MERCURY COMPUTER SYSTEMS INC
Form 8-K
June 24, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (Date of earliest event reported) June 20, 2005

Mercury Computer Systems, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Massachusetts	**000-23599**	**04-2741391**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

199 Riverneck Road, Chelmsford, Massachusetts	**01824**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code (978) 256-1300

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On June 20, 2005, upon recommendation of the Compensation Committee of the Board of Directors (the Board) of Mercury Computer Systems, Inc. (the Company), the Board approved the acceleration of the vesting of the Company s outstanding stock options with an exercise price of $29.00 or higher. As a result, vesting was accelerated for options to purchase 552,097 shares of the Company s common stock, par value $.01 per share, with a weighted average exercise price of $32.21 and exercise prices ranging from $29.26 to $40.85, including options to purchase 51,565 shares held by the Company s executive officers and no options to purchase shares held by the Company s non-employee directors.

By taking this action, the Company expects to reduce the effects of the Financial Accounting Standards Board s new standard, Statement of Financial Accounting Standard No.123R, Share-Based Payment, which requires companies to recognize stock-based compensation expense associated with stock options based on the fair value method.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERCURY COMPUTER SYSTEMS, INC.

Dated: June 23, 2005

By: /s/ Joseph M. Hartnett

Joseph M. Hartnett

Vice President, Controller and

Chief Accounting Officer

n-tax-related). The Audit Committee has approved the external audit plan and related audit fees for the year 2003. The Audit Committee has adopted a policy regarding audit and non-audit services, provided by Deloitte & Touche. 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 tax-related services and acquisition advisory are permitted. ASML has chosen to use alternative suppliers for tax services that would ultimately involve the audit firm in rendering an audit opinion on tax services performed by the same firm or services that are of strategic nature. The Audit Committee pre-approves non-audit services not specifically permitted under this policy and reviews the annual external audit plan and any subsequent engagements.

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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 forth on pages F-2 through F-44 hereto.

Item 19. Exhibits

Exhibit No.	Description
1	Articles of Association of ASML Holding N.V. (English translation) (Incorporated by reference to Amendment No. 6 to the Registrant s Registration Statement on Form 8-A/A, filed with the Commission on June 18, 2002 (File No. 0-25566))
2.1	Paying Agent, Conversion Agent and Registrar Agreement between ASML Holding N.V. and the Bank of New York relating to the Registrant s 5.75% Convertible Subordinated Notes due 2006 (Incorporated by reference to Exhibit 2.3. of the Registrant s Annual Report on Form 20-F for the year ended December 31, 2001
2.2	Paying Agent, Conversion Agent and Registrar Agreement between ASML Holding NV and the Bank of New York relating to the Registrant s 5.50 percent Convertible Subordinated Notes due 2010*
4.1	Agreement between ASML Lithography B.V. and Carl Zeiss, dated March 17, 2000 (Incorporated by reference to exhibit 4.2 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*#
4.3	Form of Indemnity Agreement between ASML Holding N.V. and members of its Board of Management*
4.4	Form of Indemnity Agreement between ASML Holding N.V. and members of its Supervisory Board*
4.5	Employee Agreement between ASML Holding N.V. and Doug J. Dunn*
4.6	Employee Agreement between ASML Holding N.V. and Stuart K. McIntosh*
4.7	Employee Agreement between ASML Holding N.V. and David P. Chavoustie*
4.8	Form of Employee Agreement for members of the Board of Management*
4.9	ASML New Hires and Incentive Stock Option Plan For Management (Version 2003) (Incorporated by reference to exhibit 4.4 to the Registrant s Statement on Form S-8, filed with the Commission on September 2, 2003 (File No. 333-109154))
8.1	List of Subsidiaries*
12.1	Certification of CEO and CFO Pursuant to Rule 13(a)-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*
14.1	Consent of Deloitte & Touche*

* Filed herewith

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

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Signatures

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/ Peter T.F.M. Wennink

By: Peter T.F.M. Wennink
Principal Accounting and
Chief Financial Officer

Dated: January 30, 2004

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Financial Statements

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Consolidated Statements of Operations[1]

	For the years ended December 31 (Amounts in thousands, except per share data)	2001 EUR	2002 EUR	2003 EUR	2003[2] USD
	Net product sales	1,335,608	1,740,633	**1,356,905**	**1,713,697**
	Net service sales	253,639	218,039	**185,832**	**234,695**
	Total net sales	1,589,247	1,958,672	**1,542,737**	**1,948,392**
	Cost of product sales	1,348,837	1,289,030	**1,028,362**	**1,298,765**
	Cost of service sales	209,397	202,038	**145,593**	**183,876**
3	**Total cost of sales**	1,558,234	1,491,068	**1,173,955**	**1,482,641**
	Gross profit on sales	31,013	467,604	**368,782**	**465,751**
	Research and development costs	347,333	324,419	**305,839**	**386,258**
15	Research and development credits	(16,223)	(26,015)	**(19,119)**	**(24,146)**
	Selling, general and administrative costs	245,962	263,243	**212,609**	**268,513**
	Merger and acquisition costs	41,477	0	**0**	**0**
3	Restructuring charges	3,082	0	**24,485**	**30,923**
	Operating loss	(590,618)	(94,043)	**(155,032)**	**(195,797)**
	Interest income	41,786	31,177	**40,481**	**51,126**
	Interest expense	(48,993)	(67,958)	**(69,630)**	**(87,939)**
	Minority interest in net results from subsidiaries	3,606	0	**0**	**0**
	Loss from continuing operations before income taxes	(594,219)	(130,824)	**(184,181)**	**(232,610)**
16	Benefits from income taxes	179,017	42,779	**59,675**	**75,366**
	Net loss from continuing operations	(415,202)	(88,045)	**(124,506)**	**(157,244)**
2	**Loss from discontinued operations before income taxes**	(103,001)	(183,624)	**(59,026)**	**(74,547)**
16	Benefits from income taxes	39,211	63,846	**23,316**	**29,447**
	Net loss from discontinued operations	(63,790)	(119,778)	**(35,710)**	**(45,100)**
	Net loss	(478,992)	(207,823)	**(160,216)**	**(202,344)**
	Basic net loss from continuing operations per ordinary share	(0.89)	(0.18)	**(0.26)**	**(0.33)**
	Basic net loss from discontinued operations per ordinary share	(0.14)	(0.26)	**(0.07)**	**(0.09)**
	Basic net loss per ordinary share	(1.03)	(0.44)	**(0.33)**	**(0.42)**
	Diluted net loss from continuing operations per ordinary share	(0.89)	(0.18)	**(0.26)**	**(0.33)**
	Diluted net loss from discontinued operations per ordinary share	(0.14)	(0.26)	**(0.07)**	**(0.09)**
	Diluted net loss per ordinary share	(1.03)	(0.44)	**(0.33)**	**(0.42)**
	Number of ordinary shares used in computing per share amounts (in thousands)				
	Basic[3]	465,866	476,866	**482,240**	**482,240**
	Diluted[3]	465,866	476,866	**482,240**	**482,240**

[1] See Note 2   Discontinued operations   and Note 3   Restructuring   to the consolidated financial statements.

[2] Solely for the convenience of the reader, certain euro amounts presented as of and for the year ended December 31, 2003, have been translated into U.S. dollars using the exchange rate on December 31, 2003, of USD 1.00 = EUR 0.7918.

[3] All net income per ordinary share amounts have been retroactively adjusted to reflect the issuance of shares in connection with ASML s merger with SVG in May 2001.

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Consolidated Statements of Comprehensive Income

For the years ended December 31 (Amounts in thousands)	2001 EUR	2002 EUR	2003 EUR	2003 USD
Net loss	(478,992)	(207,823)	**(160,216)**	**(202,344)**
Foreign currency translation	26,855	(9,269)	**(12,318)**	**(15,557)**
Gain (loss) on derivative instruments	(111)	15,128	**(7,158)**	**(9,040)**
Comprehensive income (loss)	(452,248)	(201,964)	**(179,692)**	**(226,941)**

Consolidated Balance Sheets

	As of December 31 (Amounts in thousands, except share and per share data)	2002 EUR	2003 EUR	2003 USD
	Assets			
	Cash and cash equivalents	668,760	**1,027,806**	**1,298,063**
5	Accounts receivable, net	556,664	**314,495**	**397,190**
6	Inventories, net	730,025	**595,017**	**751,474**
16	Current tax assets	178,706	**0**	**0**
16	Deferred tax assets short term	0	**49,590**	**62,629**
7	Other current assets	175,095	**157,912**	**199,434**
2	Assets from discontinued operations	106,094	**5,007**	**6,324**
	Total current assets	2,415,344	**2,149,827**	**2,715,114**
16	Deferred tax assets	314,795	**325,271**	**410,799**
7	Other assets	61,757	**30,711**	**38,786**
8	Intangible assets, net	14,069	**14,590**	**18,426**
9	Property, plant and equipment, net	495,723	**347,883**	**439,357**
	Total assets	3,301,688	**2,868,282**	**3,622,482**
	Liabilities and Shareholders Equity			
	Accounts payable	213,423	**220,153**	**278,041**
3,10	Accrued liabilities and other	448,848	**442,383**	**558,705**
16	Deferred tax liabilities short term	4,465	**2,285**	**2,886**
16	Current tax liabilities	19,947	**8,247**	**10,416**
2	Liabilities from discontinued operations	66,091	**13,451**	**16,988**
	Total current liabilities	752,774	**686,519**	**867,036**
16	Deferred tax liabilities	133,516	**169,641**	**214,247**
13	Other deferred liabilities	15,391	**10,850**	**13,703**
11	Convertible subordinated debt	1,064,040	**842,543**	**1,064,086**
11	Other long term debt	20,451	**17,522**	**22,129**
	Total liabilities	1,986,172	**1,727,075**	**2,181,201**
12,14	Commitments and contingencies			
	Cumulative Preference Shares, EUR 0.02 nominal value; 900,000,000 shares authorized; none outstanding as of December 31, 2002 and 2003	0	**0**	**0**
	Priority Shares, EUR 0.02 nominal value; 23,100 shares authorized, issued and outstanding as of December 31, 2002 and 2003	1	**1**	**1**
	Ordinary Shares, EUR 0.02 nominal value; 900,000,000 shares authorized 482,182,485 shares issued and outstanding as of December 31, 2002 and 482,513,502 as of December 31, 2003	9,643	**9,650**	**12,187**

	Share premium	870,453	**875,829**	**1,106,124**
	Retained earnings	276,326	**116,110**	**146,641**
	Accumulated other comprehensive income	159,093	**139,617**	**176,328**
21	**Total shareholders equity**	1,315,516	**1,141,207**	**1,441,281**
	Total liabilities and shareholders equity	3,301,688	**2,868,282**	**3,622,482**

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Consolidated Statements of Shareholders Equity

(Amounts in thousands)	Shares Number	Shares Amount EUR	Share Premium EUR	Retained Earnings EUR	Accumulated Other Comprehensive Income EUR	Total EUR
Balance at December 31, 2000	463,395	9,269	551,343	944,609	160,991	**1,666,212**
Components of comprehensive income:						
Net loss				(478,992)		**(478,992)**
Foreign Currency Translation					26,855	**26,855**
Gain (loss) on derivative instruments					(111)	**(111)**
Issuance of ordinary shares	3,218	64	21,585			**21,649**
Adjustment for pooling of interests fourth quarter 2000 SVG	365	7	6,636	18,532	(34,501)	**(9,326)**
Balance at December 31, 2001	466,978	9,340	579,564	484,149	153,234	**1,226,287**
Components of comprehensive income:						
Net loss				(207,823)		**(207,823)**
Foreign Currency Translation					(9,269)	**(9,269)**
Gain (loss) on derivative instruments					15,128	**15,128**
Issuance of Ordinary Shares	15,204	304	290,889			**291,193**
Balance at December 31, 2002	482,182	9,644	870,453	276,326	159,093	**1,315,516**
Components of comprehensive income:						
Net loss				(160,216)		**(160,216)**
Foreign Currency Translation					(12,318)	**(12,318)**
Gain (loss) on derivative instruments					(7,158)	**(7,158)**
Issuance of Ordinary Shares	332	7	5,376			**5,383**
Balance at December 31, 2003	482,514	9,651	875,829	116,110	139,617	**1,141,207**

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Consolidated Statements of Cash Flows

Year ended December 31 (Amounts in thousands)	2001 EUR	2002 EUR	2003 EUR	2003 USD
Cash Flows from Operating Activities				
Net income (loss) from continued operations	(415,202)	(88,045)	**(124,506)**	**(157,244)**
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	126,759	166,035	**144,800**	**182,874**
Impairment charges	12,200	20,651	**12,100**	**15,282**
Allowance for doubtful debts	3,310	0	**9,113**	**11,509**
Allowance for obsolete inventory	367,140	112,164	**32,431**	**40,959**
Changes in assets and liabilities that provided (used) cash:				
Accounts receivable	308,978	(57,183)	**211,627**	**267,273**
Deferred income taxes	(156,676)	(22,361)	**(79,577)**	**(100,501)**
Inventories	(380,006)	(77,408)	**95,291**	**120,347**
Other assets	(111,673)	31,365	**44,945**	**56,763**
Accrued liabilities	89,494	(41,683)	**(8,948)**	**(11,301)**
Accounts payable	48,301	(71,927)	**7,231**	**9,132**
Income taxes payable	(92,240)	(25,759)	**164,826**	**208,166**
Net cash provided by (used in) operating activities from continuing operations	(199,615)	(54,151)	**509,333**	**643,259**
Cash Flows from Investing Activities				
Purchases of property, plant and equipment	(312,857)	(138,587)	**(71,440)**	**(90,225)**
Proceeds from sale of property, plant and equipment	21,672	58,735	**48,837**	**61,678**
Investments in financial fixed assets	(34,404)	0	**0**	**0**
Purchase of intangible assets	(506)	0	**(3,099)**	**(3,914)**
Net cash used in investing activities from continuing operations	(326,095)	(79,852)	**(25,702)**	**(32,461)**
Cash Flows from Financing Activities				
Proceeds from issuance of convertible subordinated notes	652,176	0	**380,000**	**479,919**
Payment of underwriting commission	(14,237)	0	**(8,550)**	**(10,798)**
Net proceeds from issuance of shares and stock options	26,351	26,630	**6,360**	**8,032**
Redemption and/or repayment of debt	0	(5,203)	**(445,966)**	**563,230**
Net cash provided by financing activities from continuing operations	664,290	21,427	**(68,156)**	**(86,077)**
Net cash flows	138,580	(112,576)	**415,475**	**524,721**
Minority interest	(121,119)	0	**0**	**0**
Effect of changes in exchange rates on cash	17,604	(1,869)	**(69,165)**	**(87,351)**
Net cash used by SVG for the quarter ended December 31, 2000[1]	(38,772)	0	**0**	**0**
Net cash flow (used) provided by discontinued operations	(69,815)	(127,473)	**12,736**	**16,086**
Net increase (decrease) in cash and cash equivalents	(73,522)	(241,918)	**359,046**	**453,456**
Cash and cash equivalents at beginning of the year	984,200	910,678	**668,760**	**844,607**
Cash and cash equivalents at end of the year	910,678	668,760	**1,027,806**	**1,298,063**
Supplemental Disclosures of Cash Flow Information:				
Cash paid for:				
Interest	33,444	66,614	**48,980**	**61,859**
Taxes	73,922	3,642	**11,974**	**15,123**

Supplemental non-cash investing and financing activities:				
Conversion of Bonds into 13,634,782 and 536 ordinary shares respectively in 2002 and 2003	0	265,411	**16**	**20**

[1] The decrease in net cash used by SVG for the quarter ended December 31, 2000 consists of EUR 31,659 provided by operating activities, EUR (16,336) used for investing activities, EUR (58,430) used for discontinued activities and EUR 4,335 provided by financing activities.

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Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the Financial Statements of ASML Holding N.V. Veldhoven, the Netherlands, and its consolidated subsidiaries (together referred to as ASML or the Company). ASML is a worldwide business engaged in the development, production, marketing, sale and servicing of advanced semiconductor equipment systems, mainly consisting of lithography systems. ASML s principal operations are in the Netherlands, the United States and Asia.

ASML follows accounting principles generally accepted in the United States of America (U.S. GAAP). ASML s reporting currency is the euro. The accompanying consolidated financial statements are stated in thousands of euro (EUR) unless indicated otherwise except that, solely for the convenience of the reader, certain euro amounts presented as of and for the year ended December 31, 2003 have been translated into United States dollars (USD) using the exchange rate in effect on December 31, 2003 of USD 1.00 = EUR 0.7918. These translations should not be construed as representations that the euro amounts could be converted into U.S. dollars at that rate.

On May 21, 2001, ASML merged with SVG, a company active in the Lithography, Track and Thermal business. The merger with SVG is accounted for under the pooling of interests method. For accounting and financial reporting purposes, the companies are presented as if they were merged for all periods presented.

On December 18, 2002 ASML announced the proposed divestiture of its Thermal business, including related customer support activities, and the termination of its activities in the Track business. As a result of this decision, the presentation of the Company s financial statements and the notes thereto have been retroactively adjusted to reflect the effects of the decision to discontinue these operations. In October 2003, ASML substantially completed the divestiture of its Thermal business. See Note 2.

Principles of consolidation

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

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 disclosure of contingent assets and liabilities on the balance sheet dates and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Foreign currency translation

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

Derivative financial instruments

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

Cash Flow Hedges

Forwards and options used to hedge the impact of the fluctuations in exchange rates on cash flows from purchase activities and sales transactions in non-functional currencies are treated as cash flow hedges. The critical terms of the hedging instruments are the same as those for the underlying transactions, and thus these hedging relationships are perfectly effective. The changes in fair value of the derivatives are intended to offset changes in the expected cash flows from the underlying transactions. The change in the fair value of cash flow hedges are deferred in other comprehensive income until the underlying exposure is recognized in the statement of operations.

When the underlying hedged transaction is recognized, the related gain or loss on the cash flow hedge accumulated in other comprehensive income is released to the statement of operations. Gains and losses on hedges on sales transactions are recognized in revenue, while gains and losses on hedges on forecasted purchase transactions are recognized in cost of sales. In the event that the underlying hedged transaction does not occur, or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is immediately released from accumulated other comprehensive income and included in the statement of operations.

Interest rate swaps that are being used to hedge changes in the variability of future interest receipts are designated as cash flow hedges. The critical terms of the hedging instruments are the same as those for the underlying assets. Accordingly, all changes in fair value of these derivative instruments are recorded as other comprehensive income. The accumulated changes in fair value of the derivatives are intended to offset changes in future interest cash flows on the assets.

Fair Value Hedges

Forwards used to hedge accounts receivable, accounts payable and other monetary assets and liabilities denominated in non-functional currencies are designated as fair value hedges. Both the changes in the fair value of these hedges and their underlying exposure are recognized in the statement of operations.

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Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair value hedges, with changes in fair value recorded under interest income and expense in the statement of operations. 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 Company records any ineffective portion of foreign currency hedging instruments in cost of sales in the statement of operations. Ineffectiveness of hedging instruments had a positive impact of EUR 0 million, EUR 0.8 million and EUR 3 million on cost of sales in 2003, 2002 and 2001, respectively. The ineffective portion of interest rate swaps is recorded in interest income (expense). The Company did not have benefits or costs due to ineffectiveness of interest rate swaps in 2003 and 2002.

Cash and cash equivalents

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

Inventories

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

Intangible assets

Intangible assets include acquired intellectual property rights that are valued at cost and are amortized on a straight-line basis over the term of the rights ranging from 3 to 10 years.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. 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 assigned economic lives of ASML s property, plant and equipment:

Category	Assigned economic life
Buildings and constructions	5 40 years
Machinery and equipment	2 5 years
Office furniture/fixtures	3 5 years
Leasehold improvements	5 10 years

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

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Evaluation of long-lived assets for impairment

The Company evaluates its long-lived assets, which include property, plant and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If those 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. Assets held for sale are reported at the lower of the carrying amount or fair value less the cost to sell.

Recognition of revenues, income and expenses

ASML distinguishes between revenues from new and proven technology systems. Revenue for proven technology systems is recognized upon shipment, since title passes to the customer at that moment, and the customer has unconditionally accepted the system during a factory test prior to shipment. Revenues on new technology systems are deferred until installation and acceptance at the customer s premises are completed. As soon as a track record has been established regarding the successful and timely installation and acceptance of equipment previously identified as new technology, ASML considers the equipment to be proven technology . At that time, ASML changes the timing of revenue recognition to the shipment date in accordance with its revenue policy for proven technology and recognizes previously deferred revenue. In the second half of 2002, the TWINSCAN technology, which was previously identified as new technology , has been marked proven technology.

The fair value of installation services provided to the customers is initially deferred and is recognized when the installation is completed. Sales from service contracts are recognized when performed. Revenue from prepaid service contracts is recognized over the life of the contract.

Cost of sales

Costs of product sales comprise direct product costs such as materials, labor, cost of warranty, depreciation, shipping and handling costs and related overhead costs. Repayments of certain technical development credits, which are calculated as a percentage of sales, are also charged to cost of product sales (see Research and development costs and credits, below). 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 relating to providing extended warranty and maintenance services.

Restructuring

ASML applies the criteria defined in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities and SFAS No. 112, Employers Accounting for Postemployment Benefits , in order to determine when a liability for restructuring or exit costs should be recognized. With respect to employee termination costs, the Company adopts SFAS No.146 (effective since January 1, 2003) in the case of benefit arrangements that, in substance, do not constitute an ongoing benefit arrangement. SFAS No. 112 is adopted when termination benefits are provided under an ongoing benefit arrangement. SFAS No. 146 establishes that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred; that is, when a detail plan exists, has been committed to by management and has been communicated to the employees. SFAS No. 112 establishes that a liability for termination benefits provided under an ongoing benefit arrangement covered by SFAS No. 112 is recognized when the likelihood of future settlement is probable and can be reasonably estimated.

Other exit costs include purchase and other commitments to be settled or fulfilled. Related costs are estimated based on expected settlement fees and committed payments, taking into account future potential benefits, if any, from those commitments.

Research and development costs and credits

Costs relating to research and development are charged to operating expense as incurred. Funds received from third parties in research activities are required to advance the design of new technology systems to the point that it meets specific functional and economic requirements and is ready for manufacturing. These funds are recorded as research and development credits in the period in which the related research and development costs are incurred. Subsidies and other governmental credits for research and development costs relating to approved projects are recorded as research and development credits in the period when the research and development cost to which the subsidy or credit relates occurs. Technical development credits (Technische Ontwikkelingskredieten or TOKs) received from the Netherlands government to offset the cost of certain research and development projects are contingently repayable, including accrued interest, as a percentage of the revenues from future sales, if any, of equipment developed in such projects. These repayments are charged to cost of sales at the time such sales are recorded (see Note 15). No repayments are required if such sales do not occur.

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 will be 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 results of operations in the period that includes the enactment date.

Stock options

ASML applies Accounting Principles Board Opinion (APB) 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plans. SFAS No. 123, Accounting for Stock-Based Compensation, amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure allows companies to elect to recognize the fair value of the stock options granted to employees as an expense, or to account for stock option plans using the intrinsic value method under APB 25 and provide pro forma disclosure of the impact of the fair value method on net income and earnings per share.

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Under the provisions of APB 25, no significant compensation expense was recorded for ASML s stock-based compensation plans for the years ended December 31, 2003, 2002 and 2001. Had compensation cost been determined based upon the fair value at the grant date for awards under the plan consistent with the methodology prescribed under SFAS No. 148, ASML s net income (loss) and calculation for net income (loss) per ordinary share would have been as follows (net of related tax effects):

Year ended December 31 (Amounts in thousands, except per share data)	2001	2002	2003
Net income (loss)			
As reported	(478,992)	(207,823)	(160,216)
Pro forma	(550,028)	(284,000)[1]	(177,912)
Basic net income (loss) per ordinary share			
As reported	(1.03)	(0.44)	(0.33)
Pro forma	(1.18)	(0.60)	(0.37)
Diluted net income (loss) per ordinary share			
As reported	(1.03)	(0.44)	(0.33)
Pro forma	(1.18)	(0.60)	(0.37)

[1] Contains compensation for extension of stock option plans that consequently creates a new measurement date.

Certain ASML stock option plans, where employees can buy options, contain terms and conditions that enable exercise within 6 weeks after the vesting period in case an employee terminates his contract during the vesting period. These stock options are not cancelled in case of termination because employees have bought these options. In prior years the related compensation expense was recognized ratably over the vesting period as it is the Company s intent to provide stock options for future services. However, according to APB 25, SFAS No. 123 and related discussions, this compensation expense needs to be recognized at the date of grant as the terms and conditions indicate that the options are granted for past services. In 2003, the Company revised the pro forma net income and pro forma per share amounts for 2001 and 2002 to adjust the above-mentioned change in calculation of the pro forma compensation expense.

The estimated weighted average fair value of options granted during 2001, 2002 and 2003 was EUR 20.68, EUR 11.55 and EUR 6.66 respectively, on the date of grant using the Black-Scholes option-pricing model, with the following assumptions in 2001, 2002 and 2003 respectively: no dividend yield, volatility of 74.0, 87.4 percent and 85.2 percent, risk-free interest rate of 4.95, 3.18 and 3.60 percent, no assumed forfeiture rate and an expected life of two years after the vesting period.

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Net income (loss) per ordinary share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average ordinary shares outstanding for that period. Diluted net income (loss) per share reflects the potential dilution that could occur if options issued under ASML s stock compensation plan were exercised, and if ASML s convertible notes were converted, unless the exercise of the stock options or conversion of the notes would have an anti-dilutive effect. The dilutive effect is calculated using the treasury method. As a result of the losses incurred by the Company, there is no difference between basic and diluted earnings in 2003, 2002 and 2001 because the assumed conversion of loans and exercise of stock options would have been anti-dilutive.

A summary of the basic and diluted weighted average number of shares is as follows:

Year ended December 31 (Amounts in thousands)	2001	2002	2003
Basic weighted average shares outstanding	465,866	476,866	**482,240**
Diluted weighted average shares outstanding	465,866	476,866	**482,240**

Excluded from the diluted weighted average share 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 21.

Comprehensive income

Comprehensive income consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are not included in net income, but recorded directly in shareholders equity. For the years ended December 31, 2003, 2002 and 2001, comprehensive income consists of net income (loss), unrealized gains and losses on derivative financial instruments and foreign currency translation adjustments.

Segment disclosure

Prior to 2002, ASML reported in two business segments, Lithography and Track & Thermal. As ASML decided in 2002 to terminate its Track business and to divest its Thermal business, they are presented as discontinued operations and no longer disclosed as a separate segment. ASML operates in three general geographic areas. See Note 17.

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Newly adopted accounting pronouncements

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure . SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation , to provide alternative methods of transition to the SFAS No. 123 fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires disclosures of the effects of an entity s accounting policy with respect to stock- based compensation on reported net income (loss) and earnings per share in annual and interim financial statements in the summary of significant accounting policies. As permitted under SFAS No. 148, the Company adopted the disclosure only provisions of that accounting standard.

In April 2003 the FASB issued SFAS No. 149, Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement clarifies the circumstances under which a contract with an initial net investment meets the characteristics of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to the language used in FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others and amends certain other existing pronouncements. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company s consolidated results of operations, financial condition or liquidity.

In May 2003 the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS No. 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires that those instruments be classified as liabilities in statements of financial position. The adoption of SFAS No. 150 did not have a material impact on the Company s consolidated results of operations, financial condition or liquidity.

In November 2002, the FASB published FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The disclosure provisions of FIN 45 were effective for financial statements of interim or annual periods that ended after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor s year-end. The adoption of FIN 45 did not have a material impact on the Company s consolidated results of operations, financial condition or liquidity.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), an interpretation of Accounting

Research Bulletin No. 51, Consolidated Financial Statements, which requires the consolidation by a business enterprise of variable interest entities if the business enterprise is the primary beneficiary. The FASB has amended FIN 46, now known as FIN 46 Revised December 2003 (FIN 46R). The requirements of FIN 46 or FIN 46R are effective to those entities that are considered to be special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003. The Company adopted FIN 46R as it is party to a transaction involving a variable interest entity relating to the lessor of the Veldhoven headquarters building that has been constructed in 2003. See Note 12.

2. Discontinued operations

On December 18, 2002 ASML announced the proposed sale of its Thermal business and the termination of its activities in the Track business. Both discontinued businesses met the criteria of SFAS No. 144 and have been classified accordingly.

In December 2002 the Company reviewed its long-lived assets used in the Thermal business for potential impairment and recorded no impairment charges. During 2003, ASML s management again reviewed its long-lived assets for impairment as the Company entered into negotiations with several potential buyers and accordingly recorded pre-tax impairment charges of EUR 16.0 million. In October 2003, the Company completed the sale of its Thermal business to a privately held company formed by VantagePoint Venture Partners. At the time of the sale, no gain or loss was realized as the net assets were stated at the value equal to the proceeds of the sale. The net loss of the Thermal business amounted to EUR 32.3 million in 2003 compared to EUR 61.2 million in 2002.

The termination of the Track business resulted in an exit plan that included workforce reductions, fixed asset impairments and inventory write-offs due to discontinued product lines. The exit plan included the disposal of remaining assets related to the Track business. In 2002, ASML decided to continue to service its existing customers for whom ASML has warranty or other service obligations. Consequently, customer support related to the Track business was not included in discontinued operations for 2002. In June 2003, ASML sold certain of its fixed assets and inventories related to its Track business to Rite Track. No gain or loss was realized on the sale. The net loss of the Track business amounted to EUR 3.4 million in 2003 compared to EUR 58.6 million for 2002. The net loss from operations for 2002 included total pre-tax estimated exit costs of EUR 47.0 million. These exit costs included asset impairments, inventory write downs, purchase and other commitment settlements and employee termination costs. The net loss in 2003 relates mainly to impairment charges recorded on a building in the United States, previously used by the Company s Track business. This impairment was determined on the difference between the building s estimated fair value, as indicated by an independent real estate appraiser and its carrying value.

The tax effects arising from, asset impairment costs, employee termination costs, inventory write-off and losses from discontinued operations mostly reside and will remain with ASML U.S. group companies. These losses can be offset against future profits from continuing operations of these U.S. group companies.

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Summarized results of operations for discontinued operations are as follows:

Year ended December 31	2001	2002	2003
Revenues			
Track	51,472	7,236	**2,514**
Thermal	203,642	105,929	**38,198**
Total	255,114	113,165	**40,712**
Loss from discontinued operations, net of taxes			
Track loss from operations	(20,946)	(27,991)	**(1,456)**
Track exit costs (net of taxes)	0	(30,626)	**(1,944)**
Thermal loss from operations	(42,844)	(61,161)	**(21,906)**
Thermal exit costs (net of taxes)	0	0	**(10,404)**
Total	(63,790)	(119,778)	**(35,710)**

Summarized assets and assumed liabilities from discontinued operations are as follows:

As of December 31	2001	2002	2003
Assets			
Intangible assets	2,101	4,410	**0**
Tangible fixed assets	48,675	32,994	**3,167**
Inventories	90,619	34,693	**0**
Receivables	59,552	33,064	**1,840**
Other	7,875	933	**0**
Total Assets	208,822	106,094	**5,007**
Liabilities			
Accounts payable	14,801	10,463	**0**
Accrued liabilities	53,053	41,741	**13,451**
Installation and warranty	25,862	13,887	**0**
Total Liabilities	93,716	66,091	**13,451**

ASML organizes its financing activity at the corporate level and does not allocate funding to individual net assets identified as assets from discontinued operations. The following table represents cash flows directly attributable to ASML s discontinued operations.

Year ended December 31	2001	2002	2003
Net cash provided by (used in) operating activities of discontinued operations	(35,937)	(121,039)	**12,736**
Net cash used in investing activities of discontinued operations	(33,878)	(6,434)	**0**
Net cash provided by (used in) discontinued operations	(69,815)	(127,473)	**12,736**

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3. Restructuring

As a result of the industry s prolonged downturn, ASML announced on July 16, 2003 restructuring measures to further reduce costs company-wide by further reducing its workforce with approximately 550 positions worldwide. The Company recorded a provision of EUR 15 million of which EUR 3.7 million is included in cost of sales and EUR 11.3 million is included in restructuring costs. The Board of Management and the Dutch Works Council are nearing the completion of a joint study on implementing these workforce reductions in the Netherlands. Consequently, the Dutch workforce reduction has been delayed. During 2003, ASML recorded a charge of approximately EUR 7 million in restructuring costs relating to the consolidation of its office and warehouse facilities at its headquarters in Veldhoven as the Company ceased using certain of its facilities. The facility exit charges included:

estimated future obligations for non-cancelable lease payments (net of estimated sublease income of EUR 25 million). The Company s management estimated the cost of exiting by referring to the contractual terms of the lease agreements and by evaluating the sublease agreements concluded for these facilities or, where applicable, by referring to amounts being negotiated; and

the impairment of property and equipment (primarily leasehold improvements) for which there are insufficient cash flows to support the carrying cost. The property and equipment impairment was determined based on the difference between the assets estimated fair value and their carrying value.

On December 18, 2002 ASML announced measures to contain costs for its lithography business, including customer support, to lower the breakeven point by adjusting labor capacity and increasing operating flexibility. ASML recorded provisions of EUR 78.5 million during 2002 for slow-moving and obsolete lithography inventory and impairments of tangible fixed assets that were recorded as cost of sales. ASML further announced its intention to reduce its lithography-related workforce by approximately 700 positions worldwide (11.7 percent). The related lay-off costs were largely recorded in 2003 since the final details on the plan had not been finally determined by December 31, 2002. With respect to this plan, the Company recorded in 2003 restructuring charges for a total amount of EUR 6.7 million of which EUR 4 million in cost of sales and EUR 2.7 million in restructuring costs. This restructuring plan was completed in 2003.

On October 16, 2001, as a consequence of the downturn in the semiconductor industry, ASML announced cost reductions and a restructuring plan which resulted in the consolidation of manufacturing facilities and discontinuance of certain product lines related to SVG. As a result of this restructuring plan, the Company recorded a restructuring provision in 2001 for an amount of EUR 402.7 million mainly relating to inventory write-offs, purchase commitments, fixed asset write-offs and severance payments. This restructuring provision was recorded in cost of sales for an amount of EUR 399.6 million and in restructuring costs for an amount of EUR 3.1 million and was mainly used in 2001 and 2002.

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The following table summarizes the restructuring provision as of December 31, 2003, 2002 and 2001:

	Purchase commitments	Building closure costs	Severance payments	Total
Balance as of December 31, 2000	0	0	0	**0**
Utilization of the year	0	(1,512)	(5,955)	**(7,467)**
Additions	51,761	3,565	15,125	**70,451**
Adjustments	0	0	0	**0**
Effect of foreign currency translation	0	5	11	**16**
Balance as of December 31, 2001	51,761	2,058	9,181	**63,000**
Utilization of the year	(27,126)	(2,044)	(6,580)	**(35,750)**
Adjustments	(6,337)	2,116	(1,686)	**(5,907)**
Effect of foreign currency translation	(8,272)	(330)	(915)	**(9,517)**
Balance as of December 31, 2002	10,026	1,800	0	**11,826**
Utilization of the year	(4,711)	(3,475)	(6,906)	**(15,092)**
Additions	0	6,833	22,182	**29,015**
Adjustments	(3,326)	1,653	0	**(1,673)**
Effect of foreign currency translation	(1,111)	(395)	(5)	**(1,511)**
Balance as of December 31, 2003	878	6,416	15,271	**22,565**

Adjustments to the 2001 restructuring plan amounting to EUR 5,907 and EUR 1,673 have been recognized in 2002 and 2003 respectively and are classified as cost of sales. These adjustments relate mainly to more favorable settlement agreements with vendors on purchase commitments than the Company had estimated.

4. Market risk and derivatives

Market risk represents the risk of a change in the value of a financial instrument, derivative or non derivative, caused by fluctuations in currency exchange rates and interest rates. The Company addresses market risk in accordance with established policies and thereby enters into various derivative transactions. No such transactions are entered into for trading purposes.

Foreign currency management

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

It is the Company s policy to hedge material transaction exposures, such as sales transactions and forecasted cash flows from sales and accounts receivable/accounts payable. ASML hedges these exposures through the use of foreign exchange options and forward contracts. The use of a mix of foreign exchange options and forwards is aimed at reflecting the likelihood of the transactions occurring. The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

During the twelve months ended December 31, 2003, no gains or losses were recognized in cost of sales relating to hedges of forecasted transactions that did not occur. As of December 31, 2003, EUR 0.7 million of other comprehensive income represents the total anticipated loss to be charged to cost of sales, and EUR 3 million is the total anticipated gain to be released to cost of sales over the next twelve months as the forecasted revenue and purchase transactions occur.

It is the Company s policy to hedge material re-measurement exposures. These net exposures from certain monetary assets and liabilities in non-functional currencies are hedged with forward contracts. Furthermore, the Company uses forward contracts to hedge its 320 million Swedish Krona loan to Micronic.

It is the Company s policy to manage material translation exposures resulting predominantly from ASML s U.S. dollar net investments. Up until December 5, 2003, a proportion of ASML s USD 520 million 4.25 percent Convertible Subordinated Notes due 2004 was assigned to certain of the Company s net U.S. dollar investments. For the period from December 5, 2003 through December 31, 2003 a proportion of ASML s USD 575 million 5.75 percent Convertible Subordinated Notes due 2006 was assigned to certain of the Company s net U.S. dollar investments as ASML s USD 520 million 4.25 per cent Convertible Subordinated Notes due 2004 has been fully redeemed. As a result, fluctuations in the Company s balance sheet ratio s resulting from changes in exchange rates are reduced.

Interest rate management

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

Financial instruments as of December 31, 2003

Primary financial instruments recorded on the balance sheet include cash and cash equivalents, accounts receivable and accounts payable. The carrying amount of these financial instruments approximates their fair value due to the short-term nature of these instruments. The following table summarizes the estimated fair values of the Company s financial instruments:

As of December 31	**2002**		**2003**	
Financial Instruments	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Forward contracts[1]	223,000	845	(54,173)[2]	444
Currency options	41,000	782	8,314	(217)
Interest rate swaps	982,000	5,684	981,285	6,102

(Source: Bloomberg)

1 Includes forward contracts on U.S. Dollars, Swedish Krona, British Pounds, Israeli Shekel, Japanese Yen and Singapore dollars.

2 Net amount of forward contracts assigned as a hedge to sales and purchase transactions, and to monetary assets and liabilities.

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

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

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

Credit risk

Financial instruments contain an element of risk of the counterparties being unable to meet their obligations. This financial credit risk is monitored and minimized per type of financial instrument by limiting ASML s counterparties to a sufficient number of major financial institutions. ASML does not expect the counterparties to default given their high credit quality.

Furthermore, the Company is exposed to credit risk on its customers. ASML monitors its customer base and uses protective measures, such as letters of credit. Where deemed necessary, provisions for potential losses are recorded.

5. Accounts receivable

Accounts receivable consist of the following:

As of December 31	2002	2003
Gross accounts receivable	556,988	**320,691**
Allowance for doubtful debts	(324)	**(6,196)**
Net accounts receivable	556,664	**314,495**

A summary of activity in the allowance for doubtful debt:

Year ended December 31	2001	2002	2003
Balance at beginning of year	(1,439)	(2,754)	**(324)**
Utilization of the provision	0	2,430	**3,241**
Additional provision in the year	(1,315)	0	**(9,113)**
Balance at end of year	(2,754)	(324)	**(6,196)**

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6. Inventories

Inventories consist of the following:

As of December 31	2002	2003
Raw materials	267,054	**229,740**
Work-in-process	366,440	**319,209**
Finished products	381,795	**259,690**
Total inventories, gross	1,015,289	**808,639**
Allowance for obsolescence and/or lower market value	(285,264)	**(213,622)**
Total inventories, net	730,025	**595,017**

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

Year ended December 31	2001	2002	2003
Balance at beginning of year	(131,819)	(500,491)	**(285,264)**
Provision of the year[1]	(393,005)[1]	(112,164)[1]	**(32,431)**
Effect of exchange rates	(4,013)	36,673	**22,976**
Utilization of the provision	28,346	290,718	**81,097**
Balance at end of year	(500,491)	(285,264)	**(213,622)**

[1] Refer to Note 3, Restructuring

7. Other assets

Other non-current assets consist of the following:

As of December 31	2002	2003
Loan to Micronic AB[1]	35,176	**0**
Compensation plan assets[2]	10,994	**8,720**
Prepaid expenses	14,915	**16,130**
Subordinated loan granted to lessor in respect of Veldhoven headquarters[3]	0	**5,445**
Other	672	**416**
Total other long-term assets	61,757	**30,711**

[1] The loan to Micronic has a notional amount of 320 million Swedish Krona and is non-interest bearing.

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Other current assets consist of the following:

As of December 31	2002	2003
Loans to Zeiss	76,443	**71,268**
VAT	34,654	**16,528**
Loan to Micronic AB[1]	0	**35,242**
Prepaid expenses	43,745	**31,813**
Other	20,253	**3,061**
Total other current assets	175,095	**157,912**

[1] The loan to Micronic has a notional amount of 320 million Swedish Krona and is non-interest bearing.

The loan is repayable in 2004 or can be converted into 1 million shares of Micronic upon the first request of ASML.

The non-interest bearing loans to Zeiss are repayable by future shipments of lenses or can be redeemed in cash depending on the specific contractual terms of the individual loans.

8. Intangible assets

In 1999, ASML obtained, through its purchase of the business of MaskTools, the intellectual property rights relating to Optical Proximity Correction technology. This technology enhances leading edge lithography systems to accurately and reliably print line widths below 0.2 micron. These rights have been valued at cost and are amortized on a straight-line basis over their estimated useful life of 10 years.

In 2003, ASML acquired a patent portfolio, relating to dual stage technology. This patent portfolio has been valued at cost and is amortized on a straight-line basis over its estimated life of 3 years.

As of December 31	2002	2003
Cost		
Balance, January 1	20,475	**20,475**
Additions	0	**3,099**
Balance, December 31	20,475	**23,574**
Accumulated amortization		
Balance, January 1	4,200	**6,406**
Amortization	2,206	**2,578**
Balance, December 31	6,406	**8,984**
Net book value December 31	14,069	**14,590**

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

2004:	3,653
2005:	3,575
2006:	2,100
2007:	2,100
2008:	2,100

Thereafter:	1,062

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9. Property, plant and equipment

Property, plant and equipment consist of the following:

	Buildings and constructions	Machinery and equipment	Leasehold improvements	Office furniture and fixtures	Total
Cost					
Balance, January 1	166,980	598,746	112,819	154,051	**1,032,596**
Additions[1]	524	48,208	6,209	16,499	**71,440**
Disposals	(2,041)	(125,249)	(21,860)	(372)	**(149,522)**
Reclassifications	0	(6,213)	2,845	3,368	**0**
Effect of exchange rates	(15,351)	(37,778)	(1,476)	(4,959)	**(59,564)**
Balance, December 31, 2003[1]	150,112	477,714	98,537	168,587	**894,950**
Accumulated depreciation					
Balance, January 1	60,599	309,111	56,597	110,566	**536,873**
Depreciation	4,580	94,639	12,551	22,690	**134,460**
Impairment	0	12,100	0	0	**12,100**
Disposals	(394)	(79,029)	(21,119)	(143)	**(100,685)**
Reclassifications	0	(2,612)	205	2,407	**0**
Effect of exchange rates	(7,206)	(23,008)	(955)	(4,512)	**(35,681)**
Balance, December 31, 2003	57,579	311,201	47,279	131,008	**547,067**
Net Book Value					
December 31, 2002	106,381	289,635	56,222	43,485	**495,723**
December 31, 2003	92,533	166,513	51,258	37,579	**347,883**

[1] Includes as of December 31, 2003 assets under construction for buildings and constructions of EUR 591, machinery & equipment of EUR 2,310, leasehold improvements of EUR 38 and office furniture and fixtures of EUR 8,383.

During 2003, the Company recorded impairment charges of EUR 12.1 million in cost of sales on machinery and equipment, for which there are insufficient cash flows to support the carrying cost. The impairment charges were determined based on the difference between the assets estimated fair value and their carrying value.

10. Accrued liabilities and other

Accrued liabilities and other consist of the following:

As of December 31	2002	2003
Deferred revenue	35,274	**44,542**
Warranty and installation	69,684	**33,331**
Materials and costs to be paid	73,620	**65,554**
Advances from customers	126,860	**187,677**
Personnel related items	60,814	**53,229**
Investment credits payable	31,651	**12,282**
Restructuring	11,826	**22,565**
Other	39,119	**23,203**

Total accrued liabilities and other	448,848	**442,383**

11. Long-term debt and borrowing arrangements

The Company s obligations to make principal repayments under long-term debt and borrowing arrangements as of December 31, 2003, for the next five years and thereafter, assuming no conversions occur and excluding the fair value of interest rate swaps used to hedge the fair value, are as follows:

2004	0
2005	2,317
2006	466,522
2007	2,132
2008	526
Thereafter	381,310
Total	852,807

Convertible debt securities

The following table summarizes the Company s outstanding Convertible Subordinated Notes as of December 31, 2003, including fair value of interest rate swaps used to hedge the fair value of the underlying fixed loan coupon:

As of December 31	2002	2003
4.25 percent convertible		
Notional amount	495,757	**0**
Fair value interest rate swaps	0	**0**
Total	495,757	**0**
5.75 percent convertible		
Notional amount	548,298	**455,285**
Fair value interest rate swaps	19,985	**8,411**
Total	568,283	**463,696**
5.50 percent convertible		
Notional amount	0	**380,000**
Fair value interest rate swaps	0	**(1,153)**
Total	0	**378,847**
Total convertible debt	1,064,040	**842,543**

In April 1998, ASML completed an offering of EUR 272 million principal amount of its 2.5 percent Convertible Subordinated Notes due 2005, with interest payable annually commencing April 9, 1999. In April 2002, ASML exercised its option to redeem and did thereby call for redemption on May 3, 2002, all of the Company s remaining outstanding bonds (EUR 268.5 million) at a redemption price of 100.00 percent of the principal amount of the bonds plus accrued interest. Before May 3, 2002, bondholders converted bonds for a total of EUR 265.4 million into 13,634,782 ordinary shares.

In November 1999, ASML completed an offering of USD 520 million principal amount of its 4.25 percent Convertible Subordinated Notes due November 30, 2004, with interest payable semi-annually on November 30 and May 30 of each year, commencing on May 30, 2000. In July and August 2003, ASML repurchased USD 139.6 million. In October 2003, ASML called for redemption on December 5, 2003, all of the bonds that remained outstanding, at a redemption price of 100.85 percent of their principal amount plus accrued interest.

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Before December 5, 2003, bondholders converted bonds for a total of USD 120 thousand into 1,430 ordinary shares, of which USD 20 thousand were converted into 536 shares in 2003. On December 5, 2003, the Company redeemed the remaining USD 380.3 million.

In October 2001, ASML completed an offering of USD 575 million principal amount of its 5.75 percent Convertible Subordinated Notes due October 15, 2006, with interest payable semi-annually on April 15 and October 15 of each year, commencing on April 15, 2002. The notes are convertible into 30,814,576 ordinary shares at USD 18.66 (EUR 14.77) per share at any time prior to maturity. At any time on or after October 22, 2004, the notes are redeemable at the option of ASML, in whole or in part, at 100 percent of its principal amount, together with accrued interest, provided that the Company s shares close above 130 percent of the conversion price for twenty trading days out of a thirty-day period. During 2003 none of the notes were converted into ordinary shares.

In May 2003, ASML completed an offering of EUR 380 million principal amount of its 5.50 percent Convertible Subordinated Notes due 2010, with interest payable annually on May 15 of each year, commencing on May 15, 2004. The notes are convertible into an aggregate of 26,573,426 ordinary shares at a conversion price of EUR 14.30 per share, subject to adjustment, at any time prior to maturity. Unless previously converted, the notes are redeemable at 100% of its principal amount on May 15, 2010. ASML may call the notes for early redemption at any time after May 22, 2006, provided that ASML s shares close above 150% of the conversion price for twenty trading days out of a thirty-day period.

Interest rate swaps are used to hedge the risk from interest rate fluctuations. As of December 31, 2003, deferred interest rate swap proceeds amounting to EUR 7.3 million have been recorded in the balance sheet as an addition to the Company s outstanding Convertible Subordinated Notes.

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

	2002		**2003**	
As of December 31	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
4.25 percent convertible	495,757	429,467	**N/A**	**N/A**
5.75 percent convertible	548,298	467,443	**455,285**	**596,992**
5.50 percent convertible	N/A	N/A	**380,000**	**541,975**

(Source: Bloomberg)

The fair value of the Company s long-term debt is estimated based on the quoted market prices as of December 31, 2002 and December 31, 2003, respectively.

Other long term debt

These loans do not contain any covenants.

In February 1997, the Company received a USD 6.5 million (EUR 5.1 million) loan from the Connecticut Development Authority. The loan has a ten-year term, bears interest at 8.25

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percent, and is secured by the Company s Wilton, Connecticut, U.S. facility. At December 31, 2003, the Company s outstanding debt with respect to this loan amounted to USD 2.7 million (EUR 2.1 million).

In 1999, the Company assumed three yen-denominated loans in connection with its merger with SVG. Approximately EUR 3.7 million (JPY 503 million) is outstanding at December 31, 2003, which is secured by land and buildings in Japan, is payable in monthly installments through the year 2011, bearing interest at 2.5 percent. Approximately EUR 10 million (JPY 1,350 million) and EUR 1.5 million (JPY 200 million) are outstanding at December 31, 2003. These loans are unsecured, repayable in 2006 and 2007, and bear interest at 3.1 percent and 2.2 percent, respectively, payable semi-annually.

These loans do not contain any covenants.

Lines of credit

At December 31, 2003, the Company had credit available facilities for a total of EUR 288 million (2002, EUR 288 million), all of which expire in 2005. These credit lines bear interest at the European Interbank Offered Rate (EURIBOR) plus a margin. No amounts were outstanding under these credit facilities at the end of 2003 and 2002. The credit facilities contain certain restrictive covenants, including a requirement that the Company maintains a minimum financial condition ratio of 40%, calculated in accordance with a contractually agreed formula. ASML was in compliance with these covenants at December 31, 2002 and 2003. ASML does not currently anticipate any difficulty in continuing to meet these covenant requirements.

12. 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 and purchase obligations, are generally not required to be recognized as liabilities on the Company s balance sheet but are required to be disclosed.

Lease Commitments and Variable Interests

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

The Company has concluded several operating leases for its buildings that contain a purchase option. In December 2003, the FASB issued FIN 46R, Consolidation of Variable Interest Entities . FIN 46R introduces a new concept of a variable interest entity. An enterprise must consolidate a variable interest entity if that enterprise has a variable interest (or 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. For each of the individual leases for its buildings, the Company concluded that it is not the primary beneficiary to the expected losses or to the expected residual returns or to both.

The Company is party to a transaction involving a variable interest entity relating to the lessor of the Veldhoven headquarters building that has been completed in 2003.

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Total assets of the variable interest entity amount to approximately EUR 54 million and are funded through:

variable interest entity s equity of EUR 1.9 million;

straight loans granted by the shareholders of the variable interest entity of EUR 12.3 million, partly redeemable over 15 years and quarterly interest-bearing;

a third party loan of EUR 34.9 million, partly redeemable over 15 years and quarterly interest-bearing; and

a subordinated loan provided by the Company of EUR 5.4 million.

The lease will expire in 2018. The Company has an option to purchase the property, at a predetermined price scheme, throughout the term of the lease. The purchase option at the end of the lease term amounts to EUR 24.5 million. In accordance with FIN 46R the Company has concluded that it is not the primary beneficiary in the lessor entity to the expected losses or to the expected residual returns or to both. As a result the Company did not consolidate the specific assets and liabilities of this variable interest entity in its financial statements.

Purchase Obligations

The Company enters into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations include medium to long-term purchase agreements. These contracts differ and may include certain restrictive clauses. Any identified losses that would result from purchase commitments that are expected to be forfeited are provided for in the Company s financial statements. As of December 31, 2003, the Company had purchase commitments for a total amount of approximately EUR 335 million, which are not recorded on the Company s balance sheet. In its negotiations with suppliers the Company continuously seeks to align its purchase commitments with its business objectives.

See Tabular Disclosure of Contractual Obligations below.

Other Off-Balance Sheet Arrangements

The Company has certain additional commitments and contingencies that are not recorded on its balance sheet but may result in future cash requirements. In addition to the operating lease commitments and the purchase obligations, these off-balance sheet arrangements consist of product warranties, a call option granted to a third party to acquire our optics business at fair value and guarantees of subsidiary s debt to a third party.

The Company provides guarantees to third parties in connection with transactions entered into by its subsidiaries in the ordinary course of business: These include bank loans reflected in Note 11.

Tabular Disclosure of Contractual Obligations

The Company s off-balance sheet arrangements with respect to operating lease obligations and purchase obligations as of December 31, 2003 can be summarized as follows:

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	Total	Less than 1 year	1-3 years	3-5 Years	After 5 years
Operating Lease Obligations	386,112	47,005	72,448	67,699	198,960
Purchase Obligations	335,115	300,170	34,945	0	0
Total Contractual Obligations	721,227	347,175	107,393	67,699	198,960

Operating lease obligations include leases of equipment and facilities. Rental expense was EUR 61 million, EUR 56 million and EUR 53 million for the years ended December 31, 2001, 2002 and 2003, respectively.

13. Employee benefits

In February 1997, SVG adopted a non-qualified deferred compensation plan that allowed a select group of management and highly compensated employees and directors to defer a portion of their salary, bonus and commissions. The plan allowed SVG to credit additional amounts to participants account balances, depending on the amount of the employee s contribution, up to a maximum of 5 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 2001, 2002 and 2003, participants accounts were credited at 9.54 percent, 8.89 percent and 8.50 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 2001, 2002 and 2003, the expense incurred under this plan was EUR 2 million, EUR 1 million and EUR 0.9 million, respectively. As of December 31, 2002 and 2003, the Company s liability under the deferred compensation plan was EUR 14 million and EUR 9 million, respectively.

In July 2002, ASML adopted a non-qualified deferred compensation plan for its U.S. employees that allows a select group of management or highly compensated employees to defer a portion of their salary, bonus, and other benefits. The plan allows ASML to credit additional amounts to the participants account balances. The participants invest their funds between the investments available in the plan. Participants elect to receive their funds in future periods after the earlier of their employment termination or their withdrawal election, at least 3 years after deferral. There were minor plan expenses in 2003. On December 31, 2002 and 2003, the Company s liability under the deferred compensation plan was EUR 1 million and EUR 2 million, respectively.

Pension plans

ASML and its consolidated subsidiaries maintain various retirement plans covering substantially all of its employees. Employees in the Netherlands participate in a multi-employer union plan determined in accordance with the respective collective bargaining agreements. This plan is subject to a salary cap. Employees with a salary exceeding this cap also participate in an ASML defined contribution pension plan.

For employees working outside the Netherlands, ASML maintains a defined contribution pension plan, with employer contribution based on a percentage of salary. For employees participating in the United States pension plan, the Company may make, at its sole discretion, an additional contribution to the plan if the Company meets certain financial performance criteria. No such additional contributions were made in 2001, 2002 or 2003.

The Company s pension costs for all employees were:

Year ended December 31	2001	2002	2003
Pension plan based on multi-employer union plan	17,528	15,059	16,514
Pension plans based on defined contribution	6,609	7,265	6,636
Total	24,137	22,324	23,150

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 ultimate bonus amount is dependant on the actual performance on corporate, departmental and personal targets. The bonus for senior management can range between 0 percent and 60 percent of their annual salary. For the years 2001 and 2002, no bonuses were granted. A bonus for senior management is accrued for in the statement of operations for the year ended December 31, 2003 for an amount of EUR 6.5 million, expected to be paid in the first quarter of 2004.

Profit-sharing plan

ASML has a profit-sharing plan covering all employees. Under the plan, employees who are eligible receive an annual profit-sharing bonus, based on a percentage of net income to sales ranging from 0 to 20 percent of annual salary. The profit-sharing percentage for each of the years 2001, 2002 and 2003 was 0 percent.

Stock options

Each year, the Board of Management determines, by category of ASML personnel, the total available number of options that can be granted in that year. The determination is subject to the approval of the Supervisory Board and the holders of priority shares of the Company.

1998

In 1998, the Company issued 3,348,576 options to purchase ordinary shares, consisting of options to purchase 2,097,831 ordinary shares for eligible employees of ASML and options to purchase 1,250,745 ordinary shares for key personnel and management. This issuing of options included a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of distribution under the profit-sharing plan. The options have fixed exercise prices equal to the closing price of the Company s ordinary shares on Euronext Amsterdam on the applicable grant dates. Stock options granted to eligible employees vested over a three-year period with any unexercised stock options expiring six years after the grant date. Stock options granted to key personnel in 1998 vested over a three and four-year period with any unexercised stock options expiring six years after the grant date.

1999

In 1999, stock options were authorized to purchase up to 3,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of distribution under the profit sharing plan. The options have fixed exercise prices equal to the closing price of the Company s ordinary shares on Euronext on the applicable grant dates. Granted stock options vested over a three-year period with any unexercised stock options expiring six years after the grant date.

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2000	In 2000, options were authorized to purchase up to 4,500,000 ordinary shares. Granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date
2001	In 2001, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of distribution under the profit sharing plan. Options granted under these plans have fixed exercise prices that are equal either to the closing price of the Company s ordinary shares on Euronext on the applicable grant date, or 135 percent of the closing price of the Company s ordinary shares on Euronext on the applicable grant dates. Granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date, with the exception of a designated part of grants made in July 2001 that have a graded vest of 1/3 (one third) after the first year, 1/3 (one third) after the second year and 1/3 (one third) in the third year. During 2001, 232,520 options to purchase ordinary shares were granted to the Board of Management. No options were exercised during 2001 by members of the Board of Management.
2002	In 2002, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of a percentage of their salary. Options granted under these plans have fixed exercise prices equal to the closing price of the Company s ordinary shares on Euronext on the applicable grant dates. A designated part of the granted stock options vest over a one year period with any unexercised stock options expiring six years after the grant date. The remaining part of the granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date.
2003	In 2003, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of a percentage of their salary. Options granted under these plans have fixed exercise prices equal to the closing price of the Company s ordinary shares on Euronext on the applicable grant dates. Granted stock options vest over a three-year period with any unexercised stock options expiring ten years after the grant date.
Stock Option Extension Plans	In 2002, employees were offered an extension of the option period for options granted in 1997 up to and including 2000. For the years 1997 up to and including 1999, this extension is either until October 21, 2008, or October 21, 2005. For 2000, the option period is extended until 2012. Employees who accepted the extension became subject to additional exercise periods in respect of their options and a higher strike price.
Financing of Stock option Plans	Option plans that were issued before 2001 were constructed with a virtual financing arrangement whereby ASML financed the tax value of the options granted to employees subject to the Netherlands tax-regime. The loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option was actually exercised. If the options expire unexercised, the respective loans are forgiven.

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The following three tables have not been restated for discontinued operations:

Stock option transactions are summarized as follows:

	Number of shares	Weighted average exercise price per share (EUR)
Outstanding, December 31, 2000	17,069,039	28.84
granted	5,883,550	32.78
exercised	(1,488,107)	9.75
cancelled	(265,212)	23.22
Outstanding, December 31, 2001	21,199,270	26.01
Granted	4,483,070	19.30
exercised	(1,539,132)	9.45
cancelled	(266,760)	17.46
Outstanding, December 31, 2002	23,876,448	25.13
Granted	2,516,980	9.66
exercised	(335,977)	10.98
cancelled	(1,486,427)	21.82
Outstanding, December 31, 2003	**24,571,024**	**24.58**
Exercisable, December 31, 2003	15,494,969	23.99
Exercisable, December 31, 2002	9,551,860	14.77
Exercisable, December 31, 2001	6,870,466	15.22

Information with respect to stock options outstanding at December 31, 2003 is as follows:

Options outstanding Range of exercise prices (EUR)	Number outstanding December 31, 2003	Number exercisable December 31, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options (EUR)
2.35 - 9.29	647,930	177,550	7.91	7.43
9.30 - 12.79	6,134,015	4,087,415	6.03	11.40
12.80 - 31.79	11,692,260	7,285,834	3.56	22.51
31.80 - 47.15	6,096,819	3,944,170	6.30	44.00
Total	**24,571,024**	**15,494,969**	**4.97**	**24.58**

14. Contingencies

Legal Contingencies

ASML is party to various legal proceedings generally incidental to its business. Since late 2001, ASML has been a party to a series of litigation and administrative proceedings in which Nikon alleges ASML s infringement of Nikon patents relating to photolithography. These are discussed below. ASML also faces exposure from other actual or potential claims and legal proceedings. Although the ultimate disposition of these other claims and proceedings cannot be predicted with certainty, it is the opinion of the Company s management that the outcome of any such

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other claim that is pending or threatened, either individually or on a combined basis, is expected not to have a materially adverse effect on ASML s consolidated financial condition. On occasion, certain ASML customers have received notices of infringement from third parties. These notices allege 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. ASML has been advised that, if these claims were successful, it 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.

Ultratech case U.S

On May 23, 2000, Ultratech Stepper, Inc. (Ultratech) filed a lawsuit in the United States District Court for the Eastern District of Virginia (which was subsequently transferred to the United States District Court for the Northern District of California) against ASML. Ultratech alleged that ASML is infringing Ultratech s rights under a United States patent, through the manufacture and commercialization in the U.S. of advanced photolithography equipment embodying technology that, in particular, is used in Step & Scan equipment. Ultratech s complaint seeks injunctive relief and damages. On August 16, 2002, the Court granted ASML s motion for summary judgment of non-infringement based upon the previously reported favorable interpretation by the Court as to the scope and meaning of the claims of the asserted patent. A final judgment on those favorable rulings was subsequently entered in ASML s favor and ASML s challenge to the validity and enforceability of the patent was dismissed without prejudice in light of the finding of no infringement. Ultratech has taken an appeal to the United States Court of Appeals for the Federal Circuit from the judgment in ASML s favor, where the matter has been briefed and now awaits oral argument and disposition by the Court.

Management continues to believe that Ultratech s claims are without merit and that ASML s defenses are strong. ASML will continue to assert these defenses vigorously.

Nikon case U.S

On December 21, 2001, Nikon Corporation (Nikon) and two of its United States subsidiaries filed a so-called Section 337 complaint against ASML with the United States International Trade Commission (ITC). On January 23, 2002, the ITC instituted an investigation based on Nikon s complaint. The complaint in the ITC investigation alleges that ASML s photolithography machines imported into the United States infringe seven United States patents held by Nikon. Nikon s patents relate to several different aspects of photolithography equipment. Nikon seeks to exclude the importation of infringing products. ASML believes that the asserted patents are both not infringed and invalid. A trial before an administrative law judge on these issues was completed in November 2002.

On January 29, 2003, the administrative law judge (ALJ) in the ITC proceedings ruled that ASML had not violated Section 337. After Nikon and ASML petitioned for review of the ALJ s decision by the full Commission, the ITC adopted the ALJ s decision that ASML did not infringe any valid, enforceable patent of Nikon s and had not violated Section 337.

Nikon has appealed the ITC s decision to the United States Court of Appeals for the Federal Circuit. ASML s motion to intervene in that appeal was allowed. A decision from the Court of Appeals in not expected before mid 2004.

On December 21, 2001, Nikon also filed a separate patent infringement action in the United States District Court for the Northern District of California alleging infringement of four different Nikon patents and seeking injunctive relief and damages. On March 22, 2002, Nikon amended its complaint to allege infringement of an additional patent. On April 8, 2002, ASML answered this complaint denying infringement, asserting affirmative defenses of invalidity and unenforceability, and alleging counterclaims.

On April 5, 2002, ASML filed a counterclaim in the ITC action alleging that Nikon s photolithography machines sold in the United States infringe five ASML patents. According to ITC procedure, these counterclaims were initially transferred to the United States District Court for the District of Arizona. On October 17, 2002, these claims were transferred to the United States District Court for the Northern District of California, where they are now pending.

On October 18, 2002, Nikon filed a second patent infringement action in the United States District Court for the Northern District of California alleging infringement of six out of the seven patents from the ITC action and two additional patents. On December 2, 2002, ASML answered this second complaint denying infringement of these additional patents and asserting affirmative defenses of invalidity and unenforceability.

ASML intends to vigorously pursue its claims and believes it has meritorious defenses against Nikon s claims. Discovery in the California litigation is currently ongoing; however, trial is not expected to commence before late 2004. In the event a final non-appealable decision were to be rendered that was adverse to ASML, it could substantially restrict or prohibit ASML s sales (from and into) the United States, which in turn could have a material adverse effect on the Company s financial position and results of operations, the amount which currently cannot be estimated.

Nikon case Japan

On July 8, 2003, Nikon withdrew its counterclaim against ASML filed in October 2002, alleging that ASML s photolithography machines infringe 12 Japanese patents held by Nikon. On November 19, 2003, Nikon filed a new complaint against ASML and its subsidiary in Japan alleging that ASML s photolithography machines sold in Japan infringe patents held by Nikon. This litigation is in the early stage, and a final decision is not expected before 2006. In the event a final non-appealable decision in the Japanese proceeding was rendered that was adverse to ASML, it could substantially restrict or eliminate ASML s ability to achieve future sales growth in Japan, which could in turn have a material adverse effect on the Company s results of operations, the amount which currently cannot be estimated.

The patent infringement action filed by ASML on August 19, 2002, seeking damages and injunctive relief against Nikon to cease the manufacture and sale of photolithography machines, and another patent infringement action filed by ASML on January 16, 2003, seeking injunctive relief against Nikon, are still pending at the Tokyo District Court.

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The Company expects a decision by the Tokyo District Court on the first mentioned case will be rendered around the second quarter of 2004. If the decision is adverse to ASML, ASML may appeal to the Tokyo High Court. In January 2004, ASML filed a new complaint against Nikon in the Tokyo District Court. Final non-appealable decisions in these cases are not expected before 2005.

Nikon case Korea

On October 8, 2002, Nikon filed a patent infringement action against ASML and its Korean subsidiary in the Seoul District Court alleging that ASML s photolithography machines infringe five of Nikon s patents, four of which are related to Nikon s patents asserted in its U.S. litigation. The complaint seeks to prohibit ASML from the manufacture, use, sale, import or export of infringing products, the destruction of the manufacturing facilities for these products and damages. Exchanges of briefs from both sides have taken place on the preliminary issues; exchanges of several additional briefs are expected. ASML filed invalidation actions against two Nikon patents related to this to this District Court action in April 2003 with the Korean Intellectual Property Office, and the initial exchanges of briefs have occurred.

On January 15, 2003, ASML filed a complaint against Nikon and its Korean subsidiary alleging that Nikon infringes one of ASML s patents, seeking injunctive relief against Nikon to cease the manufacture and sale of lithography devices that infringe ASML s patent. Nikon Korea and Nikon Japan filed response briefs denying infringement. Nikon filed an invalidation action against five ASML patents in July 2003 with the Korean Intellectual Property Office. ASML submitted a response brief with the Korean Intellectual Property Office on October 13, 2003.

The District Court decisions on the Korean proceedings are not expected before 2005; the final, non-appealable decisions are not expected before 2006. ASML intends to vigorously pursue its claims and believes it has meritorious defenses against Nikon s claims. In the event that a final non-appealable decision were to be rendered in the Korean proceedings that was adverse to ASML, it could substantially restrict or eliminate ASML s sales in Korea, which could have a material adverse effect on the Company s results of operations, the amount which currently cannot be estimated.

Other Contingencies

ASML has research and development agreements with the government of the Netherlands, Ministry of Economic Affairs. In previous years, credits were received for research and development projects relating to new generations of semiconductor lithography systems. The agreements require that the majority of the amounts received are to be repaid, with interest, to the extent that product sales occur that relate to the research. The amount of the repayment due is based on a percentage of the selling price of the product and is charged to cost of sales when such a sale is recorded.

As of December 31, 2002 and 2003, ASML has contingent obligations totaling EUR 12 million and EUR 0 million to repay TOK credits received in previous years.

15. Research and development credits

ASML receives subsidies and credits for research and development from various sources as follows:

As of December 31	2001	2002	2003
Netherlands government technology subsidy	15,881	25,981	**19,119**
Netherlands Ministry of Economic Affairs (TOKs) credits[1]	0	0	**0**
European community and other subsidies	342	34	**0**
Total subsidies and credits received	16,223	26,015	**19,119**

[1] In 2001, 2002 and 2003, ASML recorded EUR 3.6 million, EUR 36.1 million and EUR 13.8 million, respectively, for repayment obligations. For the year 2004, there do not remain any future repayment obligations for TOKs.

16. Income taxes

The amounts below include continued and discontinued operations as tax effects arising from discontinued operations mostly reside and will remain with ASML group companies.

The components of income before income taxes are as follows:

Year ended December 31	2001	2002	2003
Domestic	(36,486)	(206,001)	**(288,370)**
Foreign	(660,734)	(108,447)	**45,163**
Total	(697,220)	(314,448)	**(243,207)**

The foreign component predominantly relates to the U.S

The Netherlands domestic statutory tax rate is 34.5 percent. The reconciliation between the provision for income taxes shown in the consolidated statement of operations, based on the effective tax rate, and expense based on the domestic tax rate, is as follows:

Year ended December 31	2001	2002	2003
Income tax expense based on domestic rate	(244,027)	(108,485)	**(83,906)**
Different tax rates	25,974	12,362	**(6,568)**
Other credits and non-taxable items	(175)	(10,502)	**7,483**
Provision for income taxes shown in the statement of operations	(218,228)	(106,625)	**(82,991)**

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ASML s provision for income taxes consists of the following:

Year ended December 31	2001	2002	2003
Current			
Domestic	(28,343)	26	**2,307**
Foreign	6,002	5,668	**17,094**
Deferred			
Domestic	0	(46,020)	**(99,426)**
Foreign	(195,887)	(66,299)	**(2,966)**
Total	(218,228)	(106,625)	**(82,991)**

Deferred tax assets (liabilities) consist of the following:

As of December 31	2002	2003
Tax effect carry-forward losses	230,474	**294,534**
Inventories	896	**49,961**
Temporary depreciation investments	(133,516)	**(152,745)**
Other temporary differences	78,960	**11,185**
Total	176,814	**202,935**

Deferred tax assets (liabilities) are classified in the consolidated financial statements as follows:

As of December 31	2002	2003
Deferred tax assets current	0	**49,590**
Deferred tax assets non-current	314,795	**325,271**
Deferred tax liabilities current	(4,465)	**(2,285)**
Deferred tax liabilities non-current	(133,516)	**(169,641)**
Total	176,814	**202,935**

Deferred tax assets are resulting from net operating loss carry-forwards incurred predominantly in the U.S. and the Netherlands. Net operating losses qualified as tax losses under Dutch tax laws incurred by Netherlands group companies can in general be offset for an indefinite period against future taxable profits. Net operating losses qualified as tax losses under U.S. federal tax laws incurred by U.S. group companies can in general be offset against future profits realized in 20 years following the year in which the losses are incurred. The possibility to carry forward U.S. federal tax losses will expire in the period 2021 through 2023. Net operating losses qualified as tax losses under U.S. state tax laws incurred by U.S. group companies can in general be offset against future profits realized in 5 to 20 years following the year in which the losses are incurred. The period of net operating loss carryforward for U.S. state tax purposes depend on the state in which the tax loss arose. The possibility to carry forward U.S. state tax losses will expire in the period 2006 through 2023. The total amount of tax loss carried forward as of December 31, 2003 is EUR 842 million. Based on its analysis, management believes that it is more likely than not that all tax losses will be offset by future taxable income before the statute on loss compensation expires. The analysis takes into account the projected future taxable income from operations, possible tax planning alternatives, and the expected outcome of a bi-lateral Advance Pricing Agreement

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(APA) initiated by ASML. Management believes that it is more likely than not that these negotiations will result in an APA agreement between ASML and the U.S. and Netherlands tax authorities regarding inter-company transfers of certain tangible and intangible assets. These transactions are the result of the realignment of group operations. The APA negotiations are expected to be finalized before the end of 2004.

Pursuant to Netherlands tax laws, ASML has temporarily depreciated part of its investment in its U.S. group companies. This depreciation has been deducted from the taxable base in The Netherlands. The depreciation resulted in a temporary tax refund of EUR 152 million. This temporary depreciation must be added back on a straight-line basis to the taxable base in the period 2006 through 2010. The net tax effect of this repayment obligation, amounting to EUR 152 million, is recorded as a long-term deferred tax liability in the Company s financial statements.

17. Segment disclosure

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information .

The Company has only one reporting segment in continuing operations: lithography. ASML markets and sells its products in the United States, Europe and Asia principally through its direct sales organization. ASML makes all its sales into the United States through its U.S. subsidiary and its sales into Asia primarily through its Hong Kong subsidiary.

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The following table summarizes net sales, operating income and identifiable assets of ASML s operations in Asia, Europe and the United States, the significant geographic areas in which ASML operates.

	Asia	Europe	United States	Eliminations	Consolidated
2001					
Net sales to unaffiliated customers	742,697	150,127	696,423	0	**1,589,247**
Inter-company sales	0	1,106,485	0	(1,106,485)	**0**
Total net sales	742,697	1,256,612	696,423	(1,106,485)	**1,589,247**
Operating income (loss)	(48,024)	39,634	(544,811)	(37,417)	**(590,618)**
Identifiable assets	365,918	3,141,398	825,591	(941,090)	**3,391,817**
2002					
Net sales to unaffiliated customers	1,066,476	190,196	702,000	0	**1,958,672**
Inter-company sales	0	1,580,790	27,971	(1,608,761)	**0**
Total net sales	1,066,476	1,770,986	729,971	(1,608,761)	**1,958,672**
Operating income (loss)	5,569	(84,460)	30,392	(45,544)	**(94,043)**
Identifiable assets	438,976	3,360,456	630,824	(1,248,732)	**3,181,524**
2003					
Net sales to unaffiliated customers	762,384	220,190	560,163	0	**1,542,737**
Inter-company sales	26,897	1,212,740	54,331	(1,293,968)	**0**
Total net sales	789,281	1,432,930	614,494	(1,293,968)	**1,542,737**
Operating income (loss)	5,038	(224,608)	95,404	(30,866)	**(155,032)**
Identifiable assets[1]	611,477	3,332,335	565,531	(1,660,658)	**2,848,685**

[1] Includes as of December 31, 2003, identifiable long-lived assets for a total of EUR 703,865 divided over Asia for EUR 22,043, for Europe EUR 1,635,371 and for the United States EUR 380,488 and taking into account eliminations of EUR 1,334,037.

Assets, liabilities and capital expenditures by geographical area are not evaluated by executive management and are not used for the purpose of making decisions about allocating resources to the segment or assessing its performance.

18. Board of Management and Supervisory Board remuneration

Board of Management

The total remuneration and related costs (in euro) of the members of the Board of Management can be specified as follows:

Year ended December 31	2001	2002	2003
Salaries	2,187,000	2,016,000	**1,912,966**
Bonuses	0	0	**1,052,131**1
Pension cost	172,000	263,000	**212,058**
Total	2,359,000	2,279,000	**3,177,155**

[1] The statement of operations for the year ended December 31, 2003 includes an accrual for bonuses of EUR 1,052,131 expected to be paid in the first quarter of 2004 to the Board of Management.

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The 2003 remuneration and related costs (in euro, except for Mr. Chavoustie, which is in USD) of the individual members of the Board of Management was as follows:

	Salary[1]	Bonus[2]	Total
D.J. Dunn	590,000	324,500	914,500
P.T.F.M. Wennink	300,000	165,000	465,000
M.A. van den Brink	375,000	206,250	581,250
S.K. McIntosh	355,000	195,250	550,250
D.P. Chavoustie[3]	370,000	203,500	573,500

1 Salaries for 2003 were equal to the salaries paid in 2002.

2 The statement of operations for the year ended December 31, 2003 includes an accrual for bonuses expected to be paid in the first quarter of 2004 to the Board of Management.

3 Amounts in USD

ASML has a performance-related bonus plan for the Board of Management. Under this plan, the ultimate bonus amount is dependent on the actual achievement on corporate targets. These targets are market share, financial and operational performance parameters relating to return on invested capital parameters.

The 2003 vested pension benefit[1] (in euro, except for Mr. Chavoustie, which is in USD) of individual members of the Board of Management were as follows:

D.J. Dunn	85,082
P.T.F.M. Wennink	30,323
M.A. van den Brink	38,198
S.K. McIntosh	50,537
D.P. Chavoustie[2]	10,000

1 Since the pension arrangement for members of the Board of Management is a defined contribution plan, the Company does not have further pension obligations beyond the annual premium contribution.

2 Amount in USD

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Details of options held by members of the Board of Management to purchase ordinary shares of ASML Holding N.V. are set forth below:

	Jan 1, 2003	Granted during 2003	Exercised during 2003	Dec. 31, 2003	Exercise price	Share price on exercise date	Expiration date
D.J. Dunn	600,000			600,000	17.51		01-04-2005
	67,500			67,500	58.00		20-01-2012
	30,000			30,000	40.40		22-01-2007
	30,000			30,000	20.28		21-01-2008
		30,000		30,000	7.02		22-04-2013
P.T.F.M. Wennink	30,000			30,000	11.05		01-01-2005
	31,500			31,500	58.00		20-01-2012
	15,660			15,660	40.40		22-01-2007
	50,000			50,000	29.92		22-01-2007
	20,960			20,960	22.12		20-07-2007
	20,000			20,000	20.28		21-01-2008
		20,000		20,000	7.02		22-04-2013
			—			—	
M.A. van den Brink	21,600			21,600	14.87		21-01-2005
	31,500			31,500	58.00		20-01-2012
	19,860			19,860	40.40		22-01-2007
	26,560			26,560	22.12		20-07-2007
	20,000			20,000	20.28		21-01-2008
		20,000		20,000	7.02		22-04-2013
			—			—	
D.P. Chavoustie	60,000			60,000	15.24		20-10-2005
	30,000			30,000	10.42		20-10-2005
	46,800			46,800	14.87		20-10-2005
	67,500			67,500	56.48		20-01-2012
	25,500			25,500	29.92		22-01-2007
	30,240			30,240	22.12		20-07-2007
	20,000			20,000	20.28		21-01-2008
		20,000		20,000	7.02		22-04-2013
			—			—	
S.K. McIntosh	21,000			21,000	40.40		22-01-2007
	250,000			250,000	29.92		22-01-2007
	28,080			28,080	22.12		20-07-2007
	20,000			20,000	20.28		21-01-2008
		20,000		20,000	7.02		22-04-2013

Supervisory Board

During 2002 and 2003, the individual members of the Supervisory Board received the following remuneration (in euro):

Year ended December 31	2002	2003
H. Bodt	40,000	**40,000**
P.H. Grassmann	25,000	**25,000**
S. Bergsma	25,000	**25,000**
A. Westerlaken[1]	25,000	**0**
J.A. Dekker	25,000	**25,000**
M.J. Attardo[2]	25,000	**25,000**
J.W.B. Westerburgen[3]	0	**25,000**

[1] Membership ended March 21, 2002,

[2] M.J. Attardo owns 34,722 options on shares of the Company.

[3] Membership started March 21, 2002.

Members of the Board of Management and/or Supervisory Board are free to acquire or dispose of ASML shares or options for their own account, provided they comply with the ASML Insider Trading Rules 2002. Those securities are not part of members remuneration from the Company and are therefore not included.

19. Selected operating expenses and additional information

Personnel expenses for all employees were:

Year ended December 31	2001	2002	2003
Wages and salaries	413,011	371,281	**326,678**[1]
Social security expenses	33,412	31,897	**24,640**
Pension and retirement expenses	24,137	22,324	**23,150**
Total	470,560	425,502	**374,468**

[1] The average wages and salaries per average number of employees decreased in 2003 compared to 2002 as a result of the decline in the USD versus the euro during 2003.

The average number of employees from continuing operations during 2001, 2002 and 2003 was 6,434, 5,640 and 5,323, respectively (excluding non-payroll employees). The total number of personnel employed per sector was:

As of December 31	2001	2002	2003
Marketing & Technology	1,689	1,708	**1,507**
Goodsflow	1,526	1,416	**1,184**
Customer Support	1,964	2,090	**1,717**
General	716	588	**518**
Sales	144	169	**133**
Total continuing operations	6,039	5,971	**5,059**
Total discontinued operations	1,031	712	**119**[1]
Total number of employees (including non-payroll employees)	7,070	6,683	**5,178**

[1] As of January 1, 2004, these employees are transferred to newly incorporated companies of the buyer of ASML s Thermal business.

In 2001, 2002 and 2003, a total of 2,972, 2,857 and 2,649 employees in the Company s continuing operations (excluding non-payroll employees), respectively, were employed in the Netherlands.

20. Vulnerability due to certain concentrations

ASML relies on outside vendors to manufacture the components and subassemblies used in its systems, each of which is obtained from a sole supplier or a limited number of suppliers. ASML s reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these subassemblies and components. In particular, the number of systems ASML has been able to produce has occasionally been limited by the production capacity of Zeiss. Zeiss is currently ASML s sole external supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen, Germany. ASML sells a substantial number of lithography systems to a limited number of customers. In 2003, sales to one customer accounted for EUR 314 million or 20 percent of net sales. In 2002, sales to one customer accounted for EUR 377 million, or 19 percent of net sales. As a result of the limited number of customers, credit risk on receivables is concentrated. ASML s three largest customers accounted for 44 percent of accounts receivable at December 31, 2003, compared to 42 percent at December 31, 2002. Business failure of one of ASML s main customers may result in adverse effects on its business, financial condition and results of operations.

21. Capital stock

Cumulative preference shares

In 1998 as extended in 2003, the Company has granted to the preference share foundation, Stichting Preferente Aandelen ASML (the Foundation) an option to acquire cumulative preference shares in the capital of the Company (the Preference Share Option). The object of the Foundation is to protect the interests of the Company and the enterprises maintained by it. The cumulative preference shares have the same voting rights as ordinary

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shares but are entitled to dividends on a preferential basis at a percentage based on the average official interest rate determined by EURIBOR plus 2 percent.

The Preference Share Option gives the Foundation the right to acquire a number of cumulative preference shares equal to the number of ordinary shares outstanding at the time of exercise of the cumulative preference share option for a subscription price equal to their EUR 0.02 nominal value. Only one-fourth of this subscription price is payable at the time of initial issuance of the cumulative preference shares. The cumulative preference shares may be cancelled and repaid by the Company upon the authorization by the General Meeting of Shareholders of a proposal to do so by the Board of Management approved by the Supervisory Board and the Meeting of Priority Shareholders. Exercise of the Preference Share Option would effectively dilute the voting power of the ordinary shares then outstanding by one-half. The practical effect of any such exercise could be to prevent attempts by third parties to acquire control of the Company.

Declaration of Independence

The Board of Directors of the Foundation and the Board of Management of the Company together declare that the Foundation is independent of the Company as defined in article A2bI of Bijlage X bij het Fondsenreglement van Euronext Amsterdam. The Board of the Foundation comprises three voting members from the Netherlands business and academic communities, Mr. R.E. Selman, Mr. F.H.M. Grapperhaus and Mr. M.W. den Boogert, and one non-voting member, the Chairman of the Company s Supervisory Board, Mr. H. Bodt.

Priority shares

The priority shares are held by the Stichting Prioriteitsaandelen ASML Holding N.V. , a foundation having a self-elected board that must consist solely of members of the Company s Supervisory Board and Board of Management.

As of December 31, 2003, the board members were:

Doug J. Dunn

Henk Bodt

Syb Bergsma

Jan A. Dekker

Peter T.F.M. Wennink

An overview of the other functions held by above persons can be obtained at the Company s office. In the joint opinion of the Company and the foregoing members of the board of the priority share foundation, the composition of the board conforms with Appendix X, Article C.10 of the Listing and Issuing Rules of the Euronext Amsterdam. [1]

The priority shares are not entitled to dividends but have a preferred right over all other outstanding preferred and ordinary shares on the return of their nominal value in the case of winding up the Company. Holders of priority shares are required to approve certain significant corporate decisions and transactions of the Company. These decisions and transactions encompass, but are not limited to, amendment of the Articles of Association, winding up of the Company, issuance of shares, limitation of pre-emptive rights and repurchase and cancellation of shares.

Veldhoven, January 30, 2004

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Adopted by
The Board of Management:
Doug J. Dunn
Peter T.F.M. Wennink
Martin A. van den Brink
David P. Chavoustie
Stuart K. McIntosh

Approved by
The Supervisory Board:
Henk Bodt
Syb Bergsma
Michael J. Attardo
Peter H. Grassmann
Jos W.B. Westerburgen
Jan A. Dekker

[1] Article C10 states that the issuer shall ensure that not more than half of the priority shares are being held by managing directors of the issuer or, where the priority shares are held by a legal entity, that no more than half of the number of votes to be exercised in meetings of the foundation in which decisions are made about the exercise of the voting rights of the priority shares, can be exercised, directly or indirectly, by persons who are also managing directors of the issuer.

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Independent Auditors Report

To the Supervisory Board, Board of Management and Shareholders of ASML Holding N.V. Veldhoven, the Netherlands

We have audited the accompanying consolidated balance sheets of ASML Holding N.V. and its subsidiaries (collectively, the Company) as of December 31, 2002 and 2003, and the related consolidated statements of operations, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2003 (all expressed in euros). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2003, and the results of its operations, comprehensive income and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Eindhoven, the Netherlands
January 30, 2004

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Exhibit Index

Exhibit No.	Description
1	Articles of Association of ASML Holding N.V. (English translation) (Incorporated by reference to Amendment No. 6 to the Registrant s Registration Statement on Form 8-A/A, filed with the Commission on June 18, 2002 (File No. 0-25566))
2.1	Paying Agent, Conversion Agent and Registrar Agreement between ASML Holding N.V. and the Bank of New York relating to the Registrant s 5.75% Convertible Subordinated Notes due 2006 (Incorporated by reference to Exhibit 2.3. of the Registrant s Annual Report on Form 20-F for the year ended December 31, 2001)
2.2	Paying Agent, Conversion Agent and Registrar Agreement between ASML Holding NV and the Bank of New York relating to the Registrant s 5.50 percent Convertible Subordinated Notes due 2010*
4.1	Agreement between ASML Lithography B.V. and Carl Zeiss, dated March 17, 2000 (Incorporated by reference to exhibit 4.2 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*#
4.3	Form of Indemnity Agreement between ASML Holding N.V. and members of its Board of Management*
4.4	Form of Indemnity Agreement between ASML Holding N.V. and members of its Supervisory Board*
4.5	Employee Agreement between ASML Holding N.V. and Doug J. Dunn*
4.6	Employee Agreement between ASML Holding N.V. and Stuart K. McIntosh*
4.7	Employee Agreement between ASML Holding N.V. and David P. Chavoustie*
4.8	Form of Employee Agreement for members of the Board of Management*
4.9	ASML New Hires and Incentive Stock Option Plan For Management (Version 2003) (Incorporated by reference to exhibit 4.4 to the Registrant s Statement on Form S-8, filed with the Commission on September 2, 2003 (File No. 333-109154))
8.1	List of 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*
14.1	Consent of Deloitte & Touche*

*Filed herewith

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