ASML HOLDING NV
Form 20-F
January 29, 2010

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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2009

Commission file number 025566

ASML HOLDING N.V.
(Exact Name of Registrant as Specified in Its Charter)

THE NETHERLANDS
(Jurisdiction of Incorporation or Organization)

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THE NETHERLANDS
(Address of Principal Executive Offices)

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

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

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

433,638,976 Ordinary Shares
(nominal value EUR 0.09 per share)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes (ü) No ( )

If this report is an annual or transition report, indicate by check mark if the registrant
is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ( ) No (ü)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant
was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (ü) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any,
every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the
preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes (ü) No ( )

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

Indicate by check mark which basis of accounting the registrant has used to prepare
the financial statements included in this filing:
U.S. GAAP (ü) International Financial Reporting Standards as issued by the
International Accounting Standards Board ( ) Other ( )

If Other has been checked in response to the previous question, indicate by checkmark
which financial statement item the registrant has elected to follow.
Item 17 ( ) Item 18( )
If this is an annual report, indicate by check mark whether the registrant is a
shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ( ) No (ü)

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

Richard A. Ely
Skadden, Arps, Slate, Meagher & Flom (UK) LLP
40 Bank Street, Canary Wharf
London E14 5DS England

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Part I

Special Note Regarding Forward-Looking Statements

In addition to historical information, this annual report on Form 20-F contains statements relating to our future business and/or results. These statements include certain projections and business trends that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify these statements by the use of words like may , will , could , should , project , believe , anticipate , expect , plan forecast , potential , intend , continue and variations of these words or comparable words.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. These risks and uncertainties include, without limitation, those described under Item 3.D. Risk Factors and those detailed from time to time in our other filings with the United States Securities and Exchange Commission (the Commission or the SEC). These forward-looking statements are made only as of the date of this annual report on Form 20-F. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1 Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information

A. Selected Financial Data

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

Five-Year Financial Summary

Year ended December 31	2005	2006[1]	2007[1]	2008	2009
(in thousands, except per share data)	EUR	EUR	EUR	EUR	**EUR**
Consolidated statements of operations data					
Net sales	2,528,967	3,581,776	3,768,185	2,953,678	**1,596,063**
Cost of sales	1,554,772	2,127,797	2,218,526	1,938,164	**1,137,671**
Gross profit on sales	974,195	1,453,979	1,549,659	1,015,514	**458,392**
Research and development costs[2]	323,874	386,567	486,141	516,128	**466,761**
Amortization of in-process research and development costs			23,148		
Selling, general and administrative costs	201,204	204,799	225,668	212,341	**156,644**
Income (loss) from operations	449,117	862,613	814,702	287,045	**(165,013)**
Interest income (expense), net	(14,094)	(854)	33,451	22,599	**(6,537)**
Income (loss) from operations before income taxes	435,023	861,759	848,153	309,644	**(171,550)**
(Provision for) benefit from income taxes	(123,559)	(243,211)	(177,152)	12,726	**20,625**
Net income (loss)	311,464	618,548	671,001	322,370	**(150,925)**
Earnings per share data					
Basic net income (loss) from continuing operations per ordinary share	0.64	1.30	1.45	0.75	**(0.35)**
Basic net income (loss) per ordinary share	0.64	1.30	1.45	0.75	**(0.35)**
Diluted net income (loss) per ordinary share[3]	0.64	1.26	1.41	0.74	**(0.35)**
Number of ordinary shares used in computing per share amounts (in thousands)					
Basic	484,103	474,860	462,406	431,620	**432,615**
Diluted	542,979	503,983	485,643	434,205	**432,615**

1

As of January 1, 2008, ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007, ASML accounted for award credits using the cost accrual method. The comparative figures for the years 2007 and 2006 have been adjusted to reflect this change in accounting policy. The change in accounting policy did not affect the 2005 figures.

2 As of January 1, 2009, Research and Development (R&D) credits are presented as part of R&D costs instead of as a separate line item. The comparative figures for the years 2005 through 2008 have been adjusted accordingly.

3 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.

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As of December 31	2005	2006[1]	2007[1]	2008	**2009**
(in thousands, unless otherwise indicated)	EUR	EUR	EUR	EUR	**EUR**
Consolidated balance sheets data					
Cash and cash equivalents	1,904,609	1,655,857	1,271,636	1,109,184	**1,037,074**
Working capital[4]	1,785,836	2,236,173	1,997,988	1,964,906	**1,704,714**
Total assets	3,756,023	3,953,888	4,073,128	3,939,394	**3,727,497**
Long-term debt	382,558	381,433	602,016	647,050	**663,102**
Total shareholders equity	1,711,837	2,148,003	1,891,004	1,988,769	**1,774,768**
Capital stock	9,694	10,051	39,206	38,887	**39,028**
Consolidated statements of cash flows data					
Depreciation and amortization	90,531	87,092	126,344	119,190	**140,201**
Impairment	8,350	17,354	9,022	25,109	**15,896**
Net cash provided by total operating activities	711,493	492,280	701,011	280,746	**97,764**
Purchases of property, plant and equipment	(72,660)	(70,619)	(179,152)	(259,770)	**(104,959)**
Acquisition of subsidiary (net of cash acquired)			(188,011)		
Net cash used in total investing activities	(60,803)	(70,629)	(362,152)	(259,805)	**(98,082)**
Capital repayment[5]			(1,011,857)		
Purchase of shares in conjunction with conversion rights of bondholders and share-based payments		(678,385)	(359,856)	(87,605)	
Dividend paid				(107,841)	**(86,486)**
Net proceeds from issuance of bond			593,755		
Net cash provided by (used in) total financing activities	2,879	(657,624)	(715,363)	(184,238)	**(73,444)**
Net increase (decrease) in cash and cash equivalents	676,479	(248,752)	(384,221)	(162,452)	**(72,110)**
Ratios and other data					
Gross profit as a percentage of net sales	38.5	40.6	41.1	34.4	**28.7**
Income (loss) from operations as a percentage of net sales	17.8	24.1	21.6	9.7	**(10.3)**
Net income (loss) as a percentage of net sales	12.3	17.3	17.8	10.9	**(9.5)**
Shareholders equity as a percentage of total assets	45.6	54.3	46.4	50.5	**47.6**
	(28.4)	(28.2)	(20.9)	4.1	**(12.0)**

Income taxes as a percentage of income (loss) before income taxes					
Sales of systems (in units)	196	266	260	151	**70**
Average selling price of system sales (in millions)	11.4	12.1	12.9	16.7	**16.8**
Value of systems backlog (in millions)	1,434	2,146	1,697	755	**1,853**
Systems backlog (in units)[6]	95	163	89	41	**69**
Average selling price of systems backlog (in millions)	15.1	13.2	19.1	18.4	**26.8**
Value of booked systems (in millions)	1,998	4,075	2,970	1,569	**2,334**
Net bookings for the year (in units)[7]	160	334	186	103	**98**
Average selling price of booked systems (in millions)	12.5	12.2	16.0	15.2	**23.8**
Number of payroll employees in FTEs	5,055	5,594	6,582	6,930	**6,548**
Number of temporary employees in FTEs	1,106	1,486	1,725	1,329	**1,137**
Increase (decrease) net sales in percentage	2.6	41.6	5.2	(21.6)	**(46.0)**
Number of ordinary shares outstanding (in thousands)	484,670	477,099	435,626[5]	432,074	**433,639**
ASML share price[8]	16.90	18.84	21.66	12.75	**24.00**
Volatility 260 days in percentage of ASML shares[9]	26.00	28.08	27.52	51.14	**38.45**
Dividend per ordinary share in Euro			0.25	0.20	**0.20**

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

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

6 Our systems backlog as of December 31 includes only system orders for which written authorizations have been accepted and shipment and revenue recognition dates within 12 months have been assigned.

7 Our net bookings, during the year, include only system orders for which written authorizations have been accepted and shipment and revenue recognition dates within 12 months have been assigned.

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

9 Volatility represents the variability in our share price on the Official Segment of the stock market of Euronext Amsterdam as measured over the 260 business days of each year presented (source: Bloomberg Finance LP).

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Exchange Rate Information

We publish our consolidated financial statements in Euros. In this Annual Report, references to , euro or EUR are t Euros, and references to $, U.S. dollar , USD or US$ are to United States dollars.

A portion of our net sales and expenses is, and historically has been, denominated in currencies other than the euro. For a discussion of the impact of exchange rate fluctuations on our financial condition and results of operations, see Item 5.A. Operating Results, Foreign Exchange Management , Note 1 General Information, Summary of Significant Accounting Policies and Note 3 Market Risk and Derivatives to our consolidated financial statements.

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

Calendar year	2005	2006	2007	2008	2009	January 2010 (through January 22, 2010)
Period End	1.18	1.32	1.46	1.39	1.43	**1.42**
Average[1]	1.24	1.26	1.37	1.47	1.39	**1.44**
High	1.35	1.33	1.49	1.60	1.51	**1.45**
Low	1.17	1.19	1.29	1.24	1.25	**1.41**

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

Months of	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009	January 2010 (through January 22, 2010)
High	1.43	1.44	1.48	1.50	1.51	1.51	**1.45**
Low	1.39	1.41	1.42	1.45	1.47	1.42	**1.41**

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

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our customers desire to obtain lithography equipment from more than one supplier.

Our competitiveness increasingly depends upon our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis, as well as our ability to protect and defend our intellectual property rights. See Item 4.B. Business Overview, Intellectual Property and Note 17 to our consolidated financial statements.

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.

Risks Related to ASML

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

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

The number of 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. See Item 4.B. Business Overview, Manufacturing, Logistics and Suppliers .

In addition to Zeiss current position as our single supplier of lenses, the excimer laser illumination systems that provide the ultraviolet light source, referred to as deep UV , used in our high resolution steppers and Step & Scan systems, 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.

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.

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

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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.

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

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

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

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

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

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

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

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

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

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

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

We Are Subject to Risks in Our International Operations

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

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

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

In particular, approximately 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.

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.

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. See Item 6.D. Employees .

Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations

We are exposed to currency risks. We are particularly exposed to fluctuations in the exchange rates between the U.S. dollar, Japanese yen and the euro as we incur manufacturing costs 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.

Also see Item 5.A. Operating Results, Foreign Exchange Management , Item 5.F. Tabular Disclosure of Contractual Obligations , Item 11 Quantitative and Qualitative Disclosures About Market Risk and Note 3 to our consolidated financial statements.

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

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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.

Risks Related to Our Ordinary Shares

The Price of Our Ordinary Shares is Volatile

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

Restrictions on Shareholder Rights May Dilute Voting Power

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

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

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

Item 4 Information on the Company

A. History and Development of the Company

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

In May 2001, we merged with Silicon Valley Group (SVG) (now part of ASML US, Inc.), a company that was active in lithography, as well as in track and thermal businesses, which we subsequently divested or discontinued.

From time to time, ASML pursues acquisitions of smaller businesses that it believes will complement or enhance ASML s core lithography business. These have included the acquisition of MaskTools in July 1999 and the acquisition of Brion Technologies, Inc. (Brion) in March 2007.

Capital Expenditures and Divestitures

Our capital expenditures (purchases of property, plant and equipment) for 2009, 2008 and 2007 amounted to EUR 105.0 million, EUR 259.8 million and EUR 179.2 million, respectively. Our capital expenditures in these years generally related to the

construction of new facilities in Veldhoven for our latest technologies such as EUV and double patterning (in 2007, 2008 and 2009) and in Taiwan for our ASML Center of Excellence (ACE , in 2007 and 2008), purchases of machinery and equipment, information technology investments, and leasehold improvements to our facilities (in 2007, 2008 and 2009).

Divestitures mainly consisting of machinery and equipment (more specifically prototypes, demonstration and training systems) amounted to EUR 10.9 million for 2009, EUR 4.3 million for 2008 and EUR 19.2 million for 2007. See Note 11 to our consolidated financial statements.

B. Business Overview

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

Our Business Model

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

- offering ongoing improvements in productivity, imaging and overlay by introducing advanced technology based on modular platforms 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.

Market and Technology Overview

Introduction

Chip making is all about shrink or reducing the size of chip designs. The worldwide electronics and computer industries have experienced significant growth since the commercialization of ICs in the 1960 s, largely due to the continual reduction in the cost per function performed by ICs. Improvement in the design and manufacture of ICs with higher circuit or packing densities has resulted in smaller and lower cost, ICs capable of performing a greater number of functions at faster speeds and with reduced power consumption. Despite the recent financial and economic crisis, we believe that these long-term trends will continue for the foreseeable future and will be accompanied by a continuing demand, subject to ongoing cyclical variation, for production equipment that can accurately produce advanced ICs in high volumes at the lowest possible cost. Lithography is used to print complex circuit patterns onto

the wafers that are the primary raw material for ICs and is one of the most critical and expensive steps in their fabrication. It is therefore a significant focus of the IC industry s demand for cost-efficient enhancements to production technology.

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

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

Customer Roadmaps

Supported by their technology roadmaps, IC manufacturers continue to show interest in resolution shrink as a means to lower manufacturing costs per unit. The leading IC manufacturers for both volatile and non-volatile memory, as well as logic and microprocessor units, have plans to migrate their production capabilities in the foreseeable future to resolutions close to or beyond 20 nm, for which they will require state-of-the-art lithography equipment.

Products

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

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

Our PAS 5500 product family comprises advanced wafer steppers and Step & Scan systems suitable for i-line, Krypton Fluoride (KrF) and Argon Fluoride (ArF) processing of wafers up to 200 mm in diameter and is employed in volume manufacturing to achieve design nodes requiring resolutions down to 90 nm. In 1997, we introduced the PAS 5500 Step & Scan systems with improved resolution and overlay.

We offer TWINSCAN systems, based on i-line, KrF and ArF processing of wafers up to 300 mm in diameter for manufacturing environments for which design resolutions down to 38 nanometer (nm) are required. The modular upgradeable design philosophy of the Step-and-Scan product family has been further refined and applied in the design of our most advanced product family. The TWINSCAN platform, introduced in 2000, is the basis for our current and next generation Step-and Scan systems, which are capable of extending shrink technology down to 38 nm.

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

Furthermore, we continuously develop and sell a range of product options and enhancements designed to increase productivity and improve imaging and overlay to optimize value of ownership over the entire life of our systems.

Product Development

In 2003, we introduced the second generation of TWINSCAN systems based on the XT body with a 50 percent reduction in the main production area occupied by our system.

In 2004, we shipped our first lithography systems based on immersion technology. These shipments marked the delivery of the industry s first high productivity immersion scanners for mainstream production.

In 2006, we shipped the industry s first EUV Alpha Demo Tools to two research institutions, which work closely with most of the world s major IC manufacturers in developing manufacturing processes and materials. EUV combines a wavelength of 13.5 nm and a lens system with a numerical aperture (NA) of 0.25 to provide imaging at a resolution of

27 nm.

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

The acquisition of Brion in 2007 enabled ASML to improve the implementation of optical proximity correction (OPC) technology and resolution enhancement techniques (RET) such as Double Patterning Technology (DPT) and Source-Mask Optimization (SMO) for masks. These improvements are extending the practical resolution limits of ASML ArF immersion products. Brion s computational lithography capabilities enable us to offer products that further improve the set-up and control of ASML lithography systems.

Brion s current computational lithography portfolio comprises not only traditional products (such as RET/OPC/DPT/SMO), but also solutions that directly interface with the numerous calibration controls in an ASML scanner to optimize performance. Our computational lithography products capture detailed knowledge of scanner design and real performance, which enables them to accurately predict real-life manufacturing performance. Such predictions are essential in addressing possible ramp-up and yield problems in advance, potentially avoiding months of delay in time-to-market for our customers. The same prediction capabilities allow the ASML scanners to be optimally calibrated for improved performance in production, given specific chip designs or reticles, thereby achieving improved yield.

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Once a scanner is optimally set-up for a given application, ASML also offers scanner control solutions that ensure that the performance of the lithographic process remains optimal and stable throughout production. These scanner control solutions also leverage the scanner controls to compensate for potential performance drifts in the scanner itself, as well as in other steps of the device manufacturing process, such as reticle deterioration, resist coating fingerprints, etching fingerprints, or chemical-mechanical planarization fingerprints. To ensure optimal control performance, ASML s scanner control solutions use ASML s own advanced wafer metrology technology, Yieldstar.

In the third quarter of 2007, ASML began volume shipment of the XT:1900i, with a new industry benchmark of 1.35 NA, which is close to the practical limit for water-based immersion technology. This optical lithography system is capable of volume production of ICs down to 40 nm and below and is used for high volume IC manufacturing at multiple customers worldwide.

In 2008, we discontinued research into optical maskless lithography due to the reduced market opportunity for this technology. Research studies on alternative technologies continue for both mask-based and maskless lithography.

In the third quarter of 2008, ASML announced an enhanced version of the XT:1900i system, the XT:1950i, with improved throughput of 148 wafers per hour, resolution of 38 nm and a scheduled overlay of 4 nm. In the first quarter of 2009, we started shipments of XT:1950i systems, which extend the performance, imaging and overlay specifications of the successful XT:1900i system.

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

By the end of 2009, ASML had shipped more than 850 TWINSCAN systems demonstrating the acceptance of the TWINSCAN platform as the semiconductor industry s standard for 300 mm lithography. We also announced an improved version of the successful TWINSCAN platform called NXT featuring new stage and position control technology, providing improved imaging and overlay performance for immersion. Initial shipments started in the third quarter of 2009 with volume production expected in 2010.

Also by the end of 2009, ASML had received five orders for next generation EUV systems, the first of which is scheduled for shipment in the second half of 2010. EUV will provide a large process window and much greater shrink compared to current approaches and we expect it to be a multi-generation lithography solution. The first generation of these systems will combine a wavelength of 13.5 nm and a lens system with a NA of 0.25 to provide imaging at a resolution of 27 nm. The EUV platform is targeted for production of ICs down to 22 nm and beyond.

In February 2009, Brion Technologies, a subsidiary of ASML, announced Tachyon SMO, a new source-mask optimization (SMO) product that allows full co-optimization of source and mask. This product provides the industry with low k1 manufacturable imaging solutions and is a major advancement of Brion s industry standard SMO technology, which was currently in use at the leading logic and memory manufacturers.

In July 2009, ASML introduced FlexRay^{tm} programmable illumination and BaseLiner^{tm} scanner matching technology. Together, they offer scanner stability optimization and stabilize manufacturing process windows.

The table below outlines our current product portfolio of Stepper and Scanner Systems by resolution and wavelength.

Current ASML lithography product portfolio of Step & Scan Systems[1]

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

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

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

Sales, Customer Support and Customers
We market and sell our products through our direct sales staff.

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

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

In 2006, ASML established the ASML Center of Excellence (ACE) in Asia. The primary goal of ACE is to serve as a supplementary engine to propel ASML s long-term growth. ACE features customer support, training, logistics, refurbishment, technology and application development. ACE also enables sourcing of selected equipment modules, components and services in the region. Finally, ACE is used as a training center to develop worldwide talent for ASML s workforce. In the fourth quarter of 2008, we completed construction of the building and facility that houses ACE near Taipei, Taiwan and into which the ACE organization was moved.

Customers and Geographic Regions

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 (2007: EUR 818 million or 21.7 percent of net sales). We expect that sales to relatively few customers will continue to account for a high percentage of our net sales in any particular period for the foreseeable future.

In 2009, we derived 72.6 percent of net sales from Asia, 23.1 percent from the United States and 4.3 percent from Europe. In general, since ASML s founding in 1984, the percentage of our sales derived from Asia has increased and the cumulative percentage of our sales derived from the United States and Europe has decreased. See Note 19 to the consolidated financial statements.

Manufacturing, Logistics and Suppliers

Our business model is based on outsourcing production of a significant part of the components and modules that comprise our lithography systems, working in partnership with suppliers from all over the world. Our manufacturing activities comprise the 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, Republic of China. 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 26 percent of our aggregate cost of sales was purchased from Zeiss (2008: 32 percent; 2007: 40 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.

Research and Development

The semiconductor manufacturing industry is subject to rapid technological changes and new product introductions and enhancements. We believe that continued and timely development and introduction of new and enhanced systems are essential for us to maintain our competitive position. As a result, we have historically devoted a significant portion of our financial resources to R&D programs and we expect to continue to allocate significant resources to these efforts. In addition, we have established sophisticated development centers in the Netherlands, the United States and Taiwan. We are also involved in joint R&D programs with both public and private partnerships and consortiums, involving independent research centers, leading chip manufacturers and governmental programs. We aim to own or license our jointly developed technology and designs of critical components.

We apply for subsidy payments in connection with specific development projects under programs sponsored by the Netherlands government, the European Union, the United States government and the Taiwanese government. Amounts received under these programs generally are not required to be repaid.

We invested EUR 467 million in R&D (net of credits) in 2009, compared to EUR 516 million in 2008 and EUR 486 million in 2007. In addition to these R&D investments, in 2007 we recognized a one-off charge related to the Brion acquisition of EUR 23 million (amortization of in-process R&D).

In 2009, our R&D efforts drove further development of the several versions of the TWINSCAN platform along with leading-edge technologies, including immersion, double patterning and EUV. The continuous drive by our customers for cost reductions has led us to increase significantly the commonality of components across different TWINSCAN platform versions and led to our announcement in 2009 of an improved version of TWINSCAN platform called NXT, which provides improved imaging and overlay performance. We continue to develop technology to support applications of double patterning . Double patterning is a resolution enhancement technique that involves splitting a dense circuit pattern into multiple, less-dense patterns. We also are putting increased effort in holistic lithography, enabling further shrink by integrating computational lithography, wafer lithography and process control and optimizing process windows and lithography system set-up for volume production.

In 2009, we increased our resources for development of EUV technology. This technology promises a means for cost-effective extendibility of our customers roadmaps. The EUV Alpha Demo Tools (ADT) have provided us with sufficient data to begin to finalize the planned pre-production tools. Our key customers now have direct access to EUV technology, which we expect will result in the acceptance of this technology as well as drive the development of EUV infrastructure, including mask fabrication and resist processes. These pre-production tools are planned for shipment starting in the second half of 2010.

Intellectual Property

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

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

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

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

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 and productivity;
- 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 patent and other intellectual property rights; and
- our customers desire to obtain lithography equipment from more than one supplier.

We believe that the market segment for lithography systems and the investments required to be a significant competitor in this market segment have resulted in increased competition for market share through the aggressive prosecution of patents. Our competitiveness will increasingly depend upon our ability to protect and defend our patents, as well as our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis.

Government Regulation

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

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

See Exhibit 8.1 for a list of our subsidiaries.

D. Property, Plant and Equipment
We principally obtain our facilities under operating leases. However, we also own a limited number of buildings, mainly consisting of the new production facilities in the Netherlands and Taiwan. The book value of land and buildings owned by us amounted to EUR 354 million as of December 31, 2009 compared to EUR 302 million as of December 31, 2008. As a result of the decline in revenues caused by the recent financial and economic crisis, we experienced temporary underutilization of our facilities, mainly in the first half of 2009.

Depending on market conditions, we expect that our capital expenditures (purchases of property, plant and equipment) in 2010 will be approximately EUR 100 million, in line with 2009 capital expenditures. Purchases of property, plant and equipment in 2009 mainly include amounts spent to finalize the first part of the construction of the production facilities in Veldhoven for our latest technologies such as EUV and NXT (double patterning). We intend to fund capital expenditures primarily with cash on hand and/or cash generated through operations.

Facilities in Europe
Our headquarters, applications laboratory and R&D facilities are located at a single site in Veldhoven, the Netherlands. This state-of-the-art facility includes 65 thousand square meters of office space and 30 thousand square meters of buildings used for manufacturing and R&D activities. We lease the majority of these facilities through long-term operating leases that contain purchase options. Some of our office facilities at our headquarters in Veldhoven are financed through a special purpose vehicle that is a variable interest entity. See Item 5.E. Off-Balance Sheet Arrangements and Note 15 to our consolidated financial statements. We also lease several sales and service facilities at locations across Europe.

Facilities in the United States
Our main United States operations are located in a nine thousand square meters office building in Tempe, Arizona. We maintain lithography research, development and manufacturing operations in a 27 thousand square meters facility in Wilton, Connecticut and a six thousand square meters facility in Santa Clara, California. We also lease several sales and service facilities at locations across the United States.

Facilities in Asia
Our Asian headquarters is located in a 425 square meters office space in Hong Kong. Furthermore, our ACE facility, located in Linkou, Taiwan comprises cleanroom (approximately two thousand square meters) and office space (approximately six thousand square meters). The ACE facility supports customers in the Asia-Pacific region by focusing on technology and applications development, equipment support, training, logistics and refurbishment. ACE

also enables local sourcing of equipment, components and services. We also lease and own several sales and service and training facilities at locations across Asia.

Item 4A Unresolved Staff Comments

Not applicable.

Item 5 Operating and Financial Review and Prospects

Executive Summary

Introduction
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; 2007: 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 loss from operations of EUR 165 million or 10.3 percent of net sales. Net loss in 2009 amounted to EUR 151 million or 9.5 percent of net sales, representing EUR 0.35 net loss per ordinary share.

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

Semiconductor equipment industry conditions

Chip making is all about shrink or reducing the size of 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; 2007: 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, despite experiencing the impact of a severe global economic downturn caused by the financial and economic crisis, these investments (net of credits) amounted to EUR 467 million (2008: EUR 516 million; 2007: EUR 486 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 enabling 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[tm] programmable illumination, Source

Mask Optimization (SMO) tools and BaseLiner^{tm} 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.

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 part of the cost reduction program, and in anticipation of a continued decrease in customer demand in 2009, ASML started to reduce costs through a restructuring 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.

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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 loss from operations of 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	**2007**		**2008**		**2009**	
(in millions, except market share and systems)	EUR		EUR		**EUR**	
Sales						
Market share (based on revenue)	65%		65%		**68%**[1]	
Net sales	3,768		2,954		**1,596**	
Increase (decrease) in net sales	5.2%		(21.6)%		**(46.0)%**	
Net system sales	3,351		2,517		**1,175**	
Sales of systems (in units)	260		151		**70**	
Average selling price of system sales	12.9		16.7		**16.8**	
Value of systems backlog	1,697		755		**1,853**	
Systems backlog (in units)	89		41		**69**	
Average selling price of systems backlog	19.1		18.4		**26.8**[2]	
Immersion systems shipped (in units)	38		56		**36**	
Profitability						
Gross profit	1,550	41.1%	1,016	34.4%	**458**	**28.7%**
Income (loss) from operations	815[3]	21.6%	287	9.7%	**(165)**	**(10.3)%**
Net income (loss)	671[3]	17.8%	322	10.9%	**(151)**	**(9.5)%**
Liquidity						
Cash and cash equivalents	1,272		1,109		**1,037**	
Operating cash flow	701		281		**98**	

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

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 (2007: EUR 3,768 million). 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 (2007: EUR 12.9 million). 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; 2007: 10 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 income from operations to net sales of 10-15 percent at the downturn point and 20-25 percent at the upturn point over the industry s business cycle. However in 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.

Income from operations decreased from EUR 287 million or 9.7 percent of net sales in 2008 to a loss from operations of EUR 165 million or 10.3 percent of net sales in 2009 (2007: EUR 815 million income from operations or 21.6 percent of net sales). This EUR 452 million decrease was substantially the result of a decrease in sales and the resulting decrease in gross profit of EUR 557 million which was partially offset by a decrease in operating expenses of EUR 105 million.

Gross profit decreased from EUR 1,015.5 million or 34.4 percent of net sales in 2008 to 458.4 million or 28.7 percent of net sales in 2009 (2007: EUR 1,549.6 gross profit or 41.1 percent of net sales). 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 profit on the sale of inventories that had been previously written down. 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 we made EUR 64.8 million profit on the sale of inventories that had been previously written down.

Operating expenses showed a decrease of EUR 105 million in 2009 compared to 2008 due to a decrease of SG&A costs by EUR 56 million, or 26.2 percent and a decrease of R&D costs net of credits by EUR 49 million, or 9.6 percent. The SG&A and R&D costs were reduced as part of our cost reduction program. While we implemented some operational savings in R&D, these did not impact our spending on any of our strategic programs, in particular immersion, double patterning and EUV, which we believe are necessary to maintain and further develop our position as technology leader.

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

Net loss in 2009 amounted to EUR 151 million or 9.5 percent of net sales, representing EUR 0.35 net loss per ordinary share compared with net income in 2008 of EUR 322 million or 10.9 percent of net sales, representing EUR 0.75 net income per ordinary share (2007: net income of EUR 671 million or 17.8 percent of net sales, representing EUR 1.45 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.

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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 98 million in 2009, which was offset by a cash outflow of EUR 73 million from financing activities, reflecting our 2009 dividend payment (EUR 86 million), and EUR 98 million cash used in investing activities mainly related to 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 before October 2010. It is repayable in annual installments after four years, 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.

A. Operating Results

Critical accounting policies using significant estimates

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

Revenue recognition

ASML recognizes revenue when all four revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller s price to buyer is fixed or determinable; and

collectability is reasonably assured. At ASML, this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer site. Each system undergoes, prior to shipment, a Factory Acceptance Test in ASML s 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, if any. 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 is 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, ASML has never failed to successfully complete installation of a system at a customer s premises.

In connection with future introductions of new technology, we may initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until we are able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML s results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2009 and 2008 we had no deferred revenue from shipments of new technology. During the three years ended December 31, 2009 no revenue from new technology was recorded that had been previously deferred. As our systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely new technology occurs infrequently, and 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 our revenue is derived from contractual arrangements with our customers that have multiple deliverables, such as installation and training services and prepaid extended and enhanced (optic) warranty contracts. The revenue relating to the undelivered elements of the arrangements is deferred at fair value until delivery of these elements. The fair value is determined by vendor specific objective evidence (VSOE) except the fair value of the prepaid extended and enhanced (optic) warranty contracts which is based on the list price. VSOE is determined based upon the prices that we charge for installation and comparable services (such as relocating a system to another customer site) on a stand-alone basis, which are subject to normal price negotiations. Revenue from installation and training services is recognized when the services are completed. Revenue from prepaid extended and enhanced (optic) warranty contracts is recognized over the term of the contract.

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

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

We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment of revenue recognition. From time to time, we offer volume discounts to a limited number of customers. In some instances these volume discounts can be used to purchase field options (system enhancements). The related amount is recorded as a reduction in revenue at time of shipment. From time to time, we offer free or discounted products or services (award credits) to our customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction as the agreements involve the delivery of multiple products. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer.

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

Warranty

We provide standard warranty coverage on our systems for 12 months and on certain optic parts for 60 months, providing labor and parts necessary to repair systems and optic parts during the warranty period. The estimated

warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge. On a semi-annual basis, the Company assesses, and updates if necessary, its accounting estimates used to calculate the standard warranty reserve based on the latest actual historical warranty costs and expected future warranty costs. The actual product performance and/or field expense profiles may differ, and in those cases we adjust our warranty reserves accordingly. Future warranty costs 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, did not have a material effect. For 2008, the impact of the change in accounting estimate on the consolidated statements of operations and per-share amounts was as follows:

Year Ended December 31	**2008**	
(in thousands, except per share data)	EUR	%
Income from operations	33,409	**11.6%**
Net income	24,890	**7.7%**
Basic net income per ordinary share	0.06	**8.0%**
Diluted net income per ordinary share	0.06	**8.1%**

Evaluation of long-lived assets for impairment and costs associated with exit or disposal activities
Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

Goodwill is tested for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is tested for impairment based on a two-step approach for each reporting unit in which goodwill has been recorded. First, recoverability is tested by comparing the carrying amount of the reporting unit including goodwill with the fair value of the reporting unit, being the sum of the discounted future cash flows. If the carrying amount of the reporting unit is higher than the fair value of the reporting unit, the second step should be performed. Goodwill impairment is measured as the excess of the carrying amount of the goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination.

All of ASML s goodwill as of December 31, 2009 relates to the acquisition of Brion in March 2007. For the purpose of impairment testing, goodwill is allocated to the reporting unit Brion. The fair value of the reporting unit Brion is calculated based on the discounted cash flow method (income approach). These calculations use after-tax discounted cash flow projections based on a strategic plan approved by management.

The material assumptions used by management for the fair value calculation of the reporting unit are:

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 discount rate of 14.7 percent representing Brion s weighted average cost of capital (WACC), was determined using an adjusted version of the Capital Asset Pricing Model. Since Brion is not financed with debt, WACC was assumed to equal Brion s cost of equity. The discount rate increased compared to the prior year reflecting the increased market uncertainty.

Management believes that the fair value calculated reflects the amount a market participant would be willing to pay. Based on this analysis management believes that the fair value of the reporting unit substantially exceeded its carrying value and that, therefore, goodwill was not impaired as of December 31, 2009 and December 31, 2008.

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 fair value. 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 35 percent of the reporting unit s estimated fair value. These estimated cash flows could be reduced by up to 52 percent without causing the fair value of Brion to decrease below its carrying amount of EUR 155.5 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 65 percent of the reporting unit s estimated fair value, 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 estimated fair value falling below its carrying amount of EUR 155.5 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 fair value calculation could increase from 14.7 percent to 19.2 percent without causing the fair value of Brion to decrease below its carrying amount. Management does not believe such an increase is reasonably likely.

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

In determining the fair value of a reporting unit or an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of the semiconductor market conditions and our sales and cost expectations which are consistent with the plans and estimates that we use to manage our business. We also make estimates and assumptions concerning Weighted Average Cost of Capital (WACC) and future inflation rates.

It is possible that the outcome of the plans, estimates and assumptions used may differ from our estimates, which may require impairment of certain long-lived assets, including goodwill. Future adverse changes in market conditions may also require impairment of certain long-lived assets, including goodwill.

During 2009, we recorded impairment charges of EUR 15.9 million in property, plant and equipment of which we recorded EUR 2.1 million in cost of sales, EUR 9.1 million in R&D costs and EUR 4.7 million in SG&A costs. We did not record any impairment charges in other intangible assets. The impairment charges of EUR 15.9 million mainly relate to 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 fair value (being EUR 7.0 million) and their carrying amount.

Inventories

Inventories, including spare parts and lenses, are stated at the lower of cost (first-in, first-out method) or market value. Costs include net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Allowances are made for slow moving, obsolete or unsellable inventory and are reviewed on a quarterly basis. Our methodology involves matching our on-hand and on-order inventory with our requirements based on the manufacturing forecast. In determining inventory allowances, we evaluate inventory in excess of our forecasted needs on both technological and economical criteria and make appropriate provisions to reflect the risk of obsolescence. This methodology is significantly affected by our forecasted needs for inventory. If actual requirements were to be lower than estimated, additional inventory allowances for excess or obsolete inventory may be required, which could have a material adverse effect on our business, financial condition and results of operations. 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 we made EUR 64.8 million profit on the sale of inventories that had been previously written down.

As of December 31, 2009, the allowance for inventory obsolescence amounted to EUR 225.3 million (2008: EUR 189.9 million). The increase in the allowance 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 allowance for inventory obsolescence for different types of non-leading-edge systems compared to prior year and additional parts which management believes cannot be sold.

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 business, financial condition and results of operations.

Provisions

Employee contract termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. ASML recognizes employee contract termination benefits when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where there is no possibility of withdrawal, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. The timing of recognition and measurement of the provision for employee contract termination benefits depends on whether employees are required to render service until their employment is terminated in order to receive the termination benefits. If this period of continued employment extends beyond the minimum retention period, the provision shall be determined at the communication date based on the fair value as of the termination date and is recognized ratably over the future service period. As of December 31, 2009, the provision for contract termination benefits was fully utilized.

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

As of December 31, 2009, the provision for lease contract termination costs 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.

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.

Contingencies and litigation
We are party to various legal proceedings generally incidental to our business, as disclosed in Note 17 to the consolidated financial statements. In connection with these proceedings and claims, management evaluated, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In each case, management determined that either a loss was not probable or was not reasonably estimable. As a result, no estimated losses were recorded as a charge to our consolidated statements of operations in 2007, 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, even where we believe that we would ultimately prevail, we may agree to settle or to terminate a claim or proceeding where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in expensive and protracted litigation, the outcome of which is uncertain.

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

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

grant date.

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

We make quarterly assessments of the adequacy of the (hypothetical) tax pool to determine whether there are tax deficiencies that require recognition in the consolidated statements of operations. We have selected the alternative transition method (under Accounting Standards Codification (ASC) 718) in order to calculate the tax pool.

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

Income taxes

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

We use the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for tax consequences attributable to differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. Furthermore tax assets are recognized for the tax effect of incurred net operating losses.

If it is more likely than not that the carrying amounts of deferred tax assets will not be realized, a valuation allowance is recorded to reduce the carrying amounts of those assets.

We continuously assess our ability to realize our deferred tax assets resulting, 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 NV 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 income from operations and possible tax planning alternatives available to us.

On January 1, 2007 the Company adopted the provisions of FIN 48 Accounting for Uncertainty in Income Taxes after codification included in ASC 740. ASC 740 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet, before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure regarding income taxes.

Consistent with the provisions of ASC 740, we classified the liability for unrecognized tax benefits as of December 31, 2009, amounting to EUR 133.3 million (2008: EUR 124.2 million) as non-current liabilities because at year end payment of cash was uncertain within one year. These non-current income tax liabilities are recorded in deferred tax and other tax liabilities in the consolidated balance sheets. The total liability for unrecognized tax benefits, if reversed, would have a favorable effect on the Company s effective tax rate.

Expected interest and penalties related to income tax liabilities have been accrued for and are included in the liability for unrecognized tax benefits and in the provision for income taxes. The balance of accrued interest and penalties recorded in the consolidated balance sheets of December 31, 2009, amounted to EUR 28.5 million (2008: EUR 23.6 million). The balance of accrued interest and penalties recorded in the consolidated statements of operations of 2009 amounted to EUR 4.9 million (2008: EUR 2.1 million; 2007: EUR 21.5 million) and are included under (provision for) benefit from income taxes.

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

	2008	**2009**
(in millions)	EUR	**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 compared to 2008 related to the liability for unrecognized tax benefits that impacted the Company s effective tax rate.

The Company estimates that the total liability of unrecognized tax benefits will 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.

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

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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 43 million including interest, which has an unfavorable impact on the tax rate during 2009 of approximately 25 percent.

Results of Operations

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

Set out below our consolidated statements of operations data for the three years ended December 31, 2009:

Year ended December 31	**2007**	**2008**	**2009**
(in millions)	EUR	EUR	**EUR**
Total net sales	3,768.2	2,953.7	**1,596.1**
Cost of sales	2,218.5	1,938.2	**1,137.7**
Gross profit on sales	1,549.7	1,015.5	**458.4**
Research and development costs[1]	486.1	516.1	**466.8**
Amortization of in-process research and development costs	23.2		
Selling, general and administrative costs	225.7	212.3	**156.6**
Income (loss) from operations	814.7	287.1	**(165.0)**
Interest income (expense), net	33.5	22.6	**(6.5)**
Income (loss) from operations before income taxes	848.2	309.7	**(171.5)**
(Provision for) benefit from income taxes	(177.2)	12.7	**20.6**
Net income (loss)	671.0	322.4	**(150.9)**

1 As of January 1, 2009, R&D credits are presented as part of R&D costs. The comparative figures for 2007 and 2008 have been adjusted accordingly.

Set out below are our consolidated statements of operations from operations data for the three years ended December 31, 2009, expressed as a percentage of our total net sales:

Year ended December 31			
(as percentage of net sales)	**2007**	**2008**	**2009**
Total net sales	100.0	100.0	**100.0**
Cost of sales	58.9	65.6	**71.3**
Gross profit on sales	41.1	34.4	**28.7**
Research and development costs[1]	12.9	17.5	**29.2**

Amortization of in-process research and development costs	0.6		
Selling, general and administrative costs	6.0	7.2	**9.8**
Income (loss) from operations	21.6	9.7	**(10.3)**
Interest income (expense), net	0.9	0.8	**(0.4)**
Income (loss) from operations before income taxes	22.5	10.5	**(10.7)**
(Provision for) benefit from income taxes	(4.7)	0.4	**1.2**
Net income (loss)	17.8	10.9	**(9.5)**

1 As of January 1, 2009, R&D credits are presented as part of R&D costs. The comparative figures for 2007 and 2008 have been adjusted accordingly.

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Results of operations 2009 compared with 2008

Net sales and gross profit
The following table shows a summary of sales (revenue and units sold), gross profit on sales and ASP data on an annual and semi-annual basis for the years ended December 31, 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	40.3	25.6	34.4	**10.2**	**36.2**	**28.7**
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**

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 decreased from EUR 1,016 million or 34.4 percent of net sales in 2008 to 458 million or 28.7 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 profit on the sale of inventories that had been previously written down. 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 costs

R&D costs (net of credits) decreased by EUR 49 million or 9.6 percent from EUR 516 million in 2008, or 17.5 percent of net sales, to EUR 467 million in 2009, or 29.2 percent of net sales. 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 TWINSCANtm systems based on immersion, double patterning and EUV.

Selling, general and administrative costs

SG&A costs decreased by EUR 55.7 million or 26.2 percent from EUR 212.3 million in 2008, or 7.2 percent of net sales, to EUR 156.6 million in 2009, or 9.8 percent of net sales, as a result of our cost savings program.

Interest income (expense), net

Net interest decreased from EUR 23 million income in 2008 to EUR 7 million expense 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 expense 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

The effective tax rate was 12.0 percent of loss before taxes in 2009, compared to -4.1 percent of income before taxes in 2008. In 2008, ASML recognized tax income of approximately EUR 70 million or approximately 22 percent of net income 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 including interest of approximately EUR 43 million or approximately 25 percent of loss before 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.

Results of operations 2008 compared with 2007

Net sales and gross profit

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

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

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

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

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

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

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

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

We started 2008 with a systems backlog of 89 systems. In 2008, we booked orders for 115 systems, received order cancellations or push-outs beyond 12 months of 12 systems and recognized sales for 151 systems. This resulted in a systems backlog of 41 systems as of December 31, 2008. The total value of our systems backlog as of December 31,

2008 amounted to EUR 755 million with an ASP of EUR 18.4 million, compared with a systems backlog of EUR 1,697 million with an ASP of EUR 19.1 million as of December 31, 2007.

Research and development costs

R&D costs (net of credits) increased by EUR 30 million or 6.2 percent from EUR 486 million in 2007 to EUR 516 million in 2008. This increase reflects continued investment in technology in 2008 through investments in the development of enhancements of the next generation TWINSCAN systems based on immersion, double patterning and EUV.

Amortization of in-process R&D costs of EUR 23 million in 2007 relates to a one-off charge related to the Brion acquisition.

Selling, general and administrative costs

SG&A costs decreased by 5.9 percent from EUR 226 million in 2007 to EUR 212 million in 2008. In anticipation of the lower sales level we reduced SG&A costs.

Net interest income

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

Income taxes

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

Foreign Exchange Management

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

New U.S. GAAP Accounting Pronouncements

In June 2009, the FASB issued ASC 105 Generally Accepted Accounting Principles . ASC 105 establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. All of its content carries the same level of authority, effectively superseding FASB Statement 162 and modifying the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC 105 did not have any impact on our consolidated financial statements, but resulted in the update of all references to accounting guidance in this Form 20-F to refer to the new Codification.

In 2009 ASML has adopted ASC 820, Fair Value Measurements . The ASC defines fair value, provides guidance on how to measure assets and liabilities using fair value and expands disclosures about fair value measurements. The adoption of ASC 820 did not have any impact on our consolidated statements of operations, but resulted in additional disclosures to the Company s consolidated financial statements; see Note 2, Fair Value Measurements for more information.

In April 2009, the FASB issued ASC 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly . This ASC provides guidelines for making fair value measurements more consistent with the principles presented in ASC 820, Fair Value Measurements . The ASC relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The ASC is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009 and should be applied prospectively. We are currently assessing the impact that this ASC may have on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 810 (Statement 167, Amendments to FASB Interpretation No. 46(R)). This ASC changes the way in which a company determines whether or not an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and its ability to direct the activities of the entity that most significantly impact the entity s economic performance. This ASC is effective for fiscal years and interim periods beginning after November 15, 2009. We are currently assessing the impact that this ASC may have on the Company s consolidated financial statements.

In September 2009, the EITF reached final consensus on Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables . ASU 2009-13 amends the current guidance on arrangements with multiple deliverables (ASC 605-25) to (1) eliminate the separation criterion that requires entities to establish objective and reliable evidence of fair value for undelivered elements, (2) establish a selling price hierarchy to help entities allocate arrangement consideration to the separate units of account (i.e. separate elements of the sales agreement), (3) require the relative selling price allocation method for all arrangements (i.e., eliminate the residual method), and (4) significantly expand required disclosures. The final consensus is effective for financial years beginning after June 15, 2010. We are currently assessing the impact that ASU 2009-13 will have on the Company s consolidated financial statements.

In September 2009, the EITF reached final consensus on ASU 2009-14, Certain Revenue Arrangements that include Software elements. ASU 2009-14 amends the scoping guidance for software arrangements (ASC 985-605) to exclude tangible products that contain software elements and non-software elements that function together to interdependently deliver the product s essential functionality. ASU 2009-14 also provides considerations and examples for entities applying this guidance.

This issue will be effective prospectively for new or materially modified agreements entered into in financial years beginning on or after June 15, 2010. We are currently assessing the impact that ASU 2009-14 will have on the Company s consolidated financial statements.

B. Liquidity and Capital Resources

ASML generated cash from operating activities of EUR 701 million, EUR 281 million and EUR 98 million in 2007, 2008 and 2009, respectively. The primary components of cash provided by operating activities in 2009 were cash inflows reflecting the net loss of EUR 151 million which was more than offset by non-cash expense items such as depreciation (EUR 140 million), inventory obsolescence (EUR 87 million) and cash inflows as a result of changes in assets and liabilities (EUR 36 million). The changes in assets and liabilities relate to higher income taxes payable of EUR 71 million, lower accounts receivable of EUR 98 million, lower other assets of EUR 5 million, higher accounts payable of EUR 10 million and higher accrued liabilities of EUR 10 million, which are partly offset by higher inventories of EUR 158 million.

ASML used EUR 98 million for investing activities in 2009 and EUR 260 million in 2008 (2007: EUR 362 million). The majority of the 2009 and 2008 expenditures were attributable to 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 ACE. The 2007 expenditures included EUR 188 million for the Brion acquisition.

Net cash used in financing activities was EUR 73 million in 2009 compared to EUR 184 million in 2008 (2007: EUR 715 million). In 2009 net cash used in financing activities included EUR 86 million as a result of the dividend payment and EUR 11 million cash inflow from the issuance of shares in connection with the exercise and purchase of employee stock options. In 2008, cash used by financing activities mainly included EUR 108 million for our dividend payment, EUR 88 million for share buyback programs and EUR 11 million cash inflow from the issuance of shares in connection with the exercise and purchase of employee stock options. In 2007, cash used in financing activities included EUR 1,372 for share buyback programs, partly offset by EUR 594 million of net proceeds from the issuance in June 2007 of a Eurobond.

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. For further details of our credit facilities, see Note 14 to our consolidated financial statements.

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

We expect 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 14 to our consolidated financial statements.

See Notes 3 and 14 to our consolidated financial statements for discussion of our funding, treasury policies and our long-term debt.

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

Research and Development

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

Intellectual Property Matters

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

D. Trend Information

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, and gross margin of approximately 40 percent. R&D expenditures are expected to be approximately EUR 120 million net of credits and SG&A costs are expected to be approximately EUR 40 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.

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

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E. Off-Balance Sheet Arrangements

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

Variable interest entities

In December 2003, the FASB issued ASC 810 Consolidation of Variable Interest Entities . Under this ASC, an enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or combination of variable interests) that will either absorb a majority of the entity s expected losses if they occur, or receive a majority of the entity s expected residual returns if they occur.

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

ASML believes that it holds a variable interest in this entity and that the entity is a variable interest entity (VIE) because it is subject to consolidation in accordance with the provisions of paragraph 5 of ASC 810. The total equity investment at risk is approximately 3.6 percent of the lessor s total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders.

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

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

The resulting lease obligation is included in the line Operational Lease Obligations in the table of Item 5.F. Tabular Disclosure of Contractual Obligations .

F. Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 31, 2009 can be summarized as follows:

Payments due by period	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
(In thousands)	EUR	EUR	EUR	EUR	EUR
Long Term Debt Obligations, including interest expenses[1]	**939,102**	34,514	69,000	69,000	766,588
Operating Lease Obligations	**130,374**	33,077	43,150	27,912	26,235
Purchase Obligations	**1,431,247**	1,388,902	40,985	788	572
Unrecognized Tax Benefits	**133,270**	8,535	41,544	35,699	47,492
Total Contractual Obligations	**2,633,993**	1,465,028	194,679	133,399	840,887

1 See Note 14 to the consolidated financial statements for the amounts excluding interest expenses.

Long-term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. See Note 14 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 46 million, EUR 43 million and EUR 39 million for the years ended December 31, 2007, 2008 and 2009, respectively.

Several operating leases for our buildings contain purchase options, exercisable at the option of the Company at the end of the lease, and in some cases, during the term of the lease. The amounts to be paid if ASML should exercise these purchase options at the end of the lease can be summarized as of December 31, 2009 as follows:

Purchase options due by period	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
(In thousands)	**EUR**	EUR	EUR	EUR	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.

Unrecognized tax benefits relate to a liability for uncertain tax positions. See Note 18 to the consolidated financial statements.

G. Safe Harbor

See Part I Special Note Regarding Forward-Looking Statements .

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

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

Name	Title	Year of Birth	Term Expires
Arthur P.M. van der Poel[1,3,4]	Chairman of the Supervisory Board	1948	2012
Jos W.B. Westerburgen[2, 3]	Member of the Supervisory Board	1942	2011
Fritz W. Fröhlich[1]	Member of the Supervisory Board	1942	2012
Ieke C.J. van den Burg[2]	Member of the Supervisory Board	1952	2013
OB Bilous[3,4]	Member of the Supervisory Board	1938	2012
William T. Siegle[4]	Member of the Supervisory Board	1939	2011
Pauline F.M. van der Meer Mohr[2]	Member of the Supervisory Board	1960	2013
Wolfgang H. Ziebart [1,4]	Member of the Supervisory Board	1950	2013
Eric Meurice	President, Chief Executive Officer and Chairman of Management	1956	2012
Peter T.F.M. Wennink	Executive Vice President, Chief Financial Officer and Member of the Board of Management	1957	N/A [5]
Martin A. van den Brink	Executive Vice President, Chief Product and Technology Officer and Member of the Board of Management	1957	N/A [5]
Frits J. van Hout	Executive Vice President, Chief Marketing Officer and Member of the Board of Management	1960	2013
Frederic Schneider-Maunoury[6]	Executive Vice President, Chief Operating Officer and Member of the Board of Management	1961	2014

1 Member of the Audit Committee.
2 Member of the Remuneration Committee.
3 Member of the Selection and Nomination Committee.
4 Member of the Technology and Strategy Committee.
5 There are no specified terms for members of the Board of Management appointed prior to March 2004.
6 Mr. 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.

Effective March 26, 2009, Ms. Van den Burg, Mr. Bilous, Mr. Jan A. Dekker and Mr. Westerburgen retired by rotation from the Supervisory Board and Ms. Van den Burg, Mr. Bilous and Mr. Westerburgen were reappointed as members of the Supervisory Board. Also effective March 26, 2009, Ms. Van der Meer Mohr and Mr. Ziebart were appointed as members of the Supervisory Board.

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

Since 2005, the Works Council of ASML Netherlands B.V. has an enhanced right to make recommendations (which recommendation may be rejected by the Supervisory Board in limited circumstances) for nomination of one-third of the members of the Supervisory Board. See Item 6.C. Board Practices, Supervisory Board . At the 2005 General Meeting of Shareholders, Ms. Van den Burg was appointed pursuant to this recommendation right. At the 2009 General Meeting of Shareholders, Ms. Van der Meer Mohr was appointed pursuant to this recommendation right.

Director and Officer Biographies

Arthur P.M. van der Poel

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

Jos W.B. Westerburgen

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

Fritz W. Fröhlich

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

Ieke C.J. van den Burg

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

College Bescherming Persoonsgegevens (*Dutch Data Protection Authority*).

OB Bilous

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

William T. Siegle

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

Pauline P.M. van der Meer Mohr

Ms. Van der Meer Mohr was appointed to our Supervisory Board in March 2009. As of January 1, 2010 Ms. Van der Meer Mohr serves as President of the Executive Board of the Erasmus University Rotterdam. Ms. van der Meer Mohr is the founder of the Amstelbridge Group, a global network of human capital professionals, of which she was managing partner until December 31, 2009. Prior thereto, she was Senior Executive Vice President at ABN AMRO Bank, Head of Group Human Resources at TNT,

and held several senior executive roles at the Royal/Dutch Shell Group of Companies in various areas. Ms. Van der Meer Mohr was a member of the Supervisory Boards of Océ Technologies B.V. and the Amsterdam Medical Centre until December 31, 2009.

Wolfgang H. Ziebart

Mr. Ziebart was appointed to our Supervisory Board in March 2009. Since December 2009 he is Chief Executive Officer of the German specialty car manufacturer Artega Automobile GmbH&Co KG. Until May 2008 he was President and CEO of Infineon Technologies AG Before Infineon, Mr. Ziebart was on the boards of management of car components manufacturer Continental AG and automobile producer BMW AG. Mr. Ziebart is a member of the Board of Autoliv, Inc. and of Nordex AG.

Eric Meurice

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

Peter T.F.M. Wennink

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

Martin A. van den Brink

Mr. Van den Brink was appointed as member of our Board of Management in 1999 and currently is ASML s Executive Vice President Products & Technology. Mr. Van den Brink joined ASML when the company was founded in early 1984. He held several positions in engineering and from 1995 he served as Vice President Technology.

Frits J. van Hout

Mr. Van Hout was appointed as Executive Vice President, Chief Marketing Officer and Member of our Board of Management in 2009. In 2008, Mr. Van Hout was appointed Executive Vice President Integral Efficiency. After rejoining ASML in 2001, he served as Senior Vice President Customer Support and two Business Units. Mr. Van Hout was previously an ASML employee from its founding in 1984 to 1992, in various roles in engineering and sales. From 1998 to 2001, Mr. Van Hout served as Chief Executive Officer of the Beyeler Group, based in the Netherlands and Germany.

Frederic Schneider-Maunoury

Mr. Schneider-Maunoury joined ASML on December 1, 2009 and was appointed as Executive Vice President and Chief Operating Officer. His appointment to ASML s Board of Management will be effective as per the notification of

the General Meeting of Shareholders, scheduled on March 24, 2010. Before joining ASML, Mr. Schneider-Maunoury served as Vice President Thermal Products Manufacturing of the power generation and rail transport equipment group Alstom. Previously, he ran the worldwide Hydro Business of Alstom as general manager. Before joining Alstom in 1996, Mr. Schneider-Maunoury held various positions at the French Ministry of Trade and Industry.

B. Compensation

For details on Board of Management and Supervisory Board remuneration as well as benefits upon termination, see Note 20 to our consolidated financial statements.

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

Bonus and Profit-sharing plans

For details of employee bonus and profit-sharing plans, see Note 16 to our consolidated financial statements.

Pension plans

For details of employee pension plans, see Note 16 to our consolidated financial statements.

C. Board Practices

General

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

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

Our corporate governance structure is intended to:

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

Two-tier structure

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

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

Board of Management

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

retirement, or suspension or dismissal by the Supervisory Board. In the case of dismissal, the Supervisory Board must first inform the General Meeting of Shareholders of the intended removal.

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

Supervisory Board

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

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

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

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

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

Approval of Board of Management Decisions

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

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

Rules of Procedure

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

Directors and Officers Insurance and Indemnification

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

Corporate Governance Developments

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

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

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

Committees of ASML s Supervisory Board

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

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

Audit Committee

ASML s Audit Committee is composed of three members of the Supervisory Board. The current members of our Audit Committee are Fritz Fröhlich (chairman), Arthur van der Poel and Wolfgang Ziebart, each of whom is an independent, non-executive member of our Supervisory Board. The Supervisory Board has determined that Fritz Fröhlich qualifies as the Audit Committee financial expert pursuant to Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. Our external auditor, our Chief Executive Officer, our Chief Financial Officer, our Corporate Controller, our Chief Accountant, our Director Internal Audit, as well as other ASML employees invited by the chairman of the Audit Committee will also attend the meetings of the Audit Committee.

The Audit Committee assists the Supervisory Board in:

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

In 2009, the Audit Committee met five times and held five conference calls.

Remuneration Committee

ASML s Remuneration Committee is currently composed of three members of the Supervisory Board. The current members of our Remuneration Committee are Jos Westerburgen (chairman), Ieke van den Burg and Pauline van der Meer Mohr. The Remuneration Committee is responsible for the preparation of the remuneration policy for the Board of Management.

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

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

In 2009, the Remuneration Committee held six formal meetings and several ad hoc meetings.

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

The Selection and Nomination Committee assists the Supervisory Board in:

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

The Selection and Nomination Committee held three scheduled meetings and several ad hoc meetings in 2009.

Technology and Strategy Committee
ASML s Technology and Strategy Committee is composed of four members of the Supervisory Board. The current members of our Technology and Strategy Committee are William Siegle (chairman), Arthur van der Poel, OB Bilous and Wolfgang Ziebart. In

addition, the Technology and Strategy Committee may appoint one or more advisors from within the Company and/or from outside the Company. The advisors to the Technology and Strategy Committee may be invited as guests to the meetings, or parts thereof, of the Committee, but are not entitled to vote in the meetings.

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

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

The Technology and Strategy Committee held three meetings in 2009.

Disclosure Committee

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

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

During 2009, the Disclosure Committee reviewed the quarterly earnings announcements and the audited annual report including the consolidated financial statements and other public announcements containing financial information and advised the Chief Executive Officer and Chief Financial Officer on the assessment of ASML s disclosure controls and procedures.

Variations from Certain NASDAQ Corporate Governance Rules

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

- ASML does not follow NASDAQ s quorum requirements applicable to meetings of ordinary shareholders. In accordance with Netherlands law and Netherlands generally accepted business practice, ASML s Articles of Association provide that there are no quorum requirements generally applicable to General Meetings of Shareholders.
- ASML does not follow NASDAQ s requirements regarding the provision of proxy statements for General Meetings of Shareholders. Netherlands law does not have a regulatory regime for the solicitation of proxies: the solicitation of proxies is not a generally accepted business practice in the Netherlands. ASML does provide shareholders with an agenda and other relevant documents for the General Meeting of Shareholders.

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

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

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D. Employees

The following table presents the total numbers of payroll employees and temporary employees for the years ended December 31, 2007, 2008 and 2009 (in FTEs) employed by ASML, primarily in manufacturing, product development and customer support activities:

Year Ended December 31	2007	2008	2009
Payroll Employees	**6,582**	6,930	**6,548**
Temporary Employees	**1,725**	1,329	**1,137**
Total	**8,307**	8,259	**7,685**

For a more detailed description of payroll employee information, including a breakdown of our employees in FTEs by sector, see Notes 16 and 21 to our consolidated financial statements, which are incorporated herein by reference. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products.

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

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

E. Share Ownership

Information with respect to share ownership of members of our Supervisory Board and Board of Management is included in Item 7 Major Shareholders and Related Party Transactions and Note 20 to our consolidated financial statements, which are incorporated herein by reference. Information with respect to the grant of shares and stock options to employees is included in Note 16 to our consolidated financial statements which are incorporated herein by reference.

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth the total number of ordinary shares owned by each shareholder whose beneficial ownership of ordinary shares exceeds 5 percent of the ordinary shares issued and outstanding, as well as the ordinary shares (including options) owned by the members of the Supervisory Board and members of the Board of Management (which includes those persons specified in Item 6 Directors, Senior Management and Employees), as a group, as of December 31, 2009. The information set out below is solely based on public filings with the SEC and AFM (Autoriteit Financiële Markten) on December 31, 2009.

Identity of Person or Group	Shares Owned	Percent of Class
FMR LLC[1]	65,359,636	15.1%
Capital World Investors[2]	37,869,170	8.8%
PRIMECAP Management Company[3]	25,198,365	5.8%
Members of ASML s Supervisory Board and Board of Management, as a group (4 persons)[4]	1,579,616	*

* Less than 1 percent.

1 Based solely on the Schedule 13-G/A filed by FMR LLC with the Commission on February 17, 2009.

2 Based solely on the Schedule 13-G/A filed by Capital World Investors with the Commission on February 13, 2009.

3 Based solely on the Schedule 13-G/A filed by PRIMECAP Management Company with the Commission on February 12, 2009.

4 For further information, please refer to Note 20, Board of Management and Supervisory Board Remuneration, of the consolidated financial statements.

According to SEC filings, (i) FMR LLC decreased its shareholding from 57,681,794 as of December 31, 2006 to 28,506,903 as of September 30, 2007, and to 6,429,585 as of December 31, 2007 and increased its shareholding to 56,750,236 as of October 31, 2008, and to 65,359,636 as of December 31, 2008, (ii) Capital World Investors held a shareholding of 25,882,170 as of December 31, 2007, and increased its shareholding to 37,869,170 as of December 31, 2008, (iii) PRIMECAP Management Company decreased its shareholding from 26,144,000 as of February 28, 2007, decreased its shareholding to 23,383,824 as of December 31, 2007, and increased its shareholding to 25,198,365 as of December 31, 2008.

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

As of December 31, 2009, 116.8 million ordinary shares were held by 407 registered holders with a registered address in the United States. Since certain of our ordinary shares were held by brokers and nominees, the number of record holders in the United States may not be representative of the number of beneficial holders or of where the beneficial holders are resident.

Obligations of Shareholders to Disclose Holdings under Netherlands Law

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

The disclosure obligations under the Act apply to any person or entity that acquires, holds or disposes of an interest in the voting rights and/or the capital of a public limited company incorporated under the laws of the Netherlands whose shares are admitted to trading on a regulated market within the European Union, such as ASML. 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 Act requires any person or entity whose interest in the voting rights and/or capital of ASML reached, exceeded or fell below those percentage interests to notify the Netherlands Authority for the Financial Markets (AFM) immediately.

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

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

and the exercise of rights to acquire shares).

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

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

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

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

Non-compliance with the reporting obligations under the Act could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with the reporting obligations under the Act may lead to civil sanctions, including (i) suspension of the voting rights relating to the shares held by the offender, for a period of not more than three years, (ii) nullification of any resolution of the General Meeting of Shareholders of the Company to the extent that such resolution would not have been approved if the votes at the disposal of the person or entity in violation of a duty under the Act had not been exercised and (iii) a prohibition on the acquisition by the offender of our shares or the voting on our ordinary shares for a period of not more than five years.

B. Related Party Transactions

There have been no transactions during our most recent fiscal year, nor are there presently any proposed transactions, which are material to ASML or any transactions that are unusual in their nature or conditions, involving goods, services, or tangible or intangible assets between ASML or any of its subsidiaries and any significant shareholder and any director or officer or any relative or spouse thereof. During our most recent fiscal year, there has been no, and at present there is no, outstanding indebtedness to ASML owed or owing by any director or officer of ASML or any associate thereof, other than the virtual financing arrangement with respect to stock options described under Note 16 to our consolidated financial statements.

C. Interests of Experts & Counsel

Not applicable.

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

Consolidated Statements

See Item 18 Financial Statements .

Export Sales

See Note 19 to our consolidated financial statements included in Item 18 Financial Statements , which is incorporated herein by reference.

Legal Proceedings

See Item 4.B. Business Overview, Intellectual Property and Note 17 to our consolidated financial statements included in Item 18 Financial Statements , which are incorporated herein by reference.

Dividend Policy

Annually, the Supervisory Board, upon proposal of the Board of Management, will assess the amount of dividend that will be proposed to the Annual General Meeting of Shareholders. 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.

For more information see Item 10.B. Memorandum and Articles of Association and Item 10.D. Exchange Controls and Note 25 to our consolidated financial statements included in Item 18 Financial Statements, which are incorporated herein by reference.

B. Significant Changes

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

Item 9 The Offer and Listing

A. Offer and Listing Details

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

New York shares are registered with J.P. Morgan Chase Bank, N.A. (the New York Transfer Agent), 4 New York Plaza, New York, New York, pursuant to the terms of a transfer, registrar and dividend disbursing agreement (the Transfer Agent Agreement) between the Company and the New York Transfer Agent. Amsterdam shares are held in dematerialized form through the facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (Euroclear Nederland), the Netherlands centralised securities custody and administration system. The New York Transfer Agent charges shareholders a fee of USD 5.00 per 100 shares for the exchange of New York shares for Amsterdam shares and vice versa.

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Dividends payable on New York shares are declared in euro and converted by the Company to dollars at the rate of exchange on Euronext Amsterdam at the close of business on the date determined and announced by the Board of Management. The resulting amounts are distributed through the New York Transfer Agent and no charge is payable by holders of New York shares in connection with this conversion or distribution.

Pursuant to the terms of the Transfer Agent Agreement, the Company has agreed to reimburse the New York Transfer Agent for certain out of pocket expenses, including in connection with any mailing of notices, reports or other communications made generally available by the Company to holders of ordinary shares and the New York Transfer Agent has waived its fees associated with routine services to the Company associated with the New York shares. In addition, the New York Transfer Agent has agreed to reimburse certain reasonable expenses incurred by the Company in connection with the issuance and transfer of New York shares. In the year ended December 31, 2009, the Transfer Agent reimbursed USD 468,795 of expenses incurred by ASML, which mainly comprised legal, audit and accounting fees incurred due to the existence of the New York shares.

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

	NASDAQ USD		**Euronext Amsterdam EUR**	
	High	**Low**	**High**	**Low**
Annual Information				
2005	20.13	14.44	17.12	11.11
2006	25.83	18.46	19.90	14.49
2007	35.79	22.89	24.99	17.15
2008	30.47	12.66	20.97	10.68
2009	34.67	14.28	24.24	11.35
Quarterly Information				
1st quarter 2008	30.47	22.23	20.97	13.92
2nd quarter 2008	30.30	23.98	19.59	15.19
3rd quarter 2008	25.20	16.29	16.81	11.72
4th quarter 2008	18.84	12.66	14.60	10.68
1st quarter 2009	18.58	14.28	14.20	11.35
2nd quarter 2009	22.12	17.77	16.22	13.42
3rd quarter 2009	30.31	21.21	20.55	15.11
4th quarter 2009	34.67	26.67	24.24	18.38

Monthly Information				
July 2009	26.01	21.21	18.37	15.11
August 2009	27.97	25.00	19.58	17.58
September 2009	30.31	26.33	20.55	18.43
October 2009	31.65	26.67	21.61	18.38
November 2009	32.02	27.16	21.40	18.51
December 2009	34.67	31.96	24.24	21.20
January (through Jan. 25) 2010	35.25	31.73	24.57	22.43

(Source: Bloomberg Finance LP)

B. Plan of Distribution
Not applicable.

C. Markets
See Item 9. A. Offer and listing Details .

D. Selling Shareholders
Not applicable.

E. Dilution
Not applicable.

F. Expenses of the Issue
Not applicable.

Item 10 Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

Current Authorizations to Issue and Repurchase Ordinary Shares

Our Board of Management has the power to issue ordinary shares and cumulative preference shares insofar as the Board of Management has been authorized to do so by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association). The Board of Management requires approval of the Supervisory Board for such an issue.

At our annual General Meeting of Shareholders, held on March 26, 2009, the Board of Management was authorized for a period of 18 months, subject to the approval of the Supervisory Board, to issue shares and/or rights thereto representing up to a maximum of 5 percent of our issued share capital as of the date of authorization, plus an additional 5 percent of our issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At our annual General Meeting of Shareholders to be held on March 24, 2010, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through September 24, 2011.

Holders of our ordinary shares have a preemptive right of subscription, in proportion to the aggregate nominal amount of the ordinary shares held by them, to any issuance of ordinary shares for cash, which right may be restricted or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association), the Board of Management has the power subject to approval of the Supervisory Board, to restrict or exclude the preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders held on March 26, 2009, the Board of Management was authorized, subject to approval of the Supervisory Board, to restrict or exclude preemptive rights of holders of ordinary shares. At our annual General Meeting of Shareholders to be held on March 24, 2010, our 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 or options separately. These authorizations will each be requested to be granted for a period of 18 months.

We may repurchase our issued ordinary shares at any time, subject to compliance with the requirements of Netherlands law and our Articles of Association. Although Netherlands law provides since June 11, 2008 that after such repurchases the aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 50 percent of the issued share capital, our current Articles of Association provide that after such repurchases the

aggregate nominal value of the ordinary shares held by ASML or a subsidiary must not be more than 10 percent of the issued share capital. Any such purchases are subject to the approval of the Supervisory Board and the authorization (whether by means of a resolution or by an amendment to our Articles of Association) of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through September 26, 2010 up to a maximum of approximately 27 percent of the 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 our annual General Meeting of Shareholders to be held on March 24, 2010, our shareholders will be asked to extend this authority through September 24, 2011.

C. Material Contracts

Not applicable.

D. Exchange Controls

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

E. Taxation

Netherlands Taxation

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

General

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

Substantial Interest

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

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

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

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

Corporate Income Tax Consequences for Corporate Non-resident Holders

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

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

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

Dividend Withholding Tax

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

Dividends include:

- dividends in cash and in kind;
- deemed and constructive dividends;

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

A reduction of Netherlands dividend withholding tax can be obtained if:
the participation exemption applies and the ordinary shares are attributable to a business carried out in the Netherlands;
the dividends are distributed to a qualifying EU corporate holder satisfying the conditions of the EU Parent-Subsidiary Directive; or
the rate is reduced by a Tax Treaty.

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

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

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

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

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

(1) the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of the gift or death, is deemed to be, resident of the Netherlands; or

(2) the ordinary shares are attributable to an enterprise or part thereof that is carried on through a permanent establishment or a permanent representative in the Netherlands.

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

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

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Residence

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

United States Taxation

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

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

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

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

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

holding and disposing of the ordinary shares.

Taxation of Dividends

ASML believes it was not a Passive Foreign Investment Company (PFIC) for U.S. federal income tax purposes in 2008 and that it will not be a PFIC in 2009. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty as to our actual PFIC status in any particular year until the close of the taxable year in question. ASML has not conducted a detailed study at this time to confirm its non-PFIC status.

United States Holders should generally include in gross income as foreign-source dividend income the gross amount of any non-liquidating distribution (before reduction for Netherlands withholding taxes) ASML makes out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) when the distribution is actually or constructively received by the United States Holder. Distributions will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution includible in income of a United States Holder should be the U.S. dollar value of the foreign currency (e.g. Euros) paid, determined by the spot rate of exchange on the date of the distribution, regardless of whether the payment is in fact converted into U.S. dollars. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the United States Holder s U.S. tax basis in the ordinary shares and thereafter as taxable capital gain. ASML presently does not maintain calculations of its earnings and profits under United States federal income tax principles. If ASML does not report to a United States Holder the

portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

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

For U.S. foreign tax credit purposes, dividends paid by ASML generally will be treated as foreign-source income and as passive category income (or in the case of certain holders, as general category income). Gains or losses realized by a United States Holder on the sale or exchange of ordinary shares generally will be treated as U.S.-source gain or loss. The rules governing foreign tax credit are complex and we suggest each United States Holder to consult its own tax advisor to determine whether, and to what extent, a foreign tax credit will be available.

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

Dividends paid by ASML generally will constitute portfolio income for purposes of the limitations on the use of passive activity losses (and, therefore, generally may not be offset by passive activity losses) and as investment income for purposes of the limitation on the deduction of investment interest expense.

Taxation on Sale or Other Disposition of Ordinary Shares

Upon a sale or other disposition of ordinary shares, a United States Holder will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount realized, if

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

Information Reporting and Backup Withholding

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

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

F. Dividends and Paying Agents
Not applicable.

G. Statement by Experts
Not applicable.

H. Documents on Display
We are subject to certain reporting requirements of the US Securities Exchange Act of 1934 (the Exchange Act). As a foreign private issuer , we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of shares. In addition, we are not required to file reports and financial statements with the Commission as frequently or as promptly as companies that are not foreign private issuers whose securities are registered under the Exchange Act. However, we are required to file with the Commission, within six months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm and interactive data comprising financial statements in extensible business reporting language within 30 days of filing our annual report on Form 20-F. We publish unaudited interim financial information after the end of each quarter. We furnish this quarterly financial information to the Commission under cover of a Form 6-K.

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

I. Subsidiary Information
See Item 4.C. Organizational Structure .

Item 11 Quantitative and Qualitative Disclosures About Market Risk

ASML is exposed to a variety of financial risks: market risks (including foreign currency exchange risk and interest rate risk), credit risk, liquidity risk 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.

We believe that market information is the most reliable and transparent means of measurement for our derivative instruments that are measured at fair value.

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

It is the Company s policy to hedge material transaction exposures, such as 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, we 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 other comprehensive income 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.

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 years 2008 and 2009 were EUR 12.7 million gain and EUR 13.1 million loss, respectively. The cumulative gain included in cumulative translation adjustment relating to the net investment hedge would be reclassified from equity to the consolidated statements of operations 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 our Eurobond due to changes in market interest rates and to hedge the variability of future interest receipts as a result of changes in market interest rates on part of our cash and cash equivalents.

Financial instruments

The Company uses 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 balance sheet date. The following table summarizes the notional amounts and estimated fair values of the Company s financial instruments:

As of December 31	2008 Notional Amount	Fair Value	2009 Notional Amount	Fair Value
(in thousands)	EUR	EUR	**EUR**	**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

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

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

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

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.

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 from operations before income taxes and equity.

	2008		2009	
	Impact on income from operations before income taxes	Impact on equity	Impact on income from operations before income taxes	Impact on equity
(in thousands)	EUR	EUR	**EUR**	**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 statements of operations. The negative effect on income from operations 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.

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The increase in the U.S. dollar effect on income from operations 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 other comprehensive income, within equity. The movements of currency rates therefore might have a significant effect on other comprehensive income. The increased U.S. dollar effect on other comprehensive income 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 other comprehensive income 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 other comprehensive income.

For a 10 percent weakening of the foreign currencies against the euro, there would be approximately an equal and opposite effect on the income from operations before income taxes and other comprehensive income. 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 other comprehensive income, 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 balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The table below shows the effect of a one percent increase in interest rates on the Company s income from operations before income taxes and other comprehensive income. 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 other comprehensive income and income from operations before income taxes. A positive amount indicates an increase in income from operations before income taxes and other comprehensive income.

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

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

Item 12 Description of Securities Other Than Equity Securities

Not applicable.

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Part II

Item 13 Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

Item 15 Controls and Procedures

Disclosure Controls and Procedures
As of the end of the period covered by this report, the management of ASML conducted an evaluation, under the supervision and with the participation of ASML s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of ASML s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on such evaluation, ASML s Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, ASML s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by ASML in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by ASML in the reports that it files or submits under the Exchange Act is accumulated and communicated to ASML s management, including ASML s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting
ASML s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, for ASML. Under the supervision and with the participation of ASML s Chief Executive Officer and Chief Financial Officer, ASML s management conducted an evaluation of the effectiveness of ASML s internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of the end of the period covered by this report. Based on that evaluation, management has concluded that ASML s internal control over financial reporting was effective as of December 31, 2009 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Deloitte Accountants B.V., an independent registered public accounting firm, has audited the consolidated financial statements included in Item 18 of this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of ASML s internal control over financial reporting.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2009 there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

Item 16

A. Audit Committee Financial Expert

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

B. Code of Ethics

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

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

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

C. Principal Accountant Fees and Services

Deloitte Accountants B.V. has served as our independent registered public accounting firm for each of the three 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 members firms and/or affiliates in 2008 and 2009.

Year ended December 31	**2008**	**2009**
(in thousands)	EUR	**EUR**
Audit fees	1,377	**1,191**
Audit-related fees	52	**75**
Tax fees	536	**723**
Total	1,965	**1,989**

Audit fees

Audit fees primarily relate to the audit of our 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.

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	2008	2009
(in thousands)	EUR	**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.

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D. Exemptions from the Listing Standards for Audit Committees
Not applicable.

E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers
The following table provides a summary of shares repurchased by the Company between 2006 and 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.

F. Change in Registrant s Certifying Accountant

Not applicable.

G. Corporate governance

See Item 6.C. Variations from Certain NASDAQ Corporate Governance Rules .

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Part III

Item 17 Financial Statements

Not applicable.

Item 18 Financial Statements

In response to this item, the Company incorporates herein by reference the consolidated financial statements of the Company set out on pages F-2 through F-47 hereto.

Item 19 Exhibits

Exhibit No.	Description
1	Articles of Association of ASML Holding N.V. (English translation) (Incorporated by reference to Amendment No. 11 to the Registrant s Registration Statement on Form 8-A/A, filed with the Commission on November 2, 2007)
2.1	Fiscal Agency Agreement between ASML Holding N.V., Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. relating to the Registrant s 5.75 percent Notes due 2017 (Incorporated by reference to the Registrant s Annual Report for the year ended December 31, 2008)
4.1	Agreement between ASML Lithography B.V. and Carl Zeiss, dated March 17, 2000 (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2000) #
4.2	Agreement between ASML Holding N.V. and Carl Zeiss, dated October 24, 2003 (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the year ended December 31, 2003) #
4.3	Form of Indemnity Agreement between ASML Holding N.V. and members of its Board of Management (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the year ended December 31, 2003)
4.4	Form of Indemnity Agreement between ASML Holding N.V. and members of its Supervisory Board (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the year ended December 31, 2003)
4.5	Form of Employment Agreement for members of the Board of Management (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2003)
4.6	

	Nikon-ASML Patent Cross-License Agreement, dated December 10, 2004, between ASML Holding N.V. and Nikon Corporation (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.7	ASML/Zeiss Sublicense Agreement, 2004, dated December 10, 2004, between Carl Zeiss SMT AG and ASML Holding N.V. (Incorporated by reference to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2004) #
4.8	ASML New Hires and Incentive Stock Option Plan For Management (Version 2003) (Incorporated by reference to the Registrant s Statement on Form S-8, filed with the Commission on September 2, 2003 (File No. 333-109154))
4.9	ASML Incentive and New Hire Option Plan for Board of Management (Incorporated by reference to the Registrant s Registration Statement on Form S-8, filed with the Commission on June 9, 2004 (File No. 333-116337))
4.10	ASML Option Plan for Management of ASML Holding Group Companies (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on June 30, 2005 (file No. 333-126340))
4.11	ASML Stock Option Plan for New Hire Options granted to Members of the Board of Management (Version April 2006) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.12	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2006) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.13	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2006) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.14	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2006) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 7, 2006 (file No. 333-136362))
4.15	ASML Restricted Stock Plan (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on March 7, 2007 (file No. 333-141125))
4.16	Brion Technologies, Inc., 2002 Stock Option Plan (as amended on March 25, 2005; March 24, 2006; and November 17, 2006) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on April 20, 2007 (file No. 333-142254))
4.17	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version January 2007) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))

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Exhibit No.	Description
4.18	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version April 2007) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.19	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version July 2007) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.20	ASML Stock Option Plan for Incentive or New Hire Options granted to Senior and Executive Management (Version October 2007) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.21	ASML Performance Stock Plan for Members of the Board of Management (Version 1) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.22	ASML Performance Stock Option Plan for Members of the Board of Management (Version 2) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on July 5, 2007 (file No. 333-144356))
4.23	ASML Stock Option Plan from Base Salary for Senior & Executive Management (Version October 2007) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on November 2, 2007 (file No. 333-147128))
4.24	ASML Performance Stock Option Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.25	ASML Performance Share Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.26	ASML Restricted Stock Plan (version 2) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on August 29, 2008 (file No. 333-153277))
4.27	ASML Performance Stock Plan for Members of the Board of Management (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on October 13, 2009 (file No. 333-162439))
4.28	ASML Performance Stock Option Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on October 13, 2009 (file No. 333-162439))
4.29	ASML Performance Share Plan for Senior and Executive Management (version 1) (Incorporated by reference to the Registrant s Registration Statement on Form S-8 filed with the Commission on October 13, 2009 (file No. 333-162439))
8.1	List of Material Subsidiaries*
12.1	Certification of CEO and CFO Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
13.1	Certification of CEO and CFO Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Deloitte Accountants B.V.*

* Filed at the Commission herewith

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

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

ASML Holding N.V.
(Registrant)

/s/ Eric Meurice
Eric Meurice
President, Chief Executive Officer and Chairman of the Board of Management
Dated: January 29, 2010

/s/ Peter T.F.M. Wennink
Peter T.F.M. Wennink
Executive Vice President, Chief Financial Officer and Member of the Board of Management
Dated: January 29, 2010

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F-2	Consolidated Statements of Operations for the years ended December 31, 2007, 2008 and 2009
F-2	Consolidated Statements of Comprehensive Income for the years ended December 31, 2007, 2008 and 2009
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Consolidated Statements of Operations

Notes	Year ended December 31 (in thousands, except per share data)	2007 EUR	2008 EUR	2009 EUR
19	Net system sales	3,351,281	2,516,762	**1,174,858**
	Net service and field option sales	416,904	436,916	**421,205**
19	**Total net sales**	3,768,185	2,953,678	**1,596,063**
	Cost of system sales	1,943,779	1,631,069	**852,417**
	Cost of service and field option sales	274,747	307,095	**285,254**
21	**Total cost of sales**	2,218,526	1,938,164	**1,137,671**
	Gross profit on sales	1,549,659	1,015,514	**458,392**
21, 22	Research and development costs[1]	486,141	516,128	**466,761**
10	Amortization of in-process research and development costs	23,148		
21	Selling, general and administrative costs	225,668	212,341	**156,644**
	Income (loss) from operations	814,702	287,045	**(165,013)**
23	Interest income	78,165	72,497	**42,766**
23	Interest expense	(44,714)	(49,898)	**(49,303)**
	Income (loss) from operations before income taxes	848,153	309,644	**(171,550)**
18	(Provision for) benefit from income taxes	(177,152)	12,726	**20,625**
	Net income (loss)	671,001	322,370	**(150,925)**
	Basic net income (loss) per ordinary share	1.45	0.75	**(0.35)**

Diluted net income (loss) per ordinary share	1.41	0.74	**(0.35)**
Number of ordinary shares used in computing per share amounts (in thousands)			
Basic	462,406	431,620	**432,615**
Diluted	485,643	434,205	**432,615**

Consolidated Statements of Comprehensive Income

Year ended December 31 (in thousands)	**2007** EUR	**2008** EUR	**2009** **EUR**
Net income (loss)	671,001	322,370	**(150,925)**
Loss on foreign currency translation, net of taxes	(23,294)	(12,734)	**(8,592)**
Gain (loss) on derivative instruments, net of taxes	(3,450)	(43,579)	**6,494**
Comprehensive income	644,257	266,057	**(153,023)**

1 As of January 1, 2009, R&D credits are presented as part of R&D costs. The comparative figures for 2007 and 2008 have been adjusted accordingly.

Consolidated Balance Sheets

Notes	As of December 31 (in thousands, except share and per share data)	2008 EUR	2009 EUR
	Assets		
4	Cash and cash equivalents	1,109,184	**1,037,074**
5	Accounts receivable, net	463,273	**377,439**
6	Finance receivables, net	6,225	**21,553**
18	Current tax assets	87,560	**11,286**
7	Inventories, net	999,150	**963,382**
18	Deferred tax assets	71,780	**119,404**
8	Other assets	236,077	**218,746**
	Total current assets	2,973,249	**2,748,884**
6	Finance receivables, net	31,030	
18	Deferred tax assets	148,133	**133,263**
8	Other assets	88,197	**77,054**
9	Goodwill	131,453	**131,462**
10	Other intangible assets, net	26,692	**18,128**
11	Property, plant and equipment, net	540,640	**618,706**
	Total non-current assets	966,145	**978,613**
	Total assets	3,939,394	**3,727,497**
	Liabilities and shareholders equity		
	Accounts payable	193,690	**206,226**
12	Accrued and other liabilities	789,788	**817,361**
18	Current tax liabilities	20,039	**15,032**
13	Provisions	4,678	**2,504**
18	Deferred tax liabilities	148	**3,047**
	Total current liabilities	1,008,343	**1,044,170**
14	Long-term debt	647,050	**663,102**
18	Deferred and other tax liabilities	209,699	**188,404**
13	Provisions	15,495	**12,694**
12	Accrued and other liabilities	70,038	**44,359**
	Total non-current liabilities	942,282	**908,559**
	Total liabilities	1,950,625	**1,952,729**
15, 17	Commitments and contingencies		

Cumulative Preference Shares; EUR 0.02 nominal value; 3,150,005,000 shares authorized; none issued and 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 issued and outstanding at December 31, 2008; respectively 433,638,976 and none issued and outstanding at December 31, 2009	38,887	**39,028**
Share premium	474,765	**476,261**
Treasury shares at cost	(253,436)	**(218,203)**
Retained earnings	1,698,929	**1,450,156**
Accumulated other comprehensive income	29,624	**27,526**
25 **Total shareholders equity**	1,988,769	**1,774,768**
Total liabilities and shareholders equity	3,939,394	**3,727,497**

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Consolidated Statements of Shareholders Equity

(in thousands)	Issued and outstanding Shares Number[1]	Amount EUR	Share Premium EUR	Retained Earnings EUR	Treasury Shares at cost EUR	Accumulated Other Comprehensive Income EUR	Total EUR
Balance at January 1, 2007	477,099	10,051	1,195,034	1,231,237	(401,000)	112,681	**2,148,003**
Components of comprehensive income:							
Net income				671,001			**671,001**
Foreign Currency Translation, net of taxes						(23,294)	**(23,294)**
Gain (loss) on derivative instruments, net of taxes						(3,450)	**(3,450)**
Share-based payments			16,506				**16,506**
Cumulative effect of applying the provisions of ASC 740				(7,648)			**(7,648)**
Purchase of shares in conjunction with conversion rights of bond holders and share-based payment plans[2]	(17,000)	(970)			(358,886)		**(359,856)**
Issuance of shares in conjunction with convertible bonds	26,232	718	288,360	(35,366)	130,317		**384,029**
Capital repayment[3]	(55,093)	29,748	(1,041,605)				**(1,011,857)**
Cancellation of treasury shares		(509)	(48,563)	(351,928)	401,000		
Tax benefit from stock options			9,006				**9,006**
Issuance of shares and stock options	4,388	168	45,108	(6,388)	29,676		**68,564**
Balance at December 31, 2007	435,626	39,206	463,846	1,500,908	(198,893)	85,937	**1,891,004**

Components of comprehensive income:							
Net income				322,370			**322,370**
Foreign Currency Translation, net of taxes						(12,734)	**(12,734)**
Gain (loss) on derivative instruments, net of taxes						(43,579)	**(43,579)**
Share-based payments			13,535				**13,535**
Purchase of shares in conjunction with share-based payment plans	(5,000)	(450)			(87,155)		**(87,605)**
Dividend paid				(107,841)			**(107,841)**
Tax benefit from stock options			2,144				**2,144**
Issuance of shares and stock options	1,448	131	(4,760)	(16,508)	32,612		**11,475**
Balance at December 31, 2008	432,074	38,887	474,765	1,698,929	(253,436)	29,624	**1,988,769**
Components of comprehensive income:							
Net loss				(150,925)			**(150,925)**
Foreign Currency Translation, net of taxes						(8,592)	**(8,592)**
Gain (loss) on derivative instruments, net of taxes						6,494	**6,494**
Share-based payments			13,394				**13,394**
Dividend paid[4]				(86,486)			**(86,486)**
Tax benefit from stock options			1,954				**1,954**
Issuance of shares and stock options	1,565	141	(13,852)	(11,362)	35,233		**10,160**
Balance at December 31, 2009	433,639	39,028	476,261	1,450,156	(218,203)	27,526	**1,774,768**

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 includes the number of issued and outstanding shares of 432,073,534 and the number of treasury shares of 12,406,561.

2 In 2007, 17,000,000 shares were repurchased, some of which were re-issued in order to cover exercised stock options and to satisfy the conversion rights of holders of our 5.50 percent Convertible Subordinated Notes. See Note 26 for further information.

3 In 2007, as part of a capital repayment program, EUR 1,012 million of equity was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11 percent. See Note 26 for further information.

4 In 2009, ASML paid out a dividend of EUR 86 million to its shareholders, see Note 25 for further information.

Consolidated Statements of Cash Flows

Year ended December 31	2007	2008	2009
(in thousands)	EUR	EUR	**EUR**
Cash Flows from Operating Activities			
Net income (loss)	671,001	322,370	**(150,925)**
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization	126,344	119,190	**140,201**
Impairment	9,022	25,109	**15,896**
Loss on disposals of property, plant and equipment	14,210	4,257	**4,053**
Share-based payments	16,506	13,535	**13,394**
Allowance for doubtful debts	(178)	188	**1,889**
Allowance for obsolete inventory	79,592	139,628	**86,636**
Deferred income taxes	106,403	(34,155)	**(49,423)**
Changes in assets and liabilities:			
Accounts receivable	42,410	132,147	**97,540**
Inventories	(438,746)	(87,804)	**(158,024)**
Other assets	(86,053)	(76,342)	**4,893**
Accounts payable	(38,944)	(94,375)	**10,430**
Current income taxes	(74,428)	(158,277)	**71,267**
Other liabilities	273,872	(24,725)	**9,937**
Net cash provided by operating activities	701,011	280,746	**97,764**
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(179,152)	(259,770)	**(104,959)**
Proceeds from sale of property, plant and equipment	5,011		**6,877**
Purchases of intangible assets		(35)	
Acquisition of subsidiary (net of cash acquired)	(188,011)		
Net cash used in investing activities	(362,152)	(259,805)	**(98,082)**
Cash Flows from Financing Activities			
Capital repayment	(1,011,857)		
Purchase of shares in conjunction with conversion rights of bondholders and share-based payments	(359,856)	(87,605)	
Net proceeds from issuance of shares and stock options	63,307	11,475	**11,073**
Dividend paid		(107,841)	**(86,486)**
Net proceeds from issuance of bond	593,755		
Net proceeds from other long-term debt			**32**

Repayment of debt	(9,718)	(2,411)	**(17)**
Tax benefits from stock options	9,006	2,144	**1,954**
Net cash used in financing activities	(715,363)	(184,238)	**(73,444)**
Net cash flows	(376,504)	(163,297)	**(73,762)**
Effect of changes in exchange rates on cash	(7,717)	845	**1,652**
Net decrease in cash and cash equivalents	(384,221)	(162,452)	**(72,110)**
Cash and cash equivalents at beginning of the year	1,655,857	1,271,636	**1,109,184**
Cash and cash equivalents at end of the year	1,271,636	1,109,184	**1,037,074**
Supplemental Disclosures of Cash Flow Information:			
Interest paid	38,936	40,247	**40,235**
Taxes paid (received)	167,268	167,360	**(36,705)**
Supplemental non-cash investing and financing activities:			
Conversion of bonds into 26,232,275, 0 and 0 ordinary shares respectively in 2007, 2008 and 2009	378,413		

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Notes to the Consolidated Financial Statements

1. General information / Summary of significant accounting policies

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

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

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

Basis of preparation

The accompanying consolidated financial statements are stated in thousands of Euros (EUR) unless indicated otherwise.

ASML follows accounting principles generally accepted in the United States of America (U.S. GAAP). ASML s reporting currency is the euro.

Use of estimates

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

Principles of consolidation

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

Subsidiaries

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

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

Foreign currency translation

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

Derivative instruments

The Company principally uses derivative hedging instruments for the management of foreign currency risks and interest rate risks. The Company measures all derivative hedging instruments based on fair values derived from market prices of the instruments. The Company adopts hedge accounting for hedges that are highly effective in offsetting the identified hedged risks taking into account required effectiveness criteria.

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

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

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

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

Fair value hedge

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

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

Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair value hedges. The change in fair value is intended to offset the change in the fair value of the underlying fixed loan coupons, which is recorded accordingly.

The gain or loss relating to the ineffective portion of interest rate swaps hedging fixed loan coupons payable is recognized in the consolidated statements of operations as interest income or interest expense .

Cash flow hedge

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income, net of taxes, until the underlying hedged transaction is recognized in the consolidated statements of operations. In the event that the underlying hedge transaction will not occur within the specified time period, the gain or loss on the related cash flow hedge is released from other comprehensive income and included in the consolidated statements of operations, unless, extenuating circumstances exist that are related to the nature of the forecasted transaction and are outside the control or influence of the Company and which cause the forecasted transaction to be probable of occurring on a date that is beyond the specified time period.

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

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

Net investment hedge

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

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.

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

Allowances 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.

Goodwill
Goodwill represents the excess of the costs of an acquisition over the fair value of Company s share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is allocated to reporting units for the purpose of impairment testing. The allocation is made to those reporting units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is stated at cost less accumulated impairment losses.

Other intangible assets
Other intangible assets include acquired intellectual property rights, developed technology, customer relationships and other intangible assets. Other intangible assets are stated at cost, less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method based on the estimated useful lives of the assets. The following table presents the estimated useful lives of ASML s other intangible assets:

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

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

The following table presents the estimated useful lives of ASML s property, plant and equipment:

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

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.

Evaluation of long-lived assets for impairment
Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

Goodwill is tested for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill is tested for impairment based on a two-step approach. First the recoverability is tested by comparing the carrying amount of the goodwill with the fair value being the sum of the discounted

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

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

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

Provisions for employee contract termination benefits are recognized when ASML is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where there is no possibility of withdrawal, or when ASML provides termination benefits as a result of an offer made to encourage voluntary redundancy. The timing of recognition and measurement of the provision for employee termination benefits depends on whether employees are required to render service until their employment is terminated in order to receive the termination benefits. If employees are not required to render services beyond the minimum retention period, the provision will be recognized at the communication date. If employees are required to render services beyond the minimum retention period the provision will be recognized ratably over the future service period. The provisions are measured at fair value.

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

Revenue recognition
ASML recognizes revenue when all four revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller s price to buyer is fixed or determinable; and collectability is reasonably assured. At ASML, this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer 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, if any. 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, ASML has never failed to successfully complete installation of a system at a customer s premises.

In connection with future introductions of new technology, the Company may initially defer revenue recognition until completion of installation and acceptance of the new technology at customer premises. This deferral would continue until the Company is able to conclude that installation of the technology in question would occur consistently within a predetermined time period and that the performance of the new technology would not reasonably be different from that exhibited in the pre-shipment Factory Acceptance Test. Any such deferral of revenues, however, could have a material effect on ASML s results of operations for the fiscal period in which the deferral occurred and on the succeeding fiscal period. At December 31, 2009 and 2008 ASML had no deferred revenue from shipments of new technology. During the three 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 December 31, 2008 ASML had no repurchase commitments.

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

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

The deferred revenue balance from prepaid extended and enhanced (optic) warranty contracts as of December 31, 2009 amounted to approximately EUR 126 million (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, the Company 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, the Company offers free or discounted products or services (award credits) to its customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction as the agreements involve the delivery of multiple products. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer.

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

Warranty

The Company provides standard warranty coverage on its 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 for a standard warranty are accounted for by accruing these costs for each system upon recognition of the system sale. Based upon historical service records, the Company calculates the charge of average service hours and parts per system to determine the estimated warranty costs. On a semi-annual basis, the Company assesses, and updates if necessary, its accounting estimates used to calculate the standard warranty reserve based on the latest actual historical warranty costs and expected future warranty costs.

The extended and enhanced (optic) warranty on the Company s systems 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, 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.

Research and development costs and credits
Costs relating to R&D are charged to operating expenses as incurred. ASML receives subsidies and other credits from several Netherlands and international (inter)governmental institutes. These subsidies and other governmental credits to cover R&D costs relating to approved projects are recorded as R&D costs in the consolidated statements of operations in the period when such costs occur.

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

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

The Company makes quarterly assessments of the adequacy of the (hypothetical) tax pool to determine whether there are tax deficiencies that require recognition in the consolidated statements of operations. The Company has selected the alternative transition method (under ASC 718) in order to calculate the tax pool.

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

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

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

On January 1, 2007 the Company adopted the provisions of FIN 48 Accounting for Uncertainty in Income Taxes after codification included in ASC 740. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Contingencies and litigation

The Company is party to various legal proceedings generally incidental to its business, as disclosed in Note 17 to the consolidated financial statements. In connection with these proceedings and claims the Company s 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 the Company s consolidated statements of operations in 2007, 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 the Company s 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, the Company may agree to settle or to terminate a claim or proceeding in which it believes that it would ultimately prevail where it believes that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in an expensive and protracted litigation, the outcome of which is uncertain.

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The Company accrues for legal costs related to litigation in its consolidated statements of operations at the time when the related legal services are actually provided to it.

Net income (loss) per ordinary share

Basic net income (loss) per ordinary share is computed by dividing net income (loss) by the weighted average ordinary shares outstanding for that period. Diluted net income (loss) per ordinary share reflects the potential dilution that could occur if options issued under ASML s share-based payment plan were exercised, and if ASML s convertible notes were converted, unless the exercise of the stock options or conversion of the convertible notes would have an anti-dilutive effect. The dilutive effect is calculated using the if-converted method. Following this method, ASML s convertible notes were considered dilutive in 2007. In the second half of 2007, these notes were converted or redeemed. Excluded from the diluted weighted average number of shares outstanding calculation are cumulative preference shares contingently issuable to the preference share foundation, since they represent a different class of stock than the ordinary shares. See further discussion in Note 25.

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

As of December 31	**2007**	**2008**	**2009**
(in thousands, except per share data)	EUR	EUR	**EUR**
Basic EPS computation:			
Net income (loss) available to holders of common shares	671,001	322,370	**(150,925)**
Weighted average number of shares outstanding (after deduction of treasury stock) during the year	462,406	431,620	**432,615**
Basic earnings per share	1.45	0.75	**(0.35)**
Diluted EPS computation:			
Net income (loss) available to holders of common shares	671,001	322,370	**(150,925)**
Plus interest on assumed conversion of convertible subordinated notes, net of taxes	11,850		
Net income (loss) available to holders of common shares plus effect of assumed conversions	682,851	322,370	**(150,925)**
Weighted average number of shares:	462,406	431,620	**432,615**
Plus shares applicable to:			
Stock options	4,569	2,585	
Convertible subordinated notes	18,668		

Dilutive potential common shares	23,237	2,585	
Adjusted weighted average number of shares[1]	485,643	434,205	**432,615**
Diluted earnings per share[1]	1.41	0.74	**(0.35)**

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.

Comprehensive income

Comprehensive income consists of net income (loss) and other comprehensive income.

Other comprehensive income refers to revenues, expenses, gains and losses that are not included in net income (loss), but recorded directly in shareholders equity. For the years ended December 31, 2007, 2008 and 2009, comprehensive income consists of net income (loss), unrealized gains and losses on derivative instruments, net of taxes, and unrealized gains and losses on foreign currency translation, net of taxes.

New U.S. GAAP Accounting Pronouncements

In June 2009, the FASB issued ASC 105 Generally Accepted Accounting Principles . ASC 105 establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. All of its content carries the same level of authority, effectively superseding FASB Statement 162 and modifying the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC 105 did not have any impact on our consolidated financial statements, but resulted in the update of all references to accounting guidance in this Form 20-F to refer to the new Codification.

In 2009 ASML has adopted ASC 820, Fair Value Measurements . The ASC defines fair value, provides guidance on how to measure assets and liabilities using fair value and expands disclosures about fair value measurements. The adoption of ASC 820 did not have any impact on the Company s consolidated financial statements, but resulted in additional disclosures to the Company s consolidated financial statements; See Note 2, Fair Value Measurements for more information.

In April 2009, the FASB issued ASC 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly . This ASC provides guidelines for making fair value measurements more consistent with the principles presented in ASC 820, Fair Value Measurements . The ASC relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The ASC is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009 and should be applied prospectively. The Company is currently assessing the impact that this ASC may have on its consolidated financial statements.

In June 2009, the FASB issued ASC 810 (Statement 167, Amendments to FASB Interpretation No. 46(R)). This ASC changes the way in which a company determines whether or not an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and its ability to direct the activities of the entity that most significantly impact the entity s economic performance. This ASC is effective for fiscal years and interim periods beginning after November 15, 2009. The Company is currently assessing the impact that this ASC may have on the its consolidated financial statements.

In September 2009, the EITF reached final consensus on ASU 2009-13, Revenue Arrangements with Multiple Deliverables . ASU 2009-13 amends the current guidance on arrangements with multiple deliverables (ASC 605-25) to (1) eliminate the separation criterion that requires entities to establish objective and reliable evidence of fair value for undelivered elements, (2) establish a selling price hierarchy to help entities allocate arrangement consideration to the separate units of account (i.e. separate elements of the sales agreement), (3) require the relative selling price allocation method for all arrangements (i.e., eliminate the residual method), and (4) significantly expand required disclosures. The final consensus is effective for financial years beginning after June 15, 2010. The Company is currently assessing the impact that ASU 2009-13 will have on its consolidated financial statements.

In September 2009, the EITF reached final consensus on ASU 2009-14, Certain Revenue Arrangements that include Software elements. ASU 2009-14 amends the scoping guidance for software arrangements (ASC 985-605) to exclude tangible products that contain software elements and non-software elements that function together to interdependently deliver the product s essential functionality. ASU 2009-14 also provides considerations and examples for entities applying this guidance.

This issue will be effective prospectively for new or materially modified agreements entered into in financial years beginning on or after June 15, 2010. The Company is currently assessing the impact that ASU 2009-14 will have on its consolidated financial statements.

2. 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.

Financial assets and financial liabilities measured at fair value on a recurring basis

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 balance sheet under derivative financial instruments (within other 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 14.

The following table presents the Company s financial assets and financial liabilities that are measured at fair value on a recurring basis:

As of December 31, 2008	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)	EUR	EUR	EUR	**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**

	Level 1	Level 2	Level 3	Total
Liabilities				
Long-term debt[2]		647,050		**647,050**
Derivative financial instruments[1]		67,794		**67,794**
Total		714,844		**714,844**

As of December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)	EUR	EUR	EUR	**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]		663,102		**663,102**
Derivative financial instruments[1]		17,471		**17,471**
Total		680,573		**680,573**

1 The derivative financial instruments consist of forward contracts and interest rate swaps. See Note 3, Market risks and derivatives.

2 The long-term debt mainly relates to the Company s EUR 600 million Eurobond and excludes accrued interest. For further details see Note 14, Long-term debt.

As of December 31, 2009, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) in its consolidated balance sheets.

Assets and liabilities measured at fair value on a nonrecurring basis
In 2009, the Company recognized impairment charges of EUR 15.9 million on its property, plant and equipment, mainly relating to machinery and equipment. Valuation of these assets are classified as Level 3 in the fair value hierarchy since their fair values were determined based on unobservable inputs. The impairment charge is determined based on the difference between the assets estimated fair value (being EUR 7.0 million) and their carrying amount. In determining the fair value of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and ASML s sales and cost expectations which are consistent with the plans and estimates that the Company uses to manage the business. For further information, see Note 11, Property, plant and equipment.

The Company did not recognize any impairment charges for goodwill and other intangible assets during 2009. See Notes 9 and 10 for more information.

3. Market risks and derivatives
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.

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 other comprehensive income 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.

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 (2008: EUR 12.7 million gain). The cumulative gain included in cumulative translation adjustment relating to the net investment hedge would be reclassified from equity to the consolidated statements of operations 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 balance sheet date. The following table summarizes the notional amounts and estimated fair values of the Company s financial instruments:

As of December 31	2008 Notional Amount	Fair Value	2009 Notional Amount	Fair Value
(In thousands)	EUR	EUR	**EUR**	**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

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.

4. 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.

5. Accounts receivable

Accounts receivable consist of the following:

As of December 31	**2008**	**2009**
(in thousands)	EUR	**EUR**
Accounts receivable, gross	464,703	**380,678**
Allowance for doubtful receivables	(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.

Movements of the allowance for doubtful receivables are as follows:

	2008	**2009**
(in thousands)	EUR	**EUR**
Balance at beginning of year	(1,385)	**(1,430)**
Utilization of the provision	143	**80**
Addition for the year[1]	(188)	**(1,889)**

Balance at end of year	(1,430)	**(3,239)**

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

6. Finance receivables

Finance receivables consist of the net investment in sales-type leases. The sales-type leases transfer ownership of the systems to the lessee by the end of the lease term. The average lease term is two years. The following table lists the components of the finance receivables as of December 31, 2009:

As of December 31	**2008**	**2009**
(in thousands)	EUR	**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**

7. Inventories

Inventories consist of the following:

As of December 31	**2008**	**2009**

(in thousands)	EUR	**EUR**
Raw materials	140,615	**175,045**
Work-in-process	655,505	**799,390**
Finished products	392,910	**214,248**
Total inventories, gross	1,189,030	**1,188,683**
Allowance for obsolescence and/or lower market value	(189,880)	**(225,301)**
Total inventories, net	999,150	**963,382**

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

	2008	**2009**
(in thousands)	EUR	**EUR**
Balance at beginning of year	(129,045)	**(189,880)**
Addition for the year	(139,628)	**(86,636)**
Effect of exchange rates	(17)	**(260)**
Release of the provision	2,113	
Utilization of the provision	76,697	**51,475**
Balance at end of year	(189,880)	**(225,301)**

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 allowance for inventory obsolescence amounted to EUR 225.3 million (2008: EUR 189.9 million). The increase in the allowance 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 allowance for inventory obsolescence for different types of non-leading-edge systems compared to prior year and additional parts which management believes cannot be sold.

Utilization of the provision mainly relates to sale and scrap of impaired inventories. 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 we made EUR 64.8 million profit on the sale of inventories that had been previously written down.

8. Other assets

Other current assets consist of the following:

As of December 31	**2008**	**2009**
(in thousands)	EUR	**EUR**
Advance payments to Zeiss	103,798	**73,759**
Prepaid expenses	57,471	**46,808**
Derivative instruments	39,240	**47,436**
VAT	18,693	**25,211**
Other	16,875	**25,532**
Total other current assets	236,077	**218,746**

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

Prepaid expenses include a tax prepayment on intercompany profit, not realized by the group of EUR 25.4 million in 2009 (2008: EUR 26.2 million).

Derivative financial instruments consist of currency contracts and the current part of the fair value of interest rate swaps which includes accrued interest.

Other non-current assets consist of the following:

As of December 31	2008	2009
(in thousands)	EUR	**EUR**
Derivative instruments	53,206	**55,948**
Loan to Micronic	13,000	
Compensation plan assets[1]	7,103	**8,520**
Prepaid expenses	5,542	**5,893**
Subordinated loan granted to lessor in respect of Veldhoven headquarters[2]	5,445	**5,445**
Other	3,901	**1,248**
Total other non-current assets	88,197	**77,054**

1 For further details on compensation plan see Note 16.
2 For further details on loan granted to lessor in respect of Veldhoven headquarters see Note 15.

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

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

9. Goodwill

Changes in goodwill are summarized as follows:

	2008	2009
(in thousands)	EUR	**EUR**
Cost		
Balance, January 1	128,271	**131,453**
Effect of exchange rates	3,182	**9**
Balance, December 31	131,453	**131,462**
Carrying amount, December 31	131,453	**131,462**

The goodwill relates to the acquisition of Brion in March 2007. Goodwill is tested for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. For the purpose of impairment testing, goodwill is allocated to the reporting unit Brion. The fair value of the reporting unit Brion is calculated based on the discounted cash flow method (income approach). These calculations use after-tax discounted cash flow projections based on the strategic plan approved by management.

The material assumptions used by management for the fair value calculation of the reporting unit are:

Cash flow projections for the first six years are based on a significant growth scenario, reflecting the start-up nature of Brion. The 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 discount rate of 14.7 percent representing Brion s weighted average cost of capital (WACC) is determined using an adjusted version of the Capital Asset Pricing Model. Since Brion is not financed with debt, WACC is assumed to equal Brion s cost of equity. The discount rate increased compared to the prior year reflecting the increased market uncertainty.

Management believes that the fair value calculated reflects the amount a market participant would be willing to pay. Based on this analysis management believes that the fair value of the reporting unit substantially exceeded its carrying value and that, therefore, goodwill was not impaired as of December 31, 2009 and December 31, 2008.

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10. Other intangible assets
Other intangible assets consist of the following:

(in thousands)	Intellectual property EUR	Developed technology EUR	Customer relationships EUR	In-process R&D EUR	Other EUR	Total EUR
Cost						
Balance, January 1, 2008	47,215	23,901	8,063	23,148	2,141	**104,468**
Additions	35					**35**
Effect of exchange rates		593	200		54	**847**
Balance, December 31, 2008	47,250	24,494	8,263	23,148	2,195	**105,350**
Additions						
Effect of exchange rates		**1**			**1**	**2**
Balance, December 31, 2009	**47,250**	**24,495**	**8,263**	**23,148**	**2,196**	**105,352**
Accumulated amortization and impairment						
Balance, January 1, 2008	37,797	3,765	839	23,148	724	**66,273**
Amortization	5,780	3,840	1,005		867	**11,492**
Impairment charges		552				**552**
Effect of exchange rates		249	50		42	**341**
Balance, December 31, 2008	43,577	8,406	1,894	23,148	1,633	**78,658**
Amortization	**3,436**	**4,019**	**1,075**		**254**	**8,784**
Impairment charges						
Effect of exchange rates		**(157)**	**(42)**		**(19)**	**(218)**
Balance, December 31, 2009	**47,013**	**12,268**	**2,927**	**23,148**	**1,868**	**87,224**
Carrying amount						
December 31, 2008	3,673	16,088	6,369		562	26,692
December 31, 2009	**237**	**12,227**	**5,336**		**328**	**18,128**

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

During 2009, the Company recorded amortization charges of EUR 8.8 million (2008: EUR 11.5 million; 2007: EUR 36.4 million) which were fully recorded in cost of sales (2008: cost of sales EUR 11.5 million; 2007: cost of sales EUR 13.0 million and R&D costs EUR 23.4 million).

During 2009, the Company did not record any impairment charges for other intangible assets (2008: EUR 0.6 million; 2007: EUR 1.0 million).

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

(in thousands)	**EUR**
2010	5,208
2011	5,001
2012	5,001
2013	1,698
2014	1,037
Thereafter	183
Total	**18,128**

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11. 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	107,093	12,319	30,625	**322,039**
Disposals	(382)	(91,024)	(8,037)		**(99,443)**
Effect of exchange rates	752	399	425	570	**2,146**
Balance, December 31, 2008	355,531	483,398	153,824	288,297	**1,281,050**
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**	**533,134**	**154,966**	**286,484**	**1,402,363**
Accumulated depreciation and impairment					
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**	**63,614**	**15,851**	**27,568**	**129,644**
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**	**339,493**	**114,929**	**254,992**	**783,657**
Carrying amount					
December 31, 2008	301,622	129,930	52,722	56,366	540,640
December 31, 2009	**353,536**	**193,641**	**40,037**	**31,492**	**618,706**

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; 2007: EUR 8.0 million) of which it recorded EUR 2.1 million (2008: EUR 20.8 million; 2007: EUR 7.6 million) in cost of sales, EUR 9.1 million (2008: EUR 2.2 million; 2007: EUR 0.2 million) in R&D costs and EUR 4.7 million (2008: EUR 1.6 million; 2007: EUR 0.2 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 fair value (being EUR 7.0 million) and their carrying amount. In determining the fair value of an asset, the Company makes estimates about future cash flows. These estimates are based on the financial plan updated with the latest available projection of semiconductor market conditions and 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 fair value (being EUR 5.4 million) and their carrying amount.

During 2009, the Company recorded depreciation charges of EUR 129.6 million (2008: EUR 107.6 million; 2007: EUR 88.5 million) of which it recorded EUR 83.6 million (2008: EUR 50.3 million; 2007: EUR 48.6 million) in cost of sales, EUR 21.9 million (2008 EUR 25.5 million; 2007: EUR 21.5 million) in R&D costs and EUR 24.1 million (2008: EUR 31.8 million; 2007: EUR 18.4 million) in SG&A costs.

12. Accrued and other liabilities

Accrued and other liabilities consist of the following:

As of December 31	**2008**	**2009**
(in thousands)	EUR	**EUR**
Deferred revenue	262,209	**219,378**
Costs to be paid	190,225	**208,684**
Advances from customers	169,250	**274,074**
Personnel related items	130,651	**114,255**
Derivative instruments	67,794	**17,471**

Standard warranty reserve	35,225	**23,208**
Other	4,472	**4,650**
Total accrued and other liabilities	859,826	**861,720**
Less: long-term portion of accrued and other liabilities	70,038	**44,359**
Short-term portion of accrued and other liabilities	789,788	**817,361**

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.

Derivative financial instruments consist of currency contracts and the fair value of interest rate swaps which includes accrued interest.

Changes in standard warranty reserve 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 reserve	(35,233)	**(19,360)**
Release of the reserve	(33,409)	**(7,666)**
Effect of exchange rates	347	**(38)**
Balance, December 31	35,225	**23,208**

The release of the reserve is due to a change in accounting estimate based on lower than expected historical warranty expenses as a result of an improved learning curve concerning ASML s systems. The release has been included in cost of sales.

In 2009, the reassessments of the warranty reserve, and resulting change in accounting estimate, did not have a material impact. For 2008, the impact of the change in accounting estimate on the consolidated statements of operations and per-share amounts was as follows:

Year ended December 31	**2008**	
(in thousands, except per share data)	EUR	%
Income from operations	33,409	11.6%
Net income	24,890	7.7%
Basic net income per ordinary share	0.06	8.0%
Diluted net income per ordinary share	0.06	8.1%

13. Provisions

Provisions consist of the following:

(in thousands)	Employee contract termination benefits EUR	Lease contract termination costs 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.

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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.

14. 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 expense, are as follows:

(in thousands)	**EUR**
2010	14
2011	
2012	
2013	
2014	
Thereafter	600,000
Total	600,014
Less: current portion of long-term debt	14
Non-current portion of long-term debt	**600,000**

Eurobond

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

As of December 31	**2008**	**2009**
(in thousands)	EUR	**EUR**
5.75 percent Eurobond		
Principal amount	600,000	**600,000**
Fair value interest rate swaps[1]	47,050	**63,088**
Total	647,050	**663,088**

1 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 balance sheet under derivative financial instruments (within other current and non-current assets). Therefore, the carrying amount is only adjusted for fair value changes in interest rate swaps. The following table summarizes estimated fair value of ASML s Eurobond:

		2008			2009	
As of December 31	**Principal Amount**	**Carrying Amount**	**Fair Value**	**Principal Amount**	**Carrying Amount**	**Fair Value**
(in thousands)	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
5.75 percent Eurobond	600,000	647,050	345,585	**600,000**	**663,088**	**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.

15. Commitments, contingencies and guarantees

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

Lease Commitments and Variable Interests

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

In December 2003, the FASB issued ASC 810, Consolidation of Variable Interest Entities . Under ASC 810, an enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or a combination of variable interests) that will absorb a majority of the entity s expected losses if they occur, receive a majority of the entity s expected residual returns if they occur, or both.

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

ASML believes that it holds a variable interest in this entity and that the entity is a variable interest entity (VIE) because it is subject to consolidation in accordance with the provisions of ASC 810-10-15-14. The total equity investment at risk is approximately 3.6 percent of the lessor s total assets and is not considered and cannot be demonstrated, qualitatively or quantitatively, to be sufficient to permit the lessor to finance its activities without additional subordinated financial support provided by any parties, including the shareholders.

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

ASML s maximum exposure to the lessor s expected losses is estimated to be approximately EUR 5.4 million. 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 as of December 31, 2009 can be summarized as follows:

Payments due by period	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
(in thousands)	EUR	EUR	EUR	EUR	EUR
Long Term Debt Obligations, including interest expenses[1]	**939,102**	34,514	69,000	69,000	766,588
Operating Lease Obligations	**130,374**	33,077	43,150	27,912	26,235
Purchase Obligations	**1,431,247**	1,388,902	40,985	788	572
Unrecognized Tax Benefits	**133,270**	8,535	41,544	35,699	47,492
Total Contractual Obligations	**2,633,993**	1,465,028	194,679	133,399	840,887

1 See Note 14 to the consolidated financial statements for the amounts excluding interest expense.

Long-term debt obligations relate to interest payments and the redemption of the principal amount of the Eurobond. See Note 14 to the consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 46 million, EUR 43 million and EUR 39 million for the years ended December 31, 2007, 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	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
(in thousands)	EUR	EUR	EUR	EUR	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.

Unrecognized tax benefits relate to a liability for uncertain tax positions. See Note 18 to the consolidated financial statements.

16. 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 2007, 2008 and 2009, participants accounts were credited at 7.16 percent, 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 2007, 2008 and 2009, the expense incurred under this plan was EUR 0.1 million, 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.

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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 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 three years ended December 31, 2009 were:

Year ended December 31	2007	2008	2009
(in thousands)	EUR	EUR	**EUR**
Pension plan based on multi-employer union plan	26,485	30,579	**30,930**
Pension plans based on defined contribution	6,993	8,466	**8,895**
Total	33,478	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 balance sheets 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	2007	2008	2009
(in thousands)	EUR	EUR	**EUR**
Bonus expenses	8,934	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	**2007**	**2008**	**2009**
(in thousands)	EUR	EUR	**EUR**
Bonus expenses	5,335	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 2007, 2008 and 2009 was 14 percent, 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 16.5 million in 2007, EUR 13.5 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; 2007: EUR 26.2 million). The weighted average period over which these costs are expected to be recognized is calculated at 1.2 years (2008: 1.5 years; 2007: 1.4 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 2007, 2008 and 2009 was EUR 12.95, 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; 2007: EUR 23.46).

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 out in the following table:

As of December 31 (in thousands, except for contractual term)	**2007**	**2008**	**2009**
Aggregate intrinsic value of stock options exercised (EUR)	33,273	5,894	**10,140**
Total fair value at vesting date of shares vested during the year (EUR)	127	4,288	**8,465**
Aggregate remaining contractual term of currently exercisable options (years)	3.72	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**	

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

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

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

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	2007	2008	2009
Weighted average share price (in EUR)	24.0	12.5	**16.7**
Volatility (in percentage)	29.0	54.5	**51.7**
Expected life (in years)	4.9	4.9	**4.6**
Risk free interest rate	4.4	4.4	**3.2**
Expected dividend yield (in EUR)		1.15	**1.06**
Forfeiture rate[1]			

1 As of the three years ended December 31, 2009 forfeitures are estimated to be nil.

When establishing the expected life assumption the Company annually takes 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 under the caption Stock Option Plans .

Senior management plan
The senior management plan consists of two parts, both including a half year performance condition based on a targeted Return On Average Invested Capital (ROAIC) and a three-year service condition. ROAIC is determined by dividing the average income (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 ASC 718.

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.

17. Legal contingencies

ASML is party to various legal proceedings generally incidental to its business. ASML also faces exposure from other actual or potential claims and legal proceedings. In addition, ASML customers may be subject to claims of infringement from third parties alleging that the ASML equipment used by those customers in the manufacture of semiconductor products, and/or the methods relating to use of the ASML equipment, infringes one or more patents issued to those third parties. If these claims were successful, ASML could be required to indemnify such customers for some or all of any losses incurred or damages assessed against them as a result of that infringement.

The Company accrues for legal costs related to litigation in its statement of operations at the time when the related legal services are actually provided to ASML.

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.

18. Income taxes

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

Year Ended December 31	**2007**	**2008**	**2009**
(in thousands)	EUR	EUR	**EUR**
Netherlands	461,682	141,418	**(269,374)**
Non-Netherlands	386,471	168,226	**97,824**
Total	848,153	30	