands)	**2008** EUR	%	**2009** **EUR**	%
Income (loss) before income taxes	388,353	100.0	**(83,947)**	**100.0**
Income tax (expense) benefit based on Netherlands rate	(99,030)	25.5	**21,406**	**25.5**
Change in statutory tax rate	—	—	—	—
Different tax rates	26,935	(7.0)	**18,762**	**22.4**
Other credits and non-taxable items	60,640	(15.6)	**(37,664)**	**(44.9)**
(Provision for) benefit from income taxes shown in the consolidated income statement	(11,455)	2.9	**2,504**	**3.0**

Income tax (expense) benefit based on Netherlands rate reflects the tax (expense) benefit that would have been applicable if all of the Company's income (loss) was derived from its Netherlands operations and there were no permanent book tax differences.

A portion of ASML's 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 different tax rates applicable in these non-Netherlands jurisdictions.

Other credits and non-taxable items reflect the impact on statutory rates of permanent non-deductible and non-taxable items such as non-deductible taxes, non-deductible interest expense, and non-deductible meals and entertainment, as well as the impact of (the reversal of) various tax credits on the Company's provision for income taxes.

In 2008, ASML recognized tax income of approximately EUR 70 million or approximately 18 percent of income before tax attributable to three main items on which the Company reached agreement with the Netherlands tax authorities. These items were the treatment of taxable income related to ASML's patent portfolio (application of the "Royalty Box") in 2007, the valuation of intellectual property rights acquired in the past against historical exchange rates, and the treatment of taxable income related to a temporarily depreciated investment in ASML's United States subsidiary, all of which had a favorable impact on the effective tax rate for 2008.

In 2009, ASML recognized tax expense of approximately EUR 40 million or approximately 48 percent of loss before income taxes attributable to the reversal of the 2007 Royalty Box benefit which had an unfavorable impact on the effective tax rate for 2009. In 2009, based on a tax law change effective January 1, 2010, ASML decided to reverse the Royalty Box benefits of 2007 as management expects that a clean start of the Innovation Box (which under Netherlands law replaces the Royalty Box as of January 1, 2010) in 2010 will result in a higher cumulative benefit for ASML.

The (provision for) benefits from income taxes consists of the following:

Year ended December 31 (in thousands)	**2008** EUR	**2009** **EUR**
Current		
Netherlands	45,164	**7,886**
Non-Netherlands	(16,502)	**(21,426)**
Deferred		
Netherlands	(40,225)	**20,316**
Non-Netherlands	108	**(4,272)**
Total	(11,455)	**2,504**

The deferred tax positions and liability for uncertain tax positions recorded on the statement of financial position are as follows:

As of December 31 (in thousands)	2008 EUR	2009 EUR
Deferred tax position	89,386	**135,951**
Liability for uncertain tax positions	(124,202)	**(133,270)**
Total	(34,816)	**2,681**

The calculation of the Company's tax positions involves uncertainties in the application of complex tax laws. The Company's estimate for the potential outcome of any uncertain tax position is highly judgmental. The Company believes that it has adequately provided for uncertain tax positions. However, settlement of these uncertain tax positions in a manner inconsistent with its expectations could have a material impact on its consolidated financial statements.

The liability for uncertain tax positions mainly relates to transfer pricing positions, operational activities in countries where we are not tax registered and tax deductible costs. We provide for these uncertain tax positions for the duration of the statute of limitations period, which differs per tax jurisdiction and generally ranges up to seven years, or in case of an earlier settlement, when the uncertain tax position is settled with the tax authorities before the statute of limitations period lapses. As of December 31, 2009 the liability for uncertain tax positions amounted to EUR 133.3 million and is included in deferred and other tax liabilities in the consolidated statement of financial position.

(in millions)	2008 EUR	2009 EUR
Balance, January 1	110.3	**124.2**
Gross increases – tax positions in prior period	13.0	**6.4**
Gross decreases – tax positions in prior period	(6.5)	**(1.8)**
Gross increases – tax positions in current period	15.2	**10.6**
Settlements	(5.0)	**(4.3)**
Lapse of statute of limitations	(2.8)	**(1.8)**
Balance, December 31	124.2	**133.3**

For the year ended December 31, 2009, there were no material changes related to the liability for unrecognized tax benefits that impacted the Company's effective tax rate.

The Company estimates that the total liability for unrecognized tax benefits will decrease by EUR 8.5 million within the next 12 months. The estimated changes to the liability for unrecognized tax benefits within the next 12 months are mainly due to expected settlements and expiration of statute of limitations.

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

As of December 31 (in thousands)	2008 EUR	2009 EUR
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	120,399	**153,104**
Deferred tax asset to be recovered within 12 months	105,145	**113,549**
Deferred tax liabilities		
Deferred tax liability to be settled after more than 12 months	(95,977)	**(97,456)**
Deferred tax liability to be settled within 12 months	(40,181)	**(33,246)**
Total	89,386	**135,951**

Deferred tax assets to be recovered within 12 months and to be recovered after more than 12 months increased as a result of the current loss situation of the Company in certain tax jurisdictions, as these losses are expected to be offset by prior and future year's profits, respectively.

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

As of December 31 (in thousands)	**2008** EUR	**2009** **EUR**
Tax effect carry forward losses	57,832	**107,060**
Bilateral Advance Pricing Agreement	20,856	**14,390**
Capitalized development expenditures	(17,795)	**(63,443)**
Inventories and work-in-process	33,298	**24,660**
Unrealised profits resulting from intercompany transactions	24,446	**30,347**
Restructuring and impairment	12,840	**8,004**
Temporary depreciation investments	(72,587)	**(36,293)**
Other temporary differences	30,496	**51,226**
Total	89,386	**135,951**

Deferred tax assets from carry-forward losses result predominantly from net operating loss carry-forwards incurred in the Netherlands and the United States.

Net operating losses qualified as tax losses under Netherlands tax laws incurred by Netherlands subsidiaries can in general be offset against future profits realized in the nine years following the year in which the losses are incurred, and can be offset with profits of (carried back to) the year prior to the loss year. Certain specific 2009 losses incurred by Netherlands ASML entities can, optionally, be carried back partly – for a limited amount of EUR 10 million per year – to two additional prior years 2006 and 2007 at the expense of three future offset years. These carry-back losses are reflected in the Company's current tax assets as of December 31, 2009. The total amount of losses carried forward under Netherlands tax laws as of December 31, 2009 is EUR 188.9 million tax basis or EUR 48.2 million tax effect. Management believes that all qualified tax losses will be offset by future taxable income before the Company's ability to utilize those losses expires.

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, 2009 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, 2009 will expire in the period 2010 through 2023. The total amount of losses carried forward under United States federal tax laws as of December 31, 2009 is EUR 147.5 million tax basis or EUR 58.9 million tax effect. Management believes that all qualified tax losses will be offset by future taxable income before the Company's ability to utilize those losses expires. This analysis takes into account the Company's projected future taxable operating income and possible tax planning alternatives available to the Company.

In 2008 and 2009, 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, 2008 and 2009.

The deferred tax assets for inventories relate to temporary differences on timing of allowance for obsolete inventory in the United States. Temporary differences on timing of allowance for obsolete inventory result from tax laws that defer deduction for an allowance for obsolete inventory until the moment the related inventory is actually disposed of or scrapped, rather than when the allowance is recorded for accounting purposes. The deferred tax assets related to work-in-progress relate to a 2007 tax law change in The Netherlands requiring accelerated profit recognition on work-in-process.

The deferred tax assets for restructuring and impairment relate to costs that are tax deductible in future years.

Pursuant to Netherlands tax laws, the Company has temporarily depreciated part of its investment in its United States group companies in the period 2001 through 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 through 2010 in five equal installments. As of December 31, 2009, this repayment obligation amounted to EUR 36.3 million, which is recorded as a deferred tax liability in the Company's consolidated statement of financial position.

The Company is subject to tax audits in its major tax jurisdictions for years as from 2007 for the Netherlands, for years as from 2004 for Hong Kong and for years as from 2001 for the United States. During such audits, local tax authorities may challenge the positions taken by the Company.

26. Subsidiaries

Details of the Company's subsidiaries at December 31, 2009 are as follows:

Legal entity	Country of Incorporation
Subsidiaries of ASML Holding N.V.:	
ASML Netherlands B.V.	Netherlands (Veldhoven)
ASML MaskTools B.V.	Netherlands (Veldhoven)
ASML Systems B.V.	Netherlands (Veldhoven)
ASML Germany GmbH	Germany (Dresden)
ASML France S.a.r.l.	France (Montbonnot)
ASML (UK) Ltd.	UK (Paisley (Scotland))
ASML Israel (2001) Ltd.	Israel (Ramat-Gan)
ASML Ireland Ltd.	Ireland (Dublin)
ASML Dublin Ltd.	Ireland (Dublin)
ASML Italy S.r.l.	Italy (Avezzano)
ASML Hong Kong Ltd.	Hong Kong SAR
ASML Singapore Pte. Ltd.	Singapore
ASML Korea Co. Ltd.	Korea (Kyunggi-Do)
ASML Japan Co. Ltd.	Japan (Kawasaki-shi, Kanagawa-Ken)
ASML Shanghai International Trading Co. Ltd.	China/ Shanghai Free Trade Zone
ASML (Tianjin) Co. Ltd.	China (Tianjin)
ASML Taiwan Ltd.	Republic of China (Hsinchu)
ASML Equipment Malaysia Sdn. Bhd.	Malaysia (Penang)
ASML US, Inc.	US (Delaware)
ASML Belgium BVBA	Belgium (Essen)
Subsidiaries of ASML US, Inc.:	
ASML Capital US, Inc.	US (Delaware)
ASML MaskTools Inc.	US (Delaware)
Brion Technologies, Inc.	US (Delaware)
ASML Participation US Inc.	US (Tempe)
Lehrer Pearson Inc	US (Richmond)
ASML Ventures 1 Inc.	US (Tempe)
Subsidiaries of Brion Technologies, Inc:	
Brion Technologies KK	Japan (Tokyo)
Brion Technologies Int	Cayman Islands (Georgetown)
Brion Technologies (Shenzhen) Co. Ltd.	China (Shenzhen)
Subsidiary of ASML Hong Kong Ltd.:	
ASML Hong Kong Logistic Services Ltd.	Hong Kong SAR
Limited partnership with ASML Belgium BVBA as the managing partner:	
ASML Finance Belgium CV	Belgium (Essen)

27. Segment Disclosure

The Company has adopted IFRS 8, "Operating Segments" as of January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's management in order to allocate resources and to assess its performance. In contrast, the predecessor Standard, "IAS 14, Segment Reporting", required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach.

In accordance with IFRS 8, ASML's Chief Executive Officer has been identified as the chief operating decision-maker, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company.

Following the adoption of IFRS 8, ASML operates in one reportable segment for the development, manufacture, marketing and servicing of lithography equipment, and therefore there is no change to the identification of the Company's segment. However there is a change in the measurement of the Company's segment due to the adoption of IFRS 8, which is further explained below.

Management reporting includes net system sales figures of new and used systems. Net sales for new and used systems were as follows:

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
New systems	2,346,337	**993,260**
Used systems	170,425	**181,598**
Total net system sales	2,516,762	**1,174,858**

Segment performance is evaluated by the Company's management based on U.S. GAAP net income or loss which in certain respect, as explained in the table below, is measured differently from net income or loss reported by the Company in its consolidated financial statements, which are based on IFRS, as adopted by the EU.

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Net system sales	2,516,762	**1,174,858**
Net service and field option sales	436,916	**421,205**
Total net sales	2,953,678	**1,596,063**
Cost of system sales	1,631,069	**852,417**
Cost of service and field option sales	307,095	**285,254**
Total cost of sales	1,938,164	**1,137,671**
Gross profit on sales	1,015,514	**458,392**
Research and development costs	516,128	**466,761**
Selling, general and administrative costs	212,341	**156,644**
Income (loss) from operations	287,045	**(165,013)**
Interest income	72,497	**42,766**
Interest expense	(49,898)	**(49,303)**
Income (loss) from operations before income taxes	309,644	**(171,550)**
Benefit from income taxes	12,726	**20,625**
Net income (loss)	322,370	**(150,925)**
Differences U.S. GAAP and IFRS	54,528	**69,482**
Net income / (loss) for IFRS	376,898	**(81,443)**

Segment performance is also evaluated by the Company's management based on U.S. GAAP for total assets. The table below presents the measurements and the reconciliation to total assets in the consolidated statement of financial position:

(in thousands)	2008 EUR	2009 EUR
Total assets for management reporting purposes	3,939,394	**3,727,497**
Differences U.S. GAAP and IFRS	255,224	**350,379**
Total assets for IFRS	4,194,618	**4,077,876**

For geographical reporting, net sales are attributed to the geographic location in which the customers' facilities are located. Total non-current assets are attributed to the geographic location in which they are located and exclude deferred tax assets and derivative financial instruments. Net sales and non-current assets by geographic region were as follows:

Year ended December 31	Net sales	Non-current assets
(in thousands)	EUR	EUR
2008		
Japan	437,202	23,992
Korea	909,941	3,573
Singapore	72,245	574
Taiwan	361,808	37,162
Rest of Asia	252,713	1,711
Europe	280,040	714,228
United States	639,729	259,316
Total	2,953,678	1,040,556
2009		
Japan	**41,075**	**36,647**
Korea	**377,677**	**1,906**
Singapore	**155,825**	**561**
Taiwan	**440,222**	**41,849**
Rest of Asia	**144,004**	**1,193**
Europe	**68,652**	**796,626**
United States	**368,608**	**249,420**
Total	**1,596,063**	**1,128,202**

In 2009, sales to the largest customer accounted for EUR 349 million or 21.9 percent of net sales. In 2008, sales to the largest customer accounted for EUR 754 million or 25.5 percent of net sales.

ASML's three largest customers (based on net sales) accounted for 44.0 percent of accounts receivable at December 31, 2009 and 42.2 percent of accounts receivable at December 31, 2008.

Substantially all our sales were export sales in 2008 and 2009.

28. Personnel

Personnel expenses for all payroll employees were:

Year ended December 31	2008	2009
(in thousands)	EUR	**EUR**
Wages and salaries	477,374	**436,888**
Social security expenses	37,877	**38,533**
Pension and early retirement expenses	39,045	**39,825**
Share-based payments	12,809	**13,394**
Total	567,105	**528,640**

The average number of payroll employees in FTEs during 2008 and 2009 was 6,840 and 6,024 respectively. The total number of payroll personnel employed in FTEs per sector was:

Year ended December 31	2008	2009
Research and development	2,042	**2,014**
Goodsflow	1,936	**1,749**
Industrial engineering	—	**269**
Customer Support	2,346	**1,893**
General	488	**497**
Sales	118	**126**
Total	6,930	**6,548**

As of December 31, 2008 and 2009, a total of 1,329 and 1,137 temporary employees in FTEs, respectively, were employed in the Company's operations.

In 2008 and 2009, a total of 3,510 and 3,601 (on average) payroll employees in FTEs (excluding temporary employees), respectively, were employed in the Netherlands.

29. 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, in cooperation with the Audit Committee and the Technology & Strategy Committee of the Supervisory Board. The 2008 remuneration policy was adopted by the General Meeting of Shareholders on April 3, 2008. ASML's aim with the remuneration policy is to continue to attract, reward and retain qualified industry professionals in an international labor market. The remuneration structure and levels are determined by referencing to the median level of the appropriate top executive pay market practices by benchmarking positions. The total remuneration consists of base salary and benefits, short-term performance cash bonus and short-term 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	2008 EUR	2009 EUR
Salaries	2,073,000	**2,106,333**[1]
Bonuses	988,236[2]	**1,303,821**[3]
Pension cost	249,072	**253,683**
Other benefits[4]	266,625	**269,617**
Total	3,576,933	**3,933,454**

1 The slight increase in base salaries for 2009 as compared to 2008 is a result of the inclusion of one month base salary paid to Mr. Schneider-Maunoury in 2009.
2 The bonuses relate for an amount of EUR 629,255 to the first half of 2008 and for an amount of EUR 358,981 for the second half of 2008, which was paid in ASML shares for one third part, being EUR 329,412.
3 As a response to the financial and economic crisis in 2009, the Company decided to postpone the Board of Management's payment of the 2009 cash bonus (variable pay). Payment will be postponed until the cumulative operating income after two consecutive quarters, after December 31, 2009, is at least EUR 100 million.
4 Other benefits include housing costs, company car costs, social security costs, health and disability insurance costs and representation allowances.

The 2009 remuneration of the individual members of the Board of Management was as follows:

	Base Salary EUR	Cash bonus to be paid in future years[1] EUR	Other benefits[2] EUR	Total EUR
E. Meurice	735,000	507,150	141,377	**1,383,527**
P.T.F.M. Wennink	455,000	251,160	44,886	**751,046**
M.A. van den Brink	483,000	266,616	44,992	**794,608**
F.J. van Hout	400,000	220,800	35,199	**655,999**
F. Schneider-Maunoury[3]	33,333	58,095	3,163	**94,591**

1 As a response to the financial and economic crisis in 2009, the Company decided to postpone the Board of Management's payment of the 2009 cash bonus (variable pay). Payment will be postponed until the cumulative operating income after two consecutive quarters, after December 31, 2009, is at least EUR 100 million.
2 Other benefits include housing costs, company car costs, social security costs, health and disability insurance costs and representation allowances.
3 Base salary and other benefits relate to December 2009. Mr. Schneider-Maunoury's base salary for a full year amounts to EUR 400,000. Mr. Schneider-Maunoury's appointment to ASML's Board of Management is subject to notification of the General Meeting of Shareholders, scheduled to be held on March 24, 2010.

Under the 2008 Remuneration Policy, the annual short-term performance bonus ranges between 0 and 75 percent of base salary for the chairman of the Board of Management and between 0 and 60 percent of base salary for the other members of the Board of Management. Under this plan the ultimate bonus amount is dependent on the actual achievement of corporate targets. These targets include targets related to market, financial, operational and technology, as well as qualitative performance targets based on agreed key objectives. As a result of the economic and financial crisis and the accompanying downturn in demand for the Company's products, the performance parameters for 2009 were adjusted in order to address the specific challenges of the downturn.

The 2009 vested pension benefits[1] of individual members of the Board of Management were as follows:

	2009 EUR
E. Meurice	91,950
P.T.F.M. Wennink	56,317
M.A. van den Brink	59,880
F.J. van Hout	40,800
F. Schneider-Manoury[2]	4,736

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.
2 Pension benefits relate to December 2009. Mr. Schneider-Maunoury's appointment to ASML's Board of Management is subject to notification of the General Meeting of Shareholders, scheduled to be held on March 24, 2010.

Performance Stock Options

Members of the Board of Management are eligible for a maximum performance stock option grant, under the conditions of the 2008 Remuneration Policy, with a value equal to 50 percent of their base salary (whereas the value at target performance equals 25 percent of their base salary). In 2008 the Supervisory Board decided that the maximum number of performance stock options to be granted conditionally in 2009 would be equal to the maximum number of stock options determined for 2008. The ultimately awarded number of performance stock options is calculated semi-annually upon achievement of the target for the first and second half of 2009. Based on the Black-Scholes option valuation model, the fair value of the options granted in 2008 and 2009 was EUR 5.66 and EUR 5.73, respectively. The compensation expenses recorded in the consolidated income statement for the year ended December 31, 2009 amount to EUR 1.4 million (2008: EUR 0.9 million).

The actual numbers of performance stock options which were awarded in 2009 and will be awarded in 2010 are as follows:

	Actual number of performance stock options which were awarded in 2009 for 2008 actual achievement	Actual number of performance stock options which will be awarded in 2010 for 2009 actual achievement
E. Meurice	42,448	84,895
P.T.F.M. Wennink	26,277	52,554
M.A. van den Brink	27,894	55,788
F.J. van Hout	—	46,201

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, 2009	Exercised during 2009	Expired during 2009	Dec. 31, 2009	Exercise price	Share price on exercise date	Expiration date
E. Meurice	125,000	—	—	125,000	10.62	—	15-10-2014
	12,500	—	—	12,500	11.52	—	21-01-2015
	57,770	—	—	57,770	11.53	—	19-01-2015
	88,371	—	—	88,371	17.90	—	18-01-2016
	95,146	—	—	95,146	20.39	—	17-01-2017
	42,448	—	—	42,448	17.20	—	04-02-2018
P.T.F.M. Wennink	31,500	—	—	31,500	58.00	—	20-01-2012
	32,379	—	—	32,379	11.53	—	19-01-2015
	56,236	—	—	56,236	17.90	—	18-01-2016
	58,964	—	—	58,964	20.39	—	17-01-2017
	26,277	—	—	26,277	17.20	—	04-02-2018
M.A. van den Brink	31,500	—	—	31,500	58.00	—	20-01-2012
	40,473	40,473	—	—	11.53	17.90	19-01-2015
	59,098	—	—	59,098	17.90	—	18-01-2016
	61,644	—	—	61,644	20.39	—	17-01-2017
	27,894	—	—	27,894	17.20	—	04-02-2018
F.J. van Hout	4,100	—	—	4,100	7.88	—	20-01-2013
	16,365	—	—	16,365	10.11	—	18-07-2013
	10,000	—	—	10,000	17.34	—	19-01-2014
	20,000	—	—	20,000	12.02	—	16-07-2014
	9,000	—	—	9,000	11.56	—	15-04-2015
	14,000	—	—	14,000	17.90	—	20-10-2016
	1,388	—	—	1,388	24.26	—	19-10-2017
	8,000	—	—	8,000	14.87	—	18-07-2018
	3,987	—	—	3,987	11.43	—	17-10-2018

Performance Stock

Members of the Board of Management are eligible for a maximum performance stock award, under the conditions set out in the 2008 remuneration policy, with a value equal to a maximum of 96.25 percent of their base salary (whereas the value at target performance equals 55 percent of their base salary). In 2008 the Supervisory Board decided that the maximum number of performance stock to be granted conditionally in 2009, would be equal to the maximum number of stock determined for 2008. The ultimately awarded number of performance stock will be determined over a three-year period upon achievement of targets set in 2009 relating to the Company's relative ROAIC position in the peer group. ASML accounts for this stock award performance plan as a variable plan. The fair value of the stock granted 2008 and 2009 was EUR 17.20 and EUR 13.05, respectively. The compensation expenses recorded in the consolidated income statement for the year ended December 31, 2009 amount to EUR 2.5 million (2008: EUR 3.3 million).

The maximum number of performance stock which can be awarded in relation to performance targets are as follows:

	Actual number of performance stock granted in 2006 awarded in 2009	Maximum number of performance stock granted in 2007 to be awarded in 2010[1]	Maximum number of performance stock granted in 2008 to be awarded in 2011	Maximum number of performance stock granted in 2009 to be awarded in 2012
E. Meurice	72,136	66,338	57,002	57,002
P.T.F.M. Wennink	45,905	41,111	35,287	35,287
M.A. van den Brink	48,241	42,980	37,458	37,458
F.J. van Hout[2]	—	1,667	4,000	31,021

1 The actual number of performance stock will be determined by the Remuneration Committee in the first half of 2010.
2 The 2007 and 2008 grants relate to services provided by Mr. van Hout prior to his appointment as a member of the Board of Management.

Benefits upon termination of employment

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

The employment agreements with Mr. E. Meurice, Mr. F. van Hout and Mr. F. Schneider-Maunoury contain specific provisions regarding benefits upon termination of their employment. 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 either Mr. E. Meurice, Mr. F. van Hout or Mr. F. Schneider-Maunoury, 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 either Mr. E. Meurice, Mr. F. van Hout or Mr. F. Schneider-Maunoury gives notice of termination of the employment agreement in connection with a substantial difference of opinion between him and the Supervisory Board regarding his employment agreement, his function or the Company's strategy.

Furthermore, Mr. E. Meurice, Mr. F. van Hout and Mr. F. Schneider-Maunoury would also be entitled to the aforementioned severance amount in the event ASML or its legal successor gives notice of termination in connection with a Change of Control (as defined in the employment agreement) or if either person gives notice of termination, that is directly related to such Change of Control and such notice is given within twelve months from the date on which the Change of Control occurs.

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 European Supervisory Board member receives EUR 40,000 with the Chairman receiving EUR 55,000. Each non-European Supervisory Board member receives EUR 70,000. 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 membership, with the Chairmen receiving EUR 10,000 per Committee chairmanship. To compensate for certain obligations ASML has towards the US government as a result of the merger with SVG in 2001, and which obligations this member needs to fulfill, one US member receives an additional EUR 10,000.

During 2008 and 2009, ASML paid the following amounts to the individual members of the Supervisory Board:

Year ended December 31	**2008** EUR	**2009** **EUR**
OB Bilous	95,000	**95,000**
J.A. Dekker[1]	60,000	**15,000**
J.W.B. Westerburgen	60,000	**60,000**
F.W. Fröhlich	55,000	**55,000**
A.P.M. van der Poel	80,000	**80,000**
H.C.J. van den Burg	47,500	**47,500**
W.T. Siegle	77,500	**79,375**
W. Ziebart[2]	—	**43,125**
P.F.M. van der Meer Mohr[2,3]	—	**47,500**

1 Membership ended March 26, 2009.
2 Membership started March 26, 2009.
3 The amount paid to Ms. P. van der Meer Mohr in 2009 consists of an amount paid to Ms. P. van der Meer Mohr as observer to the Supervisory Board prior to her appointment, and an amount for her membership of the Supervisory Board and Remuneration Committee.

In addition, a net cost allowance was paid to each Supervisory Board member in 2009, amounting to EUR 1,800 per year, and EUR 2,400 per year for the Chairman of the Supervisory Board.

In 2010, ASML expects to pay the following amounts to the individual members of the Supervisory Board (in Euros):

Year ended December 31	2010 EUR
OB Bilous	95,000
H.C.J. van den Burg	47,500
F.W. Fröhlich	55,000
P.F.M. van der Meer Mohr	47,500
A.P.M. van der Poel	80,000
W.T. Siegle	80,000
J.W.B. Westerburgen	60,000
W. Ziebart	57,500

In addition, in 2010, ASML expects to pay a net cost allowance amounting to EUR 1,800 per year to each Supervisory Board member, and EUR 2,400 per year to the Chairman of the Supervisory Board.

Members of the Board of Management and/or Supervisory Board are free to acquire or dispose of ASML shares or options for their own account, provided they comply with the applicable ASML Insider Trading Rules. Those securities are not part of members' remuneration from the Company and are therefore not included.

30. Research and development costs

R&D costs include R&D credits of EUR 15.0 million and EUR 22.4 million during 2008 and 2009, respectively. R&D credits relate to world-wide (inter)governmental funding for certain strategic development programs.

31. Interest income and charges

Interest and similar income of EUR 51.1 million (2008: EUR 73.1 million) mainly relates to interest income on deposits, money market funds, income taxes and on bank accounts, of which EUR 27.9 million (2008: EUR 12.9 million) relates to interest on cash pools which is reported on a gross basis in the consolidated income statement.

From an economic and legal perspective this EUR 27.9 million (2008: EUR 12.9 million) interest income nets off against the same amount of interest charge.

32. 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, from time to time, the number of systems ASML has been able to produce has been limited by the production capacity of Zeiss. Zeiss is currently ASML's sole external supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen and Wetzlar, Germany. During 2009, ASML's sales were not limited by the deliveries from Zeiss.

ASML sells a substantial number of lithography systems to a limited number of customers. See Note 27. Business failure of one of our main customers may result in adverse effects on our business, financial condition and results of operations.

33. Principal Accountant Fees and Services

Deloitte Accountants B.V. has served as our independent auditor for each of the two financial years up to December 31, 2009. The following table sets out the aggregate fees for professional audit services and other services rendered by Deloitte Accountants B.V. and its member firms and/or affiliates in 2008 and 2009.

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Audit fees for the audit of the statutory annual report	964	**744**
Other audit fees	413	**447**
Audit-related fees	52	**75**
Tax fees	536	**723**
Total	1,965	**1,989**

Audit fees and other audit fees

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

Audit-related fees

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

Tax fees

Tax fees can be detailed as follows:

Year ended December 31 (in thousands)	2008 EUR	2009 EUR
Corporate Income Tax compliance services	160	**113**
Tax assistance for expatriate employees	152	**172**
Other tax advisory and compliance	224	**438**
Total	536	**723**

The Audit Committee has approved the external audit plan and related audit fees for the year 2009. The Audit Committee has adopted a policy regarding audit and non-audit services, in consultation with Deloitte Accountants B.V. This policy ensures the independence of our auditors by expressly setting forth all services that the auditors may not perform and reinforcing the principle of independence regardless of the type of work performed. Certain non-audit services, such as certain tax-related services and acquisition advisory services, are permitted. The Audit Committee pre-approves all audit and non-audit services not specifically prohibited under this policy and reviews the annual external audit plan and any subsequent engagements.

Veldhoven, the Netherlands
February 16, 2010

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

Company Financial Statements

Company Financial Statements

Company Balance Sheet

(Before appropriation of net income / loss)

As of December 31 (in thousands)	2008 EUR	2009 EUR
Non-current assets		
Investments in subsidiaries	2,557,728	**2,475,617**
Loans to subsidiaries	—	**105,707**
Deferred tax assets	76,922	**76,116**
Derivative financial instruments	53,206	**55,948**
Other assets	—	**857**
Total non-current assets	2,687,856	**2,714,245**
Current assets		
Amounts due from subsidiaries	285,413	**141,262**
Current tax assets	79,551	**11,286**
Derivative financial instruments	16,701	**45,439**
Other assets	395	**1,528**
Cash and cash equivalents	1,923	**13,411**
Total current assets	383,983	**212,926**
Total assets	3,071,839	**2,927,171**
Equity		
Cumulative Preference Shares, EUR 0.02 nominal value; 3,150,005,000 shares authorized; none outstanding at December 31, 2008 and 2009	—	**—**
Ordinary Shares, EUR 0.09 and EUR 0.01 nominal value; respectively 700,000,000 and 10,000 shares authorized; respectively 432,073,534 and none outstanding at December 31, 2008; respectively 433,638,976 and none outstanding at December 31, 2009	40,307	**40,448**
Share premium	915,457	**923,487**
Retained earnings	1,002,272	**1,215,492**
Treasury shares at cost	(254,856)	**(219,623)**
Legal reserves	108,665	**172,446**
Net income (loss)	376,898	**(81,443)**
Total equity	2,188,743	**2,050,807**
Non-current liabilities		
Loans from subsidiaries	52,001	**—**
Long-term debt	641,508	**658,052**
Deferred and other tax liabilities	187,547	**181,833**
Total non-current liabilities	881,056	**839,885**
Current liabilities		
Accrued and other liabilities	2,040	**17,655**
Current tax liability	—	**156**
Derivative financial instruments	—	**18,668**
Total current liabilities	2,040	**36,479**
Total equity and liabilities	3,071,839	**2,927,171**

Abbreviated Company Income Statement

Year ended December 31 (in thousands)	2008 EUR	**2009** **EUR**
Net income (loss) from subsidiaries	413,316	**(52,956)**
Loss after taxes	(36,418)	**(28,487)**
Net income (loss)	376,898	**(81,443)**

Notes to the Company Financial Statements

1. General Information

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

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

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

2. Summary of Significant Accounting Policies

Significant accounting policies

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

Investments in subsidiaries

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

3. Investments in Subsidiaries

Changes in investments in subsidiaries during 2008 and 2009 were as follows:

	2008	**2009**
(in thousands)	EUR	**EUR**
Balance, January 1	2,958,048	**2,557,728**
Capital contributions (reductions)	39,378	**1,360**
Dividends received	(791,203)	**(41,301)**
Net income (loss) from subsidiaries	413,316	**(52,956)**
Effect of exchange rates	(11,444)	**4,599**
Other changes[1]	(50,367)	**6,187**
Balance, December 31	2,557,728	**2,475,617**

1 Other changes mainly consist of movements in hedging reserve.

4. Equity

Changes in equity during 2008 and 2009 were as follows:

(in thousands)	Issued and outstanding shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings EUR	Treasury Shares at cost EUR	Other Reserves[2] EUR	Net Income (Loss) EUR	Total EUR
Balance at January 1, 2008	435,626	40,176	909,336	493,262	(199,863)	81,105	715,051	**2,039,067**
Appropriation of net income	—	—	—	715,051	—	—	(715,051)	—
Components of statement of comprehensive income								
Net income	—	—	—	—	—	—	376,898	**376,898**
Foreign currency translation, net of taxes	—	—	—	—	—	(10,553)	—	**(10,553)**
Derivative financial instruments, net of taxes	—	—	—	—	—	(43,579)	—	**(43,579)**
Total comprehensive income	—	—	—	—	—	(54,132)	376,898	**322,766**
Share-based payments	—	—	8,839	—	—	—	—	**8,839**
Purchase of shares in conjunction with share-based payment plans	(5,000)	—	—	—	(87,605)	—	—	**(87,605)**
Dividend paid	—	—	—	(107,841)	—	—	—	**(107,841)**
Issuance of shares and stock options	1,448	131	(2,718)	(16,508)	32,612	—	—	**13,517**
Development expenditures	—	—	—	(81,692)	—	81,692	—	—
Balance at December 31, 2008	432,074	40,307	915,457	1,002,272	(254,856)	108,665	376,898	**2,188,743**
Appropriation of net income	—	—	—	376,898	—	—	(376,898)	—
Components of statement of comprehensive income								
Net loss	—	—	—	—	—	—	(81,443)	**(81,443)**
Foreign currency translation, net of taxes	—	—	—	—	—	(8,543)	—	**(8,543)**
Derivative financial instruments, net of taxes	—	—	—	—	—	6,494	—	**6,494**
Total comprehensive income	—	—	—	—	—	(2,049)	(81,443)	**(83,492)**
Share-based payments	—	—	20,542	—	—	—	—	**20,542**
Dividend paid[3]	—	—	—	(86,486)	—	—	—	**(86,486)**
Issuance of shares and stock options	1,565	141	(12,512)	(11,362)	35,233	—	—	**11,500**
Development expenditures	—	—		(65,830)	—	65,830	—	—
Balance at December 31, 2009	433,639	40,448	923,487	1,215,492	(219,623)	172,446	(81,443)	**2,050,807**

1 As of December 31, 2009, the number of issued shares was 444,480,095. This includes the number of issued and outstanding shares of 433,638,976 and the number of treasury shares of 10,841,119. As of December 31, 2008, the number of issued shares was 444,480,095. This included the number of issued and outstanding shares of 432,073,534 and the number of treasury shares of 12,406,561.

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

3 In 2009, ASML paid out a dividend of EUR 86 million to its shareholders, see below 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 433,638,976 ordinary shares with a nominal value of EUR 0.09 each are outstanding and fully paid in. The number of issued shares was 444,480,095, which includes the number of repurchased ("treasury") shares of 10,841,119.

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 ASML's annual General Meeting of Shareholders, held on March 26, 2009, the Board of Management was granted the authorization to issue shares and/or rights thereto representing up to a maximum of five percent of the Company's issued share capital as of the date of authorization, plus an additional five percent of the Company's issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 24, 2011.

Holders of ASML's ordinary shares have a preemptive right of subscription to any issuance of ordinary shares for cash, which right may be limited or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to ASML's 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 ASML's annual General Meeting of Shareholders, held on March 26, 2009, the Board of Management was authorized, subject to the aforementioned approval, to restrict or exclude preemptive rights of holders of ordinary shares. At ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to grant this authority through September 24, 2011. At this annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares and options separately for a period of 18 months.

The Company may repurchase its issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and its Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, the Company's current Articles of Association provide that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (either by means of a resolution or by an amendment to the Company's Articles of Association) of shareholders at ASML's 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 26, 2010 up to a maximum of approximately 27 percent of the Company's issued share capital as of the date of authorization (March 26, 2009) 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 ASML's annual General Meeting of Shareholders to be held on March 24, 2010, its shareholders will be asked to extend this authority through September 24, 2011.

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 and 2007. A third amendment to the option agreement between the Foundation and ASML has become effective as from January 1, 2009, to clarify the procedure for the repurchase and cancellation of the preference shares when issued.

The Foundation may exercise the Preference Share Option in situations where, in the opinion of the Board of Directors of the Foundation, the interests of the Company, its business or the interests of its stakeholders are at stake. This may be the case if a public bid for the ordinary shares of the Company has been announced or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the Company. The same may apply if one shareholder, or more shareholders acting in concert, hold a substantial percentage of the issued ordinary shares of the Company without making an offer or if, in the opinion of the Board of Directors of the Foundation, the (attempted) exercise of the voting rights by one shareholder or more shareholders, acting in concert, is materially in conflict with the interests of the Company, its business or its stakeholders.

The objects of the Foundation are to look after the interests of ASML and of the enterprises maintained by ASML and of the companies which are affiliated in a group with ASML, in such way that the interests of ASML, of those enterprises and of all parties concerned are safeguarded in the best possible way, and influences in conflict with these interests which might affect the independence or the identity of ASML and those companies are deterred to the best of the Foundation's ability, and everything related to the above or possibly conducive thereto. The Foundation seeks to realize its objects by the acquiring and holding of cumulative preference shares in the capital of ASML and by exercising the rights attached to these shares, particularly the voting rights attached to these shares.

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. Exercise of the Preference Share Option could effectively dilute the voting power of the ordinary shares then outstanding by one-half. Only one-fourth of the subscription price is payable at the time of initial issuance of the cumulative preference shares.

Cancellation and repayment of the issued cumulative preference shares by the Company requires the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management which proposal needs prior approval by the Supervisory Board. If the Preference Share Option is exercised and as a result cumulative preference shares are issued, the Company, at the request of the Foundation, will initiate the repurchase or cancellation of all cumulative preference shares held by the Foundation as a result of such issuance with repayment of the amount paid and exemption from the obligation to pay up on the cumulative preference shares. In that case the Company is obliged to effect the repurchase and cancellation respectively as soon as possible.

If the Foundation will not request the Company to repurchase or cancel all cumulative preference shares held by the Foundation within 20 months after issuance of these shares, the Company will be obliged to convene a General Meeting of Shareholders in order to decide on a repurchase or cancellation of these shares.

The Foundation is independent of the Company. The Board of Directors of the Foundation comprises four independent voting members from the Netherlands business and academic communities: Mr. R.E. Selman, Mr. M.W. den Boogert, Mr. J.M. de Jong and Mr. A. Baan.

Legal reserves

Changes in legal reserves during 2008 and 2009 were as follows:

	Legal reserves			
(in thousands)	Hedging reserve EUR	Currency translation reserve EUR	Capitalized development expenditures EUR	Total EUR
Balance at January 1, 2008	159,038	(259,079)	181,146	**81,105**
Components of statement of comprehensive income:				
Foreign currency translation, net of taxes:				
Gains (losses) on the hedge of a net investment	—	1,902	—	**1,902**
Gain (losses) on translation of foreign operations	—	(12,455)	—	**(12,455)**
Derivative financial instruments, net of taxes:				
Fair value gains (losses) in the year	(51,168)	—	—	**(51,168)**
Transfers to net income	7,589	—	—	**7,589**
Development expenditures	—	—	81,692	**81,692**
Balance at December 31, 2008	115,459	(269,632)	262,838	**108,665**
Components of statement of comprehensive income:				
Foreign currency translation, net of taxes:				
Gains (losses) on the hedge of a net investment	—	(13,116)	—	**(13,116)**
Gain (losses) on translation of foreign operations	—	4,573	—	**4,573**
Derivative financial instruments, net of taxes:				
Fair value gains (losses) in the year	5,217	—	—	**5,217**
Transfers to net loss	1,277	—	—	**1,277**
Development expenditures	—	—	65,830	**65,830**
Currency translation on development expenditures	—	(140)	140	—
Balance at December 31, 2009	121,953	(278,315)	328,808	**172,446**

Exchange rate differences relating to the translation from the Company's foreign subsidiaries into euro are recognized in the currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations (ended in 2009) are included in the currency translation reserve.

Hedging reserve represents hedging gains and losses on the effective portion of cash flow hedges. The cumulative gain or loss on the hedge is recognized in net income (loss) when the hedge transaction impacts net income (loss).

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

Appropriation of net income (loss)

Annually, the Board of Management will assess the amount of dividend that will be proposed to the Annual General Meeting of Shareholders. For 2008, a dividend was declared of EUR 0.20 per ordinary share of EUR 0.09 which was paid in 2009.

A proposal will be submitted to the Annual General Meeting of Shareholders on March 24, 2010 to declare a dividend for 2009 of EUR 0.20 per ordinary share of EUR 0.09. Dividends on ordinary shares are payable out of net income or retained earnings as 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 out of net income on any issued cumulative preference shares.

Share buyback programs

The following table provides a summary of shares repurchased by the Company between 2006 and 2009:

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

2006-2007 Share program

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

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

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

Capital repayment program 2007

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

2007-2008 Share program

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

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

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

Authorization of share repurchases

On March 26, 2009, the General Meeting of Shareholders authorized the repurchase of up to a maximum of approximately 27 percent of our issued share capital as of the date of authorization (March 26, 2009) through September 26, 2010. The Company did not buyback any shares in 2009.

5. Personnel

The number of employees employed by the ASML Holding N.V. at year-end 2009 was 5(2008: 4). The Board of Management currently consists of four members. Mr. Schneider-Maunoury will be appointed by the Supervisory Board as fifth member of the Board of Management, subject to notification to the annual General Meeting of Shareholders, to be held on March 24, 2010. For information regarding the remuneration of the Board of Management reference is made to Note 29 of the consolidated financial statements.

6. Commitments and Contingencies

ASML Holding N.V. has assumed joint and several liabilities in accordance with article 403 Part 9 of Book 2 of The Netherlands Civil Code with respect to the following subsidiaries of the Company in the Netherlands: ASML Netherlands B.V., ASML MaskTools B.V. and ASML Systems 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, 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 16, 2010

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

Other Information

The additional information below includes a brief summary of the most significant provisions of the Articles of Association of the Company. See Note 18 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 / (Loss)

Dividends may be payable out of net income or retained earnings 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.

Annually, the Board of Management will assess the amount of dividend that will be proposed to the Annual General Meeting of Shareholders. For 2008, a dividend was declared of EUR 0.20 per ordinary share of EUR 0.09 which was paid in 2009.

A proposal will be submitted to the Annual General Meeting of Shareholders on March 24, 2010 to declare a dividend for 2009 of EUR 0.20 per ordinary share of EUR 0.09.

Voting Rights

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

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

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

Subsequent Events

Subsequent events have been evaluated by the Company until February 16, 2010 which is the issuance date of this Annual Report 2009. There are no subsequent events to report.

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 2009 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 statement of financial position as at December 31, 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2009, 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, 2009, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of ASML Holding N.V. as at December 31, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Deloitte Accountants B.V.

/s/ G.M. Dekker

Eindhoven, The Netherlands
February 16, 2010

Information and Investor Relations

Financial calendar

March 24, 2010
General meeting of Shareholders
Auditorium, ASML Building 7,
De Run 6665
Veldhoven, the Netherlands

April 14, 2010
Announcement of First Quarter results for 2010

July 14, 2010
Announcement of Second Quarter results for 2010

October, 13, 2010
Announcement of Third Quarter results for 2010

January 19, 2011
Announcement of Fourth Quarter results for 2010 and Annual Results for 2010.

Fiscal Year
ASML's fiscal year ends on December 31, 2010

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

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

ASML Worldwide Contact Information

Corporate Headquarters
De Run 6501
5504 DR Veldhoven
The Netherlands

Mailing address
P.O. Box 324
5500 AH Veldhoven
The Netherlands

United States main offices
8555 South River Parkway
Tempe, AZ 85284
U.S.A.

77 Danbury Road
Wilton, CT 06897
U.S.A.

Asia main office
Suite 603
One International Finance Center
1, Harbour View Street
Central, Hong Kong

Corporate Communications
phone: +31 40 268 4941
fax: +31 40 268 3655
email: corpcom@asml.com

Investor Relations
phone: +31 40 268 3938
fax: +31 40 268 3655
email: investor.relations@asml.com

For more information please visit our website www.asml.com

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