ASML HOLDING NV
Form 20-F
February 14, 2012
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United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2011

Commission file number 025566

ASML HOLDING N.V.

(Exact Name of Registrant as Specified in Its Charter)

THE NETHERLANDS

(Jurisdiction of Incorporation or Organization)

DE RUN 6501

5504 DR VELDHOVEN

THE NETHERLANDS

(Address of Principal Executive Offices)

Craig DeYoung

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8555 South River Parkway,

Tempe, AZ 85284, USA

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

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

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

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of

capital or common stock as of the close of the period covered by the annual report.

413,669,257 Ordinary Shares

(nominal value EUR 0.09 per share)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes (x) No ()

If this report is an annual or transition report, indicate by check mark if the registrant

is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ( ) No (x)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant

was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (x) No ( )

Indicate by check mark whether the registrant has submitted electronically

and posted on its corporate web site, if any, every Interactive

Data File required to be submitted and posted pursuant to Rule

405 of Regulation S-T (§232.405 of this chapter) during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes (x) No ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer (x) Accelerated filer ( ) Non-accelerated filer ( )

Indicate by check mark which basis of accounting the registrant has used to prepare

the financial statements included in this filing:

U.S. GAAP (x) International Financial Reporting Standards as issued by the

International Accounting Standards Board ( ) Other ( )

If Other has been checked in response to the previous question, indicate by checkmark

which financial statement item the registrant has elected to follow.

Item 17 ( ) Item 18( )

If this is an annual report, indicate by check mark whether the registrant is a

shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ( ) No (x)

Name and address of person authorized to receive notices and communications

from the Securities and Exchange Commission:

Richard A. Ely

Skadden, Arps, Slate, Meagher & Flom (UK) LLP

40 Bank Street, Canary Wharf London E14 5DS England

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Part I

Special Note Regarding Forward-Looking Statements

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

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

Item 1 Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 Offer Statistics and Expected Timetable

Not applicable.

Item 3 Key Information

A. Selected Financial Data

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

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Five-Year Financial Summary

Year ended December 31	2011 [1]	2010	2009	2008	2007 [2]
(in thousands, except per share data)	**EUR**	EUR	EUR	EUR	EUR
Consolidated statements of operations data					
Net sales	**5,651,035**	4,507,938	1,596,063	2,953,678	3,768,185
Cost of sales	**3,201,645**	2,552,768	1,137,671	1,938,164	2,218,526
Gross profit on sales	**2,449,390**	1,955,170	458,392	1,015,514	1,549,659
Research and development costs	**590,270**	523,426	466,761	516,128	486,141
Amortization of in-process research and development costs	**-**	-	-	-	23,148
Selling, general and administrative costs	**217,904**	181,045	154,756	210,172	223,386
Income (loss) from operations	**1,641,216**	1,250,699	(163,125)	289,214	816,984
Interest income (expense), net	**7,419**	(8,176)	(8,425)	20,430	31,169
Income (loss) before income taxes	**1,648,635**	1,242,523	(171,550)	309,644	848,153
(Provision for) benefit from income taxes	**(181,675)**	(220,703)	20,625	12,726	(177,152)
Net income (loss)	**1,466,960**	1,021,820	(150,925)	322,370	671,001
Earnings per share data					
Basic net income (loss) per ordinary share	**3.45**	2.35	(0.35)	0.75	1.45
Diluted net income (loss) per ordinary share[3]	**3.42**	2.33	(0.35)	0.74	1.41
Number of ordinary shares used in computing per share amounts (in thousands)					
Basic	**425,618**	435,146	432,615	431,620	462,406
Diluted[3]	**429,053**	438,974	432,615	434,205	485,643

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.

2 As of January 1, 2008, ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007, ASML accounted for award credits using the cost accrual method. The comparative figures for 2007 have been adjusted to reflect this change in accounting policy

3 The calculation of diluted net income (loss) per ordinary share assumes the exercise of options issued under ASML stock option plans, the issuance of shares under ASML share plans and the conversion of ASML s outstanding Convertible Subordinated Notes for periods in which exercises, issuances or conversions

would have a dilutive effect. The calculation of diluted net income (loss) per ordinary share does not assume exercise, issuance of shares or conversion of such options, shares or conversion of Convertible Subordinated Notes for periods in which such exercises, issuance of shares or conversions would be anti-dilutive.

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Five-Year Financial Summary

As of December 31 (in thousands, unless otherwise indicated)	2011 [1] **EUR**	2010 EUR	2009 EUR	2008 EUR	2007 [2] EUR
Consolidated balance sheets data					
Cash and cash equivalents	**2,731,782**	1,949,834	1,037,074	1,109,184	1,271,636
Working capital[4]	**3,473,767**	2,787,220	1,704,714	1,964,906	1,997,988
Total assets	**7,260,815**	6,180,358	3,764,151	3,977,478	4,113,444
Long-term debt[5]	**736,368**	710,060	699,756	685,134	642,332
Total shareholders equity	**3,444,154**	2,773,908	1,774,768	1,988,769	1,891,004
Capital stock	**38,354**	39,293	39,028	38,887	39,206
Consolidated statements of cash flows data					
Depreciation and amortization	**165,185**	151,444	141,631	121,423	129,380
Impairment	**12,272**	8,563	15,896	25,109	9,022
Net cash provided by operating activities	**2,070,440**	940,048	99,194	282,979	704,047
Purchases of property, plant and equipment	**(300,898)**	(128,728)	(104,959)	(259,770)	(179,152)
Acquisition of subsidiary (net of cash acquired)	**-**	-	-	-	(188,011)
Net cash used in investing activities	**(300,898)**	(124,903)	(98,082)	(259,805)	(362,152)
Capital repayment[6]	**-**	-	-	-	(1,011,857)
Purchase of shares in conjunction with conversion rights of bondholders and share-based payments	**-**	-	-	(87,605)	(359,856)
Dividend paid	**(172,645)**	(86,960)	(86,486)	(107,841)	-
Deposits from customers	**(150,000)**	150,000	-	-	-
Net proceeds from issuance of bond	**-**	-	-	-	593,755
Purchase of shares	**(700,452)**	-	-	-	-
Net cash provided by (used in) financing activities	**(991,561)**	92,702	(74,874)	(186,471)	(718,399)
Net increase (decrease) in cash and cash equivalents	**781,948**	912,760	(72,110)	(162,452)	(384,221)
Ratios and other data					
Gross profit as a percentage of net sales	**43.3**	43.4	28.7	34.4	41.1
Income (loss) from operations as a percentage of net sales	**29.0**	27.7	(10.2)	9.8	21.7
Net income (loss) as a percentage of net sales	**26.0**	22.7	(9.5)	10.9	17.8
Shareholders equity as a percentage of total assets	**47.4**	44.9	47.1	50.0	46.0
Income taxes as a percentage of income (loss) before income taxes	**11.0**	17.8	12.0	(4.1)	20.9
Sales of systems (in units)	**222**	197	70	151	260
Average selling price of system sales (in millions)	**22.0**	19.8	16.8	16.7	12.9
Value of systems backlog excluding EUV (in millions)[7,8]	**1,732.5**	3,855.7	2,113.7	857.3	1,765.5
Systems backlog excluding EUV (in units)[7,8]	**71**	157	69	41	89
Average selling price of systems backlog excluding EUV (in millions)[7,8]	**24.4**	24.6	30.6	20.9	19.8
Value of booked systems excluding EUV (in millions)[7,8]	**2,909.3**	6,212.7	2,535.4	1,730.9	3,154.3
Net bookings excluding EUV for the year (in units)[7,8]	**134**	285	98	103	186
Average selling price of booked systems excluding EUV (in millions)[7,8]	**21.7**	21.8	25.9	16.8	17.0
Number of payroll employees in FTEs	**7,955**	7,184	6,548	6,930	6,582
Number of temporary employees in FTEs	**1,935**	2,061	1,137	1,329	1,725
Increase (decrease) net sales in percentage	**25.4**	182.4	(46.0)	(21.6)	5.2
Number of ordinary shares outstanding (in thousands)	**413,669**	436,593	433,639	432,074	435,626 [6]
ASML share price in euro[9]	**32.48**	28.90	24.00	12.75	21.66
Volatility 260 days in percentage of ASML shares[10]	**32.46**	30.25	38.45	51.14	27.52
Dividend per ordinary share in euro	**0.46**[11]	0.40	0.20	0.20	0.25
Dividend per ordinary share in U.S. dollar	**0.60**[11]	0.54	0.27	0.26	0.39

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.
2 As of January 1, 2008, ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007, ASML accounted for award credits using the cost accrual method. The comparative figures for 2007 have been adjusted to reflect this change in accounting policy
3 The calculation of diluted net income (loss) per ordinary share assumes the exercise of options issued under ASML stock option plans, the issuance of shares under ASML share plans and the conversion of ASML s outstanding Convertible Subordinated Notes for periods in which exercises, issuances or conversions would have a dilutive effect. The calculation of diluted net income (loss) per ordinary share does not assume exercise, issuance of shares or conversion of such options, shares or conversion of Convertible Subordinated Notes for periods in which such exercises, issuance of shares or conversions would be anti-dilutive.
4 Working capital is calculated as the difference between total current assets, including cash and cash equivalents, and total current liabilities.
5 Long-term debt includes the current portion of long-term debt.
6 In 2007, as part of a capital repayment program, EUR 1,011.9 million of share capital was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11.1 percent (pursuant to a synthetic share buy back).
7 Our systems backlog and net bookings include only orders for which written authorizations have been accepted and system shipment and revenue recognition dates within the following 12 months have been assigned.
8 As of January 1, 2011, ASML values its net bookings and systems backlog at system sales value including factory options. The comparative figures have not been adjusted because the impact on the comparative figures is insignificant (approximately EUR 20 million negative impact on backlog value per December 31, 2010). Before 2011, ASML valued net bookings and systems backlog at full order value (i.e. including options and services).
9 Closing price of ASML s ordinary shares listed on the Official Segment of the stock market of Euronext Amsterdam (source: Bloomberg Finance LP).
10 Volatility represents the variability in our share price on the Official Segment of the stock market of Euronext Amsterdam as measured over the 260 business days of each year presented (source: Bloomberg Finance LP).
11 Subject to approval of the Annual General Meeting of Shareholders to be held on April 25, 2012. The exchange rate used to convert the proposed dividend per ordinary share is the exchange rate at February 6, 2012.

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Exchange Rate Information

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

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

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

Calendar year	$000,000,000,000,0	$000,000,000,000,0 2012	$000,000,000,000,0	$000,000,000,000,0	$000,000,000,000,0	$000,000,000,000,0	$000,000,000
		(through February 6, 2012)	2011	2010	2009	2008	
Period End		**1.31**	**1.30**	1.33	1.43	1.39	
Average [1]		**1.31**	**1.40**	1.33	1.39	1.47	
High		**1.32**	**1.49**	1.45	1.51	1.60	
Low		**1.27**	**1.29**	1.20	1.25	1.24	

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

Months of	$000,000,000	$000,000,000 February 2012 (through February 6, 2012)	$000,000,000 January 2012	$000,000,000 December 2011	$000,000,000 November 2011	$000,000,000 October 2011	$000,000,000 September 2011	$000,000,000 August 2011
High		**1.32**	1.32	1.35	1.38	1.42	1.43	1.45
Low		**1.31**	1.27	1.29	1.32	1.33	1.34	1.42

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to the Semiconductor Industry

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

As a supplier to the global semiconductor industry, we are subject to the industry s business cycles, the timing, duration and volatility of which are difficult to predict. The semiconductor industry has historically been cyclical. Sales of our lithography systems depend in large part upon the level of capital expenditures by semiconductor manufacturers. These capital expenditures depend upon a range of competitive and market factors, including:

- the current and anticipated market demand for semiconductors and for products utilizing semiconductors;
- semiconductor prices;
- semiconductor production costs;
- changes in semiconductor inventory levels;
- general economic conditions; and
- access to capital.

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

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

The ongoing financial crises that have affected the international banking system and global financial markets since 2008 have been in many respects unprecedented. Concerns persist over the debt burden of certain Eurozone countries and their ability to meet future obligations, the overall stability of the euro, and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Eurozone countries. These concerns could lead to the re-introduction of the individual currencies in one or more Eurozone countries, or in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by the laws in effect at that time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of our euro-denominated assets and obligations. In addition, remaining concerns over the effect of this financial crisis on financial institutions in Europe and globally, and the instability of the financial markets and the global economy in general could result in a number of follow-on effects on our business, including: declining business and consumer confidence resulting in reduced, delayed or shorter-term capital expenditures for our products; insolvency of key suppliers resulting in product delays; the inability of customers to obtain credit to finance purchases of our products, delayed payments from our customers and/or customer insolvencies; and other adverse effects that we cannot currently anticipate. If global economic and market conditions deteriorate, we are likely to experience material adverse impacts on our business, financial condition and results of operations.

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

Our Business Will Suffer If We Do Not Respond Rapidly to Commercial and Technological Changes in the Semiconductor Industry

The semiconductor manufacturing industry is subject to:

- rapid change towards more complex technologies;
- frequent new product introductions and enhancements;
- evolving industry standards;
- changes in customer requirements; and
- continued shortening of product life cycles.

Our products could become obsolete sooner than anticipated because of a faster than anticipated change in one or more of the technologies related to our products or in market demand for products based on a particular technology. Our success in developing new products and in enhancing our existing products depends on a variety of factors, including the successful management of our research and development (R&D) programs and timely completion of product development and design relative to competitors. If we do not develop and introduce new and enhanced systems at competitive prices and on a timely basis, our customers will not integrate our systems into the planning and design of new production facilities and upgrades of existing facilities, which would have a material adverse effect on our business, financial condition and results of operations.

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

The success of EUV remains particularly dependent on light source (laser) availability and continuing related technical advances by ASML and its suppliers, as well as infrastructure developments in masks and photoresists, without which the tools cannot achieve the productivity and yield required to economically justify the higher price of these tools. This could discourage or result in much slower adoption of this technology.

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We Face Intense Competition

The semiconductor equipment industry is highly competitive. The principal elements of competition in our market are:

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

Our competitiveness increasingly depends upon our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis, as well as our ability to protect and defend our intellectual property rights. See Item 4.B. Business Overview, Intellectual Property and Note 18 to our consolidated financial statements.

ASML competes primarily with Nikon Corporation (Nikon) and to a lesser degree with Canon Kabushiki Kaisha (Canon). Both Nikon and Canon have substantial financial resources and broad patent portfolios. Each continues to introduce new products with improved price and performance characteristics that compete directly with our products, which may cause a decline in our sales or a loss of market acceptance for our lithography systems. In addition, adverse market conditions, industry overcapacity or a decrease in the value of the Japanese yen in relation to the euro or the U.S. dollar could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations. In addition, to competitors in lithography, ASML may face competition with respect to alternative technologies for the non-critical layers and from alternative technologies for all layers. In the event the delivery of new technology is delayed, ASML s customers may turn to alternative technology equipment and/or their own installed base as a substitute for purchasing ASML s products.

Risks Related to ASML

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

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

The number of lithography systems we are able to produce is limited by the production capacity of Carl Zeiss SMT AG (Zeiss). Zeiss is our single supplier of lenses and other critical optical components. If Zeiss were unable to maintain and increase production levels or if we are unable to maintain our business relationship with Zeiss in the future we could be unable to fulfill orders, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations. If Zeiss were to terminate its relationship with us or if Zeiss were unable to maintain production of lenses over a prolonged period, we would effectively cease to be able to conduct our business. See Item 4.B. Business Overview, Manufacturing, Logistics and Suppliers .

In addition to Zeiss current position as our single supplier of lenses, the excimer laser illumination systems that provide the ultraviolet light source, referred to as deep UV , used in our high resolution steppers and Step & Scan systems, and the extreme ultraviolet light source, used in our second-generation (NXE:3100) EUV systems, are available from only a very limited number of suppliers.

Although the timeliness, yield and quality of deliveries to date from our other subcontractors generally have been satisfactory, manufacturing some of these components and subassemblies that we use in our manufacturing processes is an extremely complex process and delays caused by suppliers may occur in the future. A prolonged inability to obtain adequate deliveries of components or subassemblies, or any other circumstance that requires us to seek alternative sources of supply, could significantly hinder our ability to deliver our products in a timely manner, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations.

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A High Percentage of Net Sales Is Derived from a Few Customers

Historically, we have sold a substantial number of lithography systems to a limited number of customers. We expect customer concentration to increase because of continuing consolidation in the semiconductor manufacturing industry. Consequently, while the identity of our largest customers may vary from year to year, we expect sales to remain concentrated among relatively few customers in any particular year. In 2011, recognized sales to our largest customer accounted for EUR 1,311.7 million, or 23.2 percent of net sales, compared with EUR 1,270.8 million, or 28.2 percent of net sales, in 2010. The loss of any significant customer or any significant reduction in orders by a significant customer may have a material adverse effect on our business, financial condition and results of operations.

Additionally, as a result of our limited number of customers, credit risk on our receivables is concentrated. Our three largest customers (based on net sales) accounted for 40.7 percent of accounts receivable at December 31, 2011, compared with 42.4 percent at December 31, 2010. As a result, business failure or insolvency of one of our main customers may have a material adverse effect on our business, financial condition and results of operations.

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

We derive most of our revenues from the sale of a relatively small number of lithography equipment systems (222 units in 2011 and 197 units in 2010), with an average selling price (ASP) in 2011 of EUR 22.0 million (EUR 24.5 million for new systems and EUR 3.8 million for used systems) and an ASP in 2010 of EUR 19.8 million (EUR 24.1 million for new systems and EUR 4.4 million for used systems). As a result, the timing of recognition of revenue from a small number of product sales may have a significant impact on our net sales and operating results for a particular reporting period. Specifically, the failure to receive anticipated orders, or delays in shipments near the end of a particular reporting period, due, for example, to:

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

may cause net sales in a particular reporting period to fall significantly below net sales in previous periods or below our expected net sales, and may have a material adverse effect on our operating results for that period. In particular our published quarterly earnings may vary significantly from quarter to quarter and may vary in the future for the reasons discussed above.

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

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

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

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

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

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

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

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

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

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

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

We Are Subject to Risks in Our International Operations

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

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

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

In particular, 20.3 percent of our 2011 revenues and 30.6 percent of our 2010 revenues were derived from customers in Taiwan. Taiwan has a unique international political status. The People s Republic of China asserts sovereignty over Taiwan and does not recognize the legitimacy of the Taiwanese government. Changes in relations between Taiwan and the People s Republic of China, Taiwanese government policies and other factors affecting Taiwan s political, economic or social environment could have a material adverse effect on our business, financial condition and results of operations.

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

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

Because of Labor Laws and Practices, Any Workforce Reductions That We May Seek to Implement in Order to Reduce Costs Company-Wide May Be Delayed or Suspended

The semiconductor market is highly cyclical and as a consequence we may need to implement workforce reductions in case of a downturn, in order to adapt to such market changes. In accordance with labor laws and practices applicable

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in the jurisdictions in which we operate, a reduction of any significance may be subject to formal procedures that can delay or may result in the modification of our planned workforce reductions. For example, ASML Netherlands B.V., our operating subsidiary in the Netherlands, has a Works Council, as required by Dutch law. If the Works Council renders contrary advice in connection with a proposed workforce reduction in the Netherlands, but we nonetheless determine to proceed, we must temporarily suspend any action while the Works Council determines whether to appeal to the Enterprise Chamber of the Amsterdam Court of Appeal. This appeal process can cause a delay of several months and may require us to address any procedural inadequacies identified by the Court in the way we reached our decision. Such delays could impair our ability to reduce costs company-wide to levels comparable to those of our competitors. Also see Item 6.D Employees .

Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations

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

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

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

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

We May Be Unable to Make Desirable Acquisitions or to Integrate Successfully Any Businesses We Acquire

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

Any acquisition that we do make would pose risks related to the integration of the new business or technology with our business. We cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our staff from monitoring and improving operations in our existing business. Our business, financial condition and results of operations may be materially and adversely affected if we fail to coordinate our resources effectively to manage both our existing operations and any businesses we acquire.

Our Business and Future Success Depend on Our Ability to Attract and Retain a Sufficient Number of Adequately Educated and Skilled Employees

Our business and future success significantly depend upon our employees, including a large number of highly qualified professionals, as well as our ability to attract and retain employees. Competition for such personnel is intense, and we may not be able to continue to attract and retain such personnel, which could adversely affect our business, financial condition and results of operations.

In addition, the increasing complexity of our products results in a longer learning-curve for new and existing employees leading to an inability to decrease cycle times and incurring significant additional costs, which could adversely affect our business, financial condition and results of operations.

Risks Related to Our Ordinary Shares

We may not declare cash dividends at all or in any particular amounts in any given year

We aim to pay an annual dividend that will be stable or growing over time. Annually, the Board of Management will, upon prior approval from the Supervisory Board, submit a proposal to the Annual General Meeting of Shareholders with respect to the amount of dividend to be declared with respect to the prior year. The dividend proposal in any given year will be subject to the availability of distributable profits or retained earnings and may be affected by, among other factors, the Board of Management s views on our potential future liquidity requirements, including for investments in

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production capacity, the funding of our research and development programs and for acquisition opportunities that may arise from time to time; and by future changes in applicable income tax and corporate laws. Accordingly, it may be decided to propose not to pay a dividend or pay a lower dividend with respect to any particular year in the future, which could have a negative effect on our share price.

The Price of Our Ordinary Shares is Volatile

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

Restrictions on Shareholder Rights May Dilute Voting Power

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

Our authorized share capital also includes a class of cumulative preference shares and ASML has granted Stichting Preferente Aandelen ASML , a Dutch foundation, an option to acquire, at their nominal value of EUR 0.09 per share, such cumulative preference shares. Exercise of the cumulative preference share option would effectively dilute the voting power of our outstanding ordinary shares by one-half, which may discourage or significantly impede a third party from acquiring a majority of our voting shares.

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

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Item 4 Information on the Company

A. History and Development of the Company

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

In May 2001, we acquired Silicon Valley Group (SVG) (now part of ASML US, Inc.), a company that was active in lithography.

From time to time, we pursue acquisitions of smaller businesses that we believe will complement or enhance our core lithography business. These have included the acquisition of MaskTools in July 1999 and the acquisition of Brion Technologies, Inc. (Brion) in March 2007.

Capital Expenditures and Divestitures

Our capital expenditures (purchases of property, plant and equipment) for 2011, 2010 and 2009 amounted to EUR 300.9 million, EUR 128.7 million and EUR 105.0 million, respectively. Our capital expenditures in all these years mainly related to the construction of new facilities in Veldhoven, the Netherlands, for our latest technologies such as EUV and an improved version of the TWINSCAN platform called NXT, information technology investments, and leasehold improvements to our facilities.

Divestitures, mainly consisting of machinery and equipment amounted to EUR 3.4 million for 2011, EUR 6.7 million for 2010 and EUR 10.9 million for 2009. See Note 11 to our consolidated financial statements.

B. Business Overview

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

Our business model

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

- offering ongoing improvements in productivity, imaging and overlay by introducing advanced technology based on modular platforms and advanced applications outside the traditional lithography business, each resulting in lower costs per product for our customers;
- providing customer services that ensure rapid, efficient installation and superior support and training to optimize manufacturing processes of our customers and improve productivity;
- maintaining appropriate levels of R&D to offer the most advanced technology suitable for high-throughput and low-cost volume production at the earliest possible date;
- enhancing the capabilities of the installed base of our customers through ongoing field upgrades of key value drivers (productivity, imaging and overlay) based on further technology developments;
- reducing the cycle time between a customer s order of a system and the use of that system in volume production;
- expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world class partners, including outsourcing companies;
- improving the reliability and uptime of our installed system base; and
- providing refurbishing services that effectively increase residual value by extending the life of equipment.

Market and Technology Overview

Introduction

The chip-making business is focused on shrink or reducing the size of chip designs. The worldwide electronics and computer industries have experienced significant growth since the commercialization of ICs in the 1960s, largely due to the continual reduction in the cost per function performed by ICs. Improvement in the design and manufacture of ICs with higher circuit or packing densities has resulted in smaller and lower cost ICs capable of performing a greater

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number of functions at faster speeds and with reduced power consumption. We believe that these long-term trends will continue for the foreseeable future and will be accompanied by a continuing demand, subject to ongoing cyclical variation, for production equipment that can accurately produce advanced ICs in high volumes at the lowest possible cost. Lithography is used to print complex circuit patterns onto the wafers that are the primary raw material for ICs and is one of the most critical and expensive steps in their fabrication. It is therefore a significant focus of the IC industry s demand for cost-efficient enhancements to production technology.

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

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

Customer Roadmaps

The three major customer sectors to which the Company sells its products are Logic processor chip makers, NAND-Flash memory chip makers and DRAM memory chip makers.

Supported by their technology roadmaps, IC manufacturers continue to show interest in shrinking resolution as a means to lower manufacturing costs per unit. We believe that the leading IC manufacturers have plans to migrate their production capabilities in the foreseeable future to resolutions beyond 20 nanometer (nm), for which they will require state-of-the-art lithography equipment.

Products

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

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

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

We offer TWINSCAN systems, based on i-line, KrF and ArF processing of wafers up to 300 mm in diameter for manufacturing environments for which design resolutions down to 38 nm are required. The modular upgradeable design philosophy of the PAS 5500 product family has been further refined and applied in the design TWINSCAN, our most advanced product family. Introduced in 2000, the TWINSCAN platform, is the basis for our current and next-generation Step-and Scan systems, which are capable of extending shrink technology down to 38 nm and beyond.

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

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

The NXE:3100 platform is based on a new platform utilizing the concepts of the TWINSCAN platform, that extends the industry proven modularity of our TWINSCAN NXT system with new innovative technologies to support EUV imaging in several system critical areas, including the EUV light source, the reflective mirror optical system and all encompassed within a vacuum system. The NXE (EUV) platform is equipped with a completely new EUV light source technology, based upon tin plasma, producing light at a wavelength of 13.5 nm. In addition, the NXE (EUV) system has a completely new optical technology utilizing reflective mirrors rather than the traditional refractive optics with a numerical aperture (NA) of 0.25. The NXE (EUV) platform operates with a vacuum environment for the light from light source, through the entire

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optical train to wafer level. With the combination of these revolutionary technologies, EUV offers the potential to provide ASML s customers a roadmap for future shrink, and we expect it to become the Lithography technology for the coming years. The success of EUV remains particularly dependent on light source (laser) availability and continuing related technical advances by ASML and its suppliers, as well as infrastructure developments in masks and photoresists. ASML is actively working with its suppliers to improve the availability and performance of the light source and to achieve these related technical advances.

Product Development

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

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

In 2006, we shipped the industry s first EUV Alpha Demo Tools to two research institutions, which work closely with most of the world s major IC manufacturers in developing manufacturing processes and materials.

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

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

Brion s current computational lithography portfolio comprises both traditional products (such as RET/OPC/DPT/ SMO), as well as solutions that directly interface with the numerous calibration controls in an ASML scanner to optimize performance. Our computational lithography products capture detailed knowledge of scanner design and real performance, which enables them to accurately predict real-life manufacturing performance. These predictions are essential in addressing possible ramp-up and yield problems in advance, potentially avoiding months of delay in time-to-market for our customers. The same prediction capabilities allow ASML scanners to be optimally calibrated for improved performance in production, given specific chip designs or masks, thereby achieving improved yield.

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

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

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

In 2009, we started shipments of XT:1950i systems, the enhanced version of the XT:1900i, with improved throughput of 148 wafers per hour, resolution of 38 nm and a scheduled overlay of 4 nm. This system extended the performance, imaging and overlay specifications of the successful XT:1900i system.

In 2009, Brion announced Tachyon SMO, a new product that provides the industry with improved manufacturable imaging solutions and is a major advancement of Brion s industry standard source-mask optimization (SMO) technology, which was currently in use by leading logic and memory manufacturers.

In 2009, ASML introduced FlexRay™ programmable illumination and BaseLiner™ scanner matching technology. Together, they offer scanner stability optimization and stabilize manufacturing process windows.

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Also in 2009, ASML announced an improved version of the TWINSCAN platform called NXT featuring new stage and position control technology, providing improved imaging and overlay performance for immersion. Initial shipments started in the third quarter of 2009 and volume production and shipments commenced in 2010. By the end of 2011, three TWINSCAN NXT systems with throughput of 200 wafers per hour had been shipped to customers.

In 2010, ASML shipped the first second-generation EUV system called NXE:3100, and five more were shipped to customers in 2011. EUV will provide a large process window and much greater shrink compared with current approaches and we expect it to become the lithography solution for the next decade. The second-generation (NXE:3100) of these systems combines a wavelength of 13.5 nm and an optical system with a NA of 0.25 to provide imaging at a resolution of 27 nm. As of December 31, 2011, we had received 11 orders for its successor, the third-generation (NXE:3300), high-volume EUV systems. The NXE platform is targeted for production of ICs down to 16 nm and beyond. For revenue recognition considerations, refer to Item 5.A. Operating Results, Revenue recognition .

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

Current ASML lithography product portfolio of Step & Scan Systems

System	Resolution	Wavelength	Lightsource	Numerical aperture
PAS 5500 SYSTEMS				
PAS 5500/4X0	280 nm	365 nm	i-line	0.48-0.65
PAS 5500/750	130 nm	248 nm	KrF	0.50-0.70
PAS 5500/850	110 nm	248 nm	KrF	0.55-0.80
PAS 5500/1150	90 nm	193 nm	ArF	0.50-0.75
TWINSCAN SYSTEMS				
TWINSCAN XT:400	350 nm	365 nm	i-line	0.48-0.65
TWINSCAN XT:450	220 nm	365 nm	i-line	0.48-0.65
TWINSCAN XT:8X0	110 nm	248 nm	KrF	0.55-0.80
TWINSCAN XT:1000	80 nm	248 nm	KrF	0.50-0.93
TWINSCAN XT:1450	57 nm	193 nm	ArF	0.65-0.93
TWINSCAN XT:1700 immersion	45 nm	193 nm	ArF	0.75-1.20
TWINSCAN XT:1900 immersion	40 nm	193 nm	ArF	0.85-1.35
TWINSCAN XT:1950 immersion	38 nm	193 nm	ArF	0.85-1.35
TWINSCAN NXT:1950 immersion	38 nm	193 nm	ArF	0.85-1.35
EUV				
NXE:3100	27 nm	13.5 nm	EUV	0.25
NXE:3300	22 nm	13.5 nm	EUV	0.33

The table above can be further explained by the following notes:

- This table does not include older (including pre-used) products sold on the PAS 2500, PAS 5000 and PAS 5500 platforms or system enhancements on steppers and scanners and other products (e.g. Yieldstar or computational lithography products).
- XT is a TWINSCAN system for 200 and 300 mm wafer sizes.
- Wavelength refers to the frequency of light going through projection lenses; the shorter the wavelength, the smaller the line-width and the finer the pattern on the IC.
- 1 nm is equal to one billionth of a meter.
- The X in the product number represents different models in the product portfolio within the same resolution. For example XT:8X0 can either represent XT:800 or XT:850.
- NXT is an improved version of the current TWINSCAN system, introducing new stages and stage position control technology, which enable improved imaging and overlay.
- NXE is a new platform utilizing the concepts of the TWINSCAN platform with complete new technologies in three areas: light source (EUV), lens system, and vacuum body.

ASML has been developing an advanced wafer metrology system (Yieldstar) for Overlay and critical dimension (CD) measurements by using scatterometry technology. Yieldstar scatterometry provides high accuracy and low cost wafer metrology data that can be used for further improving the NXT/NXE performance.

Sales, Customer Support and Customers

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

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We market and sell our products through our direct sales staff.

Our field sales, field engineers and applications, service and technical support specialists are located throughout Asia, the United States and Europe. ASML has established the ASML Center of Excellence (ACE) in Taiwan, Asia. The primary goal of ACE is to serve as a supplementary engine to propel ASML s long-term growth. ACE features customer support, training, logistics, refurbishment, technology and application development. ACE also enables sourcing of selected equipment modules, components and services in the region. Finally, ACE is used as a training center to develop worldwide talent for ASML s workforce.

Customers and Geographic Regions

In 2011, recognized sales to our largest customer accounted for EUR 1,311.7 million, or 23.2 percent of net sales, compared with EUR 1,270.8 million, or 28.2 percent of net sales, in 2010 (2009: EUR 348.8 million or 21.9 percent of net sales). We expect that sales to a limited number of customers will continue to account for a high percentage of our net sales in any particular period for the foreseeable future.

In 2011, we derived 66.5 percent of net sales from Asia, 24.6 percent from the United States and 8.9 percent from Europe (2010: Asia: 80.5 percent; US: 15.0 percent and Europe: 4.5 percent). See Note 20, to our consolidated financial statements.

Manufacturing, Logistics and Suppliers

Our business model is based on outsourcing production of a significant part of the components and modules that comprise our lithography systems, working in partnership with suppliers from all over the world. Our manufacturing activities comprise the subassembly and testing of certain modules and the final assembly and fine tuning / testing of a finished system from components and modules that are manufactured to our specifications by third parties and by us. All of our manufacturing activities (subassembly, final assembly and system fine tuning / testing) are performed in clean room facilities in Veldhoven, the Netherlands, in Wilton, Connecticut, the United States and in Linkou, Taiwan. We procure stepper and scanner system components and subassemblies from a single supplier or a limited group of suppliers in order to ensure overall quality and timeliness of delivery. We jointly operate a formal strategy with suppliers known as value sourcing , which is based on competitive performance in quality, logistics, technology and total cost. The essence of value sourcing is to maintain a supply base that is world class, globally competitive and globally present.

Our value sourcing strategy is based on the following strategic principles:

- maintaining long-term relationships with our suppliers;
- sharing risks and rewards with our suppliers;
- dual sourcing of knowledge, globally, together with our suppliers; and
- single, dual or multiple sourcing of products, where possible or required.

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

Zeiss is our sole external supplier of main optical systems and one of the suppliers of other components. In 2011, 28.7 percent of our aggregate cost of sales was purchased from Zeiss (2010: 31.4 percent; 2009: 25.6 percent).

Zeiss is highly dependent on its manufacturing and testing facilities in Oberkochen and Wetzlar, Germany, and its suppliers. Moreover, Zeiss has a finite capacity for production of lenses and optical components for our systems. The expansion of this production capacity may require significant lead-time. From time to time, the number of systems we have been able to produce has been limited by the capacity of Zeiss to provide us with lenses and optical components. During 2011, our sales were not limited by the deliveries from Zeiss.

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

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

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

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

ASML has a flexible labor model with a mix of fixed and flexible contracted labor in its manufacturing and R&D facilities in Veldhoven, the Netherlands, and payroll employees compensated under a partly variable salary structure through ASML s profit sharing plan. This reinforces our ability to adapt more quickly to semiconductor market cycles, including support for potential 24-hour, seven days-a-week production activities. By maximizing the flexibility of our technically skilled workforce, we can shorten lead-times: a key driver of added value for customers. Flexibility also reduces our working capital requirements.

Research and Development

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

We apply for subsidy payments in connection with specific development projects under programs sponsored by the Dutch government, the European Union, the United States government and the Taiwanese government.

ASML has one of the highest private R&D budgets invested in the Netherlands (source: Technisch Weekblad). We invested EUR 590.3 million in R&D in 2011, compared with EUR 523.4 million in 2010 and EUR 466.8 million in 2009. A significant part of this budget was used for R&D jointly with our suppliers and technology partners. Through direct government grants designed to stimulate high-risk research for the medium and long term future, ASML received R&D credits of EUR 25.1 million in 2011, compared with EUR 29.5 million in 2010 and EUR 28.1 million in 2009.

In 2011 we focused our R&D investments on immersion, EUV, and holistic lithography solutions.

Our innovative immersion lithography systems place a fluid between the wafer and a system s projection lens to enhance focus and enable circuit line-width to shrink to smaller dimensions than what is possible with dry lithography systems. ASML pioneered this wet technology and has experienced strong demand for immersion-based systems, which have been adopted by most of our customers in all semiconductor market segments, including Logic processor chip, NAND-Flash memory chip, as well as the DRAM memory chip segment.

We have developed different immersion systems for different customer needs. We have optimized our TWINSCAN XT immersion systems for cost-effective imaging down to 38 nm and beyond patterning, and have developed a new dual wafer stage system called TWINSCAN NXT with improved positioning (overlay) and imaging. The TWINSCAN NXT platform enables next generations of semiconductors through the so-called double patterning technique which requires two exposures per layer on a chip, enabling precise imaging patterns and lines by using our TWINSCAN NXT planar wafer stage and breakthrough grid metrology.

In 2010, we achieved a major milestone with EUV lithography when we shipped our first second-generation (NXE:3100) system to a customer s manufacturing site. In 2011 five additional EUV systems were shipped during the year.

These second generation-systems (NXE:3100) are used by the customers to develop their EUV manufacturing process before high-volume EUV systems will become available, which we expect to occur in 2012, subject to successful implementation of a number of new technologies specific to EUV, including the light source. As of December 31, 2011, we have received 11 orders for its successor, the third-generation (NXE:3300) high-volume EUV systems. The NXE (EUV) system, utilizing an evolved TWINSCAN platform, enables our customers to extend their roadmap towards smaller chip features. EUV permits chip makers to expose a critical layer in just one single step as opposed to double patterning which requires multiple steps. EUV also has a roadmap from the initial 27 nm resolution down to 16 nm and beyond. We have published a roadmap to develop a range of EUV models, offering the greatest extendibility at the lowest cost of ownership for the future of lithography.

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Our customers optimize their scanner performance by taking into account the entire chip creation process, from design to volume manufacturing - we call this approach holistic lithography . We complement our scanner products with a rapidly expanding holistic lithography portfolio of software and metrology products to help our customers optimize semiconductor scanner performance, provide a faster start to chip production and achieve better imaging at higher resolutions. In 2011 the use of holistic lithography solutions continued to grow. Semiconductor manufacturers face increasingly smaller margins of error as they shrink chip features. Holistic lithography provides a way to shrink within these margins, offering significant revenue-generating and cost-saving opportunities to our customers.

Intellectual Property

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

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

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

From late 2001 through 2004, we were party to a series of civil litigations and administrative proceedings in which Nikon alleged ASML s infringement of Nikon patents relating to lithography. ASML in turn filed claims against Nikon. Pursuant to agreements executed on December 10, 2004, ASML, Zeiss and Nikon agreed to settle all pending worldwide patent litigation between the companies. The settlement included an exchange of releases and a patent cross-license agreement related to lithography equipment used to manufacture semiconductor devices (the Nikon Cross-License Agreement) and payments to Nikon by ASML and Zeiss. In connection with the settlement, ASML and Zeiss made settlement payments to Nikon from 2004 to 2007. The license period for certain patents subject to the Nikon Cross-License Agreement, which were not perpetually licensed, ended on December 31, 2009. Pursuant to the terms of the Nikon Cross-License Agreement, the parties have agreed, from January 1, 2010 to December 31, 2014 (the Cross-License Transition Period), not to bring suit for claims related to infringement of those patents or for claims related to infringement of patents issued during the Cross-License Transition Period. However, beginning on January 1, 2015, the parties may bring suit for infringement of patents subject to the Nikon Cross-License Agreement, including any infringement that occurred during the Cross-License Transition Period. Damages related to claims for patent infringement occurring during the Cross-License Transition Period are limited to three percent of the net sales price of products utilizing patents that are valid and enforceable.

Competition

The semiconductor equipment industry is highly competitive. The principal elements of competition in our market segments are:

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

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

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Government Regulation

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

C. Organizational Structure

ASML Holding N.V. is a holding company that operates through its subsidiaries. Our major operating subsidiaries, each of which is a wholly-owned (direct or indirect) subsidiary, are as follows:

The chart above excludes intermediate subsidiaries; see Exhibit 8.1 for a list of our main subsidiaries.

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D. Property, Plant and Equipment

We lease a number of our facilities under operating leases. We also own a number of buildings, mainly consisting of the new production facilities in the Netherlands and Taiwan. The book value of land, buildings and constructions owned by us amounted to EUR 586.3 million as of December 31, 2011 compared with EUR 399.3 million as of December 31, 2010.

Subject to market conditions, we expect that our capital expenditures (purchases of property, plant and equipment) in 2012 will be approximately EUR 233.5 million (2011: EUR 300.9 million). Capital expenditures in 2012 will mainly consist of investments in the finalization of capacity expansion of EUV production facilities as a result of customer commitments. We expect to finance 2012 capital expenditures out of our cash flow from operations and available cash and cash equivalents.

Facilities in Europe

Our headquarters, main manufacturing facilities, applications laboratory and R&D facilities are located at a single site in Veldhoven, the Netherlands. This state-of-the-art facility includes 51 thousand square meter of office space and 38 thousand square meter of buildings used for manufacturing and R&D activities and 21 thousand square meter of warehouses. We lease the majority of these facilities through long-term operating leases that contain purchase options. Some of our office facilities at our headquarters in Veldhoven, the Netherlands, are financed through a special purpose vehicle that is a variable interest entity (VIE). We also lease several sales and service facilities at locations across Europe.

Facilities in the United States

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

Facilities in Asia

Our Asian headquarters is located in a 425 square meter office space in Hong Kong, The People s Republic of China. In addition, our ACE facility in Linkou, Taiwan comprises clean room (approximately two thousand square meter) and office space (approximately six thousand square meter). The ACE facility supports customers in the Asia-Pacific region by focusing on technology and applications development, equipment support, training, logistics and refurbishment. ACE also enables local sourcing of equipment, components and services. Our facility in Korea comprises a clean room (approximately 469 square meter) and office space (approximately five thousand square meter). The purpose of this new facility is to support a closer working relationship with ASML s customers in Korea. We also lease and own several sales and service and training facilities at locations across Asia.

Item 4A Unresolved Staff Comments

Not applicable.

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Item 5 Operating and Financial Review and Prospects

Executive Summary

Introduction

ASML is one of the world s leading providers (measured in revenues) of lithography equipment that is critical to the production of ICs or chips. Headquartered in Veldhoven, the Netherlands, ASML operates globally, with activities in Europe, the United States and Asia. As of December 31, 2011 we employed 7,955 payroll employees (2010: 7,184) and 1,935 temporary employees (2010: 2,061), measured in full-time employees (FTEs). ASML operates in 16 countries through over 55 sales and service locations.

In 2011, we generated net sales of EUR 5,651.0 million and income from operations of EUR 1,641.2 million or 29.0 percent of net sales. Net income in 2011 amounted to EUR 1,467.0 million or 26.0 percent of net sales, representing net income per ordinary share of EUR 3.45.

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

Semiconductor equipment industry conditions

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

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

The costs to develop new lithography equipment are high. Accordingly, the lithography equipment industry is characterized by the presence of only a few primary suppliers: ASML and Nikon, and (to a lesser degree) Canon. In 2011, ASML was one of the world s leading providers of lithography equipment (measured in revenues).

Total lithography equipment shipped by the industry as a whole in the six years ended December 31, 2011, is set out in the following table:

Year ended December 31	2011	2010	2009	2008	2007	2006
Total units shipped[1]	356	304	128	344	604	633
Total value (in millions USD)[1]	7,981	6,416	2,485	5,388	7,144	6,386

1 Historical data and full-year 2011 estimates as reported by Gartner Dataquest in its fourth quarter 2011 report.

For the year 2011, the latest indications of independent market analysts show an increase in total lithography equipment shipped to the market by the industry of 17.1 percent in unit volume and 24.4 percent in value. For ASML, the year 2011 was characterized by increased demand for lithography imaging systems across all chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments both in new technology and capacity to meet demand. Sales were derived from all three major markets in which our customers operate, with the Logic segment generating the majority of system sales and DRAM and Nand-Flash memory generating the remainder. Also in 2011, we shipped five second-generation (NXE:3100) EUV systems, in addition to one shipped in 2010.

Business strategy

The long-term growth of the semiconductor industry is the result of the principle that the power, cost and time required for every computation on a digital electronic device can be reduced by shrinking the size of transistors on chips. In 2011, chip makers routinely produce electronic chip features with geometries of 32 nanometers, compared to typical geometries of 10,000 nanometers in the early 1970s, resulting in an increase in the number of transistors on leading chips from several thousand to over two billion. This trend was first observed by Intel co-founder Gordon Moore in 1965, and is referred to as Moore s Law . Moore s Law has resulted in our information society with fast wired and

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wireless communications built on affordable chips. Moore s Law also has an impact on the energy usage of chips. Smaller geometries allow for much lower electrical currents to operate the chip. This has helped to contain the world s energy consumption despite the proliferation of affordable computing. Using advanced semiconductors in industrial and consumer products often provides economic benefits, user-friendliness and increased safety. The technology revolution powered by semiconductors has brought many advantages: not only can information be more widely disseminated than ever before, affordable chip intelligence has also enabled industry and service sectors to create and distribute products and ideas at lightning speed.

Smarter, smaller and more energy-efficient chips are made with increasingly sophisticated lithography systems produced by ASML. Lithography systems are crucial to the roadmaps of chipmakers to make smaller transistors on chips. ASML s business strategy is based on maintaining and further developing its position as a technology leader in semiconductor lithography. When executed, this strategy results in the delivery of lithography systems which enable customers to produce highest performance and lowest cost chips. The superior value of ownership offered to customers as a result of ASML s strategy also maximizes ASML s own financial performance, aligning the interests of ASML and our customers.

Sustainability over the long term is essential in the relationship between ASML and customers, because customers rely on ASML for their long-term roadmaps towards smarter and more energy efficient microchips.

Sustainability Governance

In 2009 ASML decided to significantly strengthen its commitment in the area of Sustainability by setting a number of stringent objectives to be reached by 2015. It is the mission of the Sustainability Board to monitor the realization of the objectives. The mandate given by the Board of Management to the Sustainability Board is to review and make recommendations on the sustainability management system and policies, authorize or recommend plans to the Board of Management, provide guidance to management on objectives and targets; monitor and provide guidance on sustainability performance and targets, monitor and oversee sustainability risk management review and monitor stakeholder relations, and review and make recommendations on sustainability impacts of major business decisions. The Sustainability Board also determines the scope, provides input, and recommends to the Board of Management adoption of the Sustainability Report.

In 2010, the Sustainability Board established the Corporate Sustainability department to coordinate the implementation of the overall sustainability strategy and policies on a day-to-day basis.

In 2011, senior management decided to expand the Sustainability Governance structure by nominating a domain owner for each of the four strategic focus areas. Domain owners are responsible for coordinating the implementation of the sustainability goals in their respective domains.

Sustainability Strategy

Our customers want chip-making machines that produce more chips faster, using less energy and fewer natural resources. They also want us, as their supplier, to operate according to the highest environmental, social and governance standards. Our sustainability strategy thus goes hand in hand with our business strategy, aimed at maintaining and further developing our position as a technology leader in the semiconductor industry.

ASML s sustainability strategy focuses on four domains: sustainable operations, sustainable products, sustainable value chain and sustainable culture:

- Focusing on sustainable operations means we seek to reduce the environmental impact of both our manufacturing process and our research and development activities;
- Providing sustainable products means we continuously strive to make our chip-making machines more efficient, enabling our customers to reduce energy and natural resources consumption per chip produced;
- Focusing on a sustainable value chain signifies our ambition to stimulate our suppliers to meet increasingly high sustainability standards and to enable our customers to positively influence their impact on environment and society;
- Focusing on a sustainable culture means we seek to provide a working environment that inspires our highly skilled workforce and respects their cultural and individual differences. It also means we seek to make a positive contribution to the well-being of the communities in which we operate.

Customer focus

Ensuring customers are served with the right products at the right time, supported by excellent service, is key to ASML s commitment to a long-term relationship. With high-valued products, customers expect high-quality support customized to their specific requirements. This support includes service engineers, equipped with the latest technical information, to ensure the highest levels of system performance, as well as applications specialists who support optimal system processing and new product implementation.

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ASML aims to deliver lithography systems with the lowest cost of ownership and highest earnings.

Customer satisfaction is a critical objective of ASML. We have account teams that are specifically dedicated to customer satisfaction throughout the lifecycle of our products.

Through 2011, all of the top 10 chip makers worldwide, in terms of semiconductor capital expenditure, were our customers. We also have a significant share of customers outside the top 10. We strive for continued business growth with all our customers. We expect customer concentration to increase because of continuing consolidation in the semiconductor manufacturing industry.

In 2011, our satisfaction ratings by customers surpassed every lithography competitor for the ninth successive year, according to VLSI Research, an independent industry research firm that surveyed customers representing 95.0 percent of the world s total semiconductor market.

Technology leadership

Our customers need lithography scanners that continuously improve performance in three areas: resolution, speed and precision. The image of the electronic chip circuit must be extremely small (currently the smallest features have a size of less than 30 nm), the system must be able to image billions of these features every second and it must be able to do that with extreme precision of just a few nm (one nm is four silicon atoms). To realize and improve this system performance for our customers, ASML needs to deliver the right technology at the right time to meet long-term roadmaps which often extend many years into the future. Therefore, ASML is committed to significant long-term investments in R&D that are not significantly impacted by short-term cyclical swings. ASML has one of the highest private R&D budgets invested in the Netherlands (source: Technisch weekblad). In 2011, our R&D investments (net of credits) amounted to EUR 590.3 million, an increase from previous years to accommodate the rapid introduction of evolved platforms which are in demand by customers (2010: EUR 523.4 million; 2009: EUR 466.8 million). A significant part of this budget was used for R&D jointly with our suppliers and technology partners.

Our lithography scanners are based on our dual-stage wafer imaging platform the TWINSCAN system which we introduced in 2000 and which allows exposure of one wafer while simultaneously measuring the wafer which will be exposed next. Our strong leadership in this capability has allowed us to achieve the industry s highest productivity, enabling reduced cost-per-exposure per wafer. Dual-stage lithography also supports the required accuracy to position electronic features on the wafer, as it allows for more time to measure the wafer prior to exposure. ASML is the only lithography manufacturer that enables volume production based on dual-stage systems.

In order to meet the resolution, speed and accuracy requirements, we have focused our R&D investments on three core programs: immersion, EUV and holistic lithography solutions.

Our innovative immersion lithography systems place a fluid between the wafer and a system s projection lens to enhance focus and enable circuit line-width to shrink to smaller dimensions than what is possible with dry lithography systems. ASML pioneered this wet technology and has experienced strong demand for immersion-based systems, which have been adopted by most of our customers in all semiconductor market segments, including Logic processor chip, NAND-Flash memory chip, as well as the DRAM memory chip segment.

We have developed different immersion systems for different customer needs. We have optimized our TWINSCAN XT immersion systems for cost-effective imaging down to 38 nm and beyond patterning, and have developed a new dual wafer stage system called TWINSCAN NXT with improved positioning (overlay) and imaging. The TWINSCAN NXT platform enables next generations of semiconductors through the so-called double patterning technique which requires two exposures per layer on a chip, enabling precise imaging patterns and lines by using our TWINSCAN NXT planar wafer stage and breakthrough grid metrology.

Also in 2011, we shipped five second-generation (NXE:3100) EUV systems, in addition to one shipped in 2010. This NXE:3100 system is being used by customers to develop their EUV manufacturing processes before high-volume EUV systems will become available, which we expect to occur in 2012, subject to successful implementation of a number of new technologies specific to EUV, including the light source. As of December 31, 2011, we had received 11 orders for this third (high-volume) generation of EUV systems, which is named NXE:3300. The EUV system, built on a new platform utilizing the concepts of the TWINSCAN platform, enables our customers to extend their roadmap towards smaller chip features. EUV permits chip makers to expose a critical layer in just one single step as opposed to double patterning which requires multiple steps. EUV also has a roadmap from the initial 27 nm resolution down to 16 nm and beyond. We have published a roadmap to develop a range of EUV models, offering the greatest extendibility at the lowest cost of ownership for the future of lithography.

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We complement our scanner products with a rapidly expanding holistic lithography portfolio of software and metrology products to help our customers optimize semiconductor scanner performance, provide a faster start to chip production and achieve better imaging at higher resolutions. Our customers optimize their scanner performance by taking into account the entire chip creation process, from design to volume manufacturing - we call this approach holistic lithography . Starting in 2010, and also during 2011, broad customer adoption of holistic lithography products continued as all of ASML s leading-edge scanners were sold with one or more holistic lithography components. Semiconductor manufacturers face increasingly smaller margins of error as they shrink chip features. Holistic lithography provides a way to shrink within these margins, offering significant revenue-generating and cost-saving opportunities to our customers.

Operational excellence

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

Our business strategy includes outsourcing the manufacturing of the majority of components and subassemblies that make up our products. We work in partnership with suppliers, collaborating on quality, logistics, technology and total cost. By operating our strategy of value sourcing, we strive to attain flexibility and cost efficiencies from our suppliers through mutual commitment and shared risk and reward. Value sourcing also allows the flexibility to adapt to the cyclicality of the world market for semiconductor lithography systems.

ASML has a flexible labor model with a mix of fixed and flexible contracted labor in its manufacturing and R&D facilities in Veldhoven, the Netherlands, and payroll employees compensated under a partly variable salary structure through ASML s profit sharing plan. This reinforces our ability to adapt more quickly to semiconductor market cycles, including support for potential 24-hour, seven days-a-week production activities. By maximizing the flexibility of our technically skilled workforce, we can shorten lead-times: a key driver of added value for customers. Flexibility also reduces our working capital requirements.

In view of the economic volatility of the semiconductor industry, we continue to strive for improve efficiencies in our operations: addressing our cost structure and strengthening our capability to generate cash.

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ASML operations update on key performance indicators

The following table presents the key performance indicators used by our Board of Management and senior management to measure performance in our monthly operational review meetings.

Year ended December 31	2011[1]		2010		2009	
(in millions)	EUR	%[2]	EUR	%[2]	EUR	%[2]
Sales						
Net sales	**5,651.0**		4,507.9		1,596.1	
Increase (decrease) in net sales (%)	**25.4**		182.4		(46.0)	
Net system sales	**4,883.9**		3,894.7		1,174.9	
Sales of systems (in units)	**222**		197		70	
Average selling price of total system sales	**22.0**		19.8		16.8	
Average selling price of new system sales	**24.5**		24.1		21.1	
Average selling price of used system sales	**3.8**		4.4		7.9	
Value of systems backlog excluding EUV [3,4]	**1,732.5**		3,855.7		2,113.7	
Systems backlog excluding EUV (in units) [3,4]	**71**		157		69	
Average selling price of systems backlog excluding EUV [3,4]	**24.4**		24.6		30.6	
Average selling price of systems backlog excluding EUV (New) [3,4]	**27.9**		27.7		33.0	
Average selling price of systems backlog excluding EUV (Used) [3,4]	**3.0**		5.1		10.0	
Immersion systems recognized (in units)[5]	**101**		95		31	
NXE systems recognized (in units)[4]	**3**		-		-	
Profitability						
Gross profit	**2,449.4**	43.3	1,955.2	43.4	458.4	28.7
Income (loss) from operations	**1,641.2**	29.0	1,250.7	27.7	(163.1)	(10.2)
Net income (loss)	**1,467.0**	26.0	1,021.8	22.7	(150.9)	(9.5)
Liquidity						
Cash and cash equivalents	**2,731.8**		1,949.8		1,037.1	
Operating cash flow	**2,070.4**		940.0		99.2	

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively, and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.

2 As a percentage of net sales.

3 As of January 1, 2011, ASML values its net bookings and systems backlog at system sales value including factory options. The comparative figures have not been adjusted because the impact on the comparative figures is insignificant (approximately EUR 20 million negative impact on backlog value per December 31, 2010). Before 2011, ASML valued net bookings and systems backlog at full order value (i.e. including options and services).

4 Through December 31, 2011 a total of six NXE:3100 systems had been shipped. Three of these systems were recognized in net system sales in 2011, one is expected to be recognized in 2012, one was shipped under the conditions of an operating lease contract and the last one is shipped to a research institute.

5 Included in the total number of immersion system recognized in 2011 are 78 of our most advanced immersion technology NXT:1950 (2010: 34 and 2009: 3).

Sales

For the longer term, and based on industry analysts IC unit growth forecasts, we expect our sales level to grow. Our sales levels depend on multiple growth drivers: market growth, market share growth, average selling price growth and a broadening of our product and services scope.

In 2011, net sales increased by 25.4 percent to EUR 5,651.0 million from EUR 4,507.9 million in 2010 (2009: EUR 1,596.1 million). The increase in net sales was caused by increased demand for lithography imaging systems required for all of the various chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments in new technology and capacity to meet demand. Sales were derived from all three major markets in which our customers operate, with the Logic segment generating the majority of system sales and DRAM and Nand-Flash memory generating the remainder.

The ASP of our systems increased by 11.1 percent to EUR 22.0 million in 2011 from EUR 19.8 million in 2010 (2009: EUR 16.8 million) resulting from a decrease in the number of used systems sold with relatively lower ASPs. The ASP of our new systems increased by 1.7 percent to EUR 24.5 million in 2011 from EUR 24.1 million in 2010 (2009: EUR 21.1 million), which was mainly driven by three NXE:3100 systems recognized with an ASP of EUR 39.8 million, partly offset by a change in product mix.

As of December 31, 2011, our systems backlog excluding EUV (systems backlog) was valued at EUR 1,732.5 million and included 71 systems with an ASP of EUR 24.4 million. As of December 31, 2010, the systems backlog was valued at EUR 3,855.7 million and included 157 systems with an ASP of EUR 24.6 million.

Profitability

Our general strategy is to seek to achieve income from operations to net sales of 13.0 to 18.0 percent at the trough of the industry s business cycle and 25.0 to 30.0 percent at the peak. However in exceptional circumstances, as evidenced by the financial and economic crisis, we could see periods with results from operations that are substantially below our minimum target level.

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Income from operations increased to EUR 1,641.2 million, or 29.0 percent of net sales, in 2011 from an income from operations of EUR 1,250.7 million, or 27.7 percent of net sales, in 2010 (2009: EUR 163.1 million loss from operations, or 10.2 percent of net sales). This EUR 390.5 million increase was the result of an increase in sales and the resulting increase in gross profit of EUR 494.2 million which was partly offset by an increase in SG&A and R&D operating expenses of EUR 103.7 million.

Gross profit increased to EUR 2,449.4 million or 43.3 percent of net sales in 2011 from EUR 1,955.2 million or 43.4 percent of net sales in 2010 (2009: EUR 458.4 gross profit or 28.7 percent of net sales). The higher absolute amount of gross profit reflects increased demand for lithography imaging systems across all chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments both in new technology and in capacity to meet demand. The 2011 gross profit as a percentage of net sales almost equals the 2010 percentage, which can be explained by the following: In 2011, net sales and cost of sales included three NXE:3100 systems which represent net sales of around EUR 120.0 million with zero gross profit at the time these were recognized as revenue. Our gross profit is negatively impacted by increased cost of sales incurred on all six NXE:3100 systems shipped to our customers as a result of significant costs due to the introduction of the EUV program. These effects had a negative impact on the 2011 gross profit as a percentage of net sales of 1.5 percent. In addition, manufacturing costs increased in 2011 compared to 2010 (mainly EUV related expenditures).

SG&A and R&D operating expenses showed an increase of EUR 103.7 million in 2011 compared with 2010. R&D costs increased by EUR 66.8 million, or 12.8 percent, resulting from increased spending on our strategic programs, in particular immersion, EUV and holistic lithography solutions. SG&A costs increased by EUR 36.9 million, or 20.4 percent, as a result of both higher sales levels and increased costs to implement and support IT solutions and costs for improvement programs (mainly employee development costs).

ASML has a flexible labor model with a mix of fixed and flexible contracted labor in its manufacturing and R&D facilities in Veldhoven, the Netherlands, and payroll employees compensated under a partly variable salary structure through ASML s profit sharing plan. This reinforces our ability to adapt more quickly to semiconductor market cycles, including support for potential 24-hour, seven days-a-week production activities. By maximizing the flexibility of our technically skilled workforce, we can shorten lead-times: a key driver of added value for customers. Flexibility also reduces our working capital requirements.

The effective tax rate was 11.0 percent of income before income taxes in 2011, compared with 17.8 percent of income before income taxes in 2010. This decrease is mainly caused by the fact that ASML reached agreement with the Dutch fiscal authorities regarding the application of the Innovation Box in December 2010, a facility under Dutch corporate tax law pursuant to which income associated with R&D is partially exempted from taxation. This tax ruling has retroactive effect to January 1, 2007 and is valid through December 31, 2016. Thereafter the validity of this ruling may be extended or this ruling may be adapted depending on a possible change of circumstances. For 2010, the beneficial impact of the Innovation Box was partially offset with the cumulative negative Innovation Box effects (previously called Royalty Box) incurred in The Netherlands during the period 2007-2009. In 2011, the Innovation Box effect is no longer offset by these prior year effects.

Net income in 2011 amounted to EUR 1,467.0 million, or 26.0 percent of net sales, representing EUR 3.45 net income per ordinary share, compared with net income in 2010 of EUR 1,021.8 million, or 22.7 percent of net sales, representing EUR 2.35 net income per ordinary share (2009: net loss of EUR 150.9 million or 9.5 percent of net sales, representing EUR 0.35 net loss per ordinary share).

Liquidity

ASML seeks to ensure that cash generated from operations, together with the liquidity provided by existing cash balances and its borrowing capability, will be sufficient to satisfy its liquidity requirements throughout every phase of the industry cycles.

Our cash and cash equivalents increased to EUR 2,731.8 million as of December 31, 2011 from EUR 1,949.8 million as of December 31, 2010. We generated cash from operating activities of EUR 2,070.4 million in 2011. Furthermore, the cash used in financing activities was EUR 991.6 million, mainly reflecting a cash outflow of EUR 700.5 million for our share buy back program, our annual dividend payment (EUR 172.6 million) and a repayment of deposits from customers of EUR 150.0 million, partly offset by the net proceeds from issuance of shares in connection with the exercise and purchase of employee stock options of EUR 34.1 million. An amount of EUR 300.9 million of cash was used in investing activities mainly related to machinery and equipment, EUV and NXT production facilities in Veldhoven, the Netherlands, information technology and leasehold improvements to our facilities.

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The Company s available credit facility amounts to EUR 500.0 million. No amounts were outstanding during 2011.

A. Operating Results

Critical accounting policies using significant estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S.GAAP). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the balance sheet dates, and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates. We evaluate our estimates continually and we base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates if the assumptions prove incorrect. To the extent there are material differences between actual results and these estimates, our future results of operations could be materially and adversely affected. We believe that the accounting policies described below require us to make significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue recognition

ASML recognizes revenue when all four revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller s price to buyer is fixed or determinable; and collectability is reasonably assured. At ASML this policy generally results in revenue recognition from the sale of a system upon shipment. The revenue from the installation of a system is generally recognized upon completion of that installation at the customer site. Each system undergoes, prior to shipment, a Factory Acceptance Test in ASML s clean room facilities, effectively replicating the operating conditions that will be present on the customer s site, in order to verify whether the system will meet its standard specifications and any additional technical and performance criteria agreed with the customer, if any. A system is shipped, and revenue is recognized, only after all specifications are met and customer sign-off is received or waived. In case not all specifications are met and the remaining performance obligation is not essential to the functionality of the system but is substantive rather than inconsequential or perfunctory, a portion of the sales price is deferred. Although each system s performance is re-tested upon installation at the customer s site, ASML has never failed to successfully complete installation of a system at a customer s premises.

In connection with the introduction of new technology, such as our second-generation EUV systems (NXE:3100), we initially defer revenue recognition until completion of installation and acceptance of the new technology based system at customer premises. As our systems are based largely on two product platforms that permit incremental, modular upgrades, the introduction of genuinely new technology occurs infrequently, and in the past 12 years, has occurred on only two occasions: 2010 (EUV) and 1999 (TWINSCAN).

In 2011, we recognized system sales revenue for three NXE:3100 systems that were installed at the customer location and were accepted by our customers, for an amount of EUR 119.3 million (2010 and 2009: no revenue from new technology was recognized). This includes one NXE:3100 system for an amount of EUR 38.5 million that had been deferred in 2010 because the system had not yet been accepted by the customer. For the years 2010 and 2009, we did not recognize any revenue from new technology that had previously been deferred. As of December 31, 2011, we deferred revenue from new technology systems for an amount of EUR 48.6 million, relating to one NXE:3100 system that has not been installed at the customer s location.

With respect to the third-generation EUV systems (NXE:3300) that are expected to be available for shipment to customers from 2012 onwards, the Company is currently assessing the conditions upon which revenue would be recognized and whether or not amounts should be deferred. Any such deferral of revenues could have a material effect on ASML s results of operations for the period in which the deferral occurred and on the succeeding periods.

ASML has no significant repurchase commitments in its general sales terms and conditions. From time to time the Company repurchases systems that it has manufactured and sold and, following refurbishment, resells those systems to other customers. This repurchase decision is driven by market demand expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The Company considers reasonable offers from any vendor, including customers, to repurchase used systems so that it can refurbish, resell, and install these systems as part of its normal business operations. Once repurchased, the repurchase price of the used system is recorded in work-in-process inventory during the period it is being refurbished, following which the refurbished system is reflected in finished products inventory until it is sold to the customer. As of December 31, 2011 and 2010 ASML had no repurchase commitments.

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We offer customers discounts in the normal course of sales negotiations. These discounts are directly deducted from the gross sales price at the moment of revenue recognition. From time to time, we offer volume discounts to certain customers. In some instances these volume discounts can be used to purchase field options (system enhancements). The related amount is recorded as a reduction in revenue at time of shipment. From time to time, we offer free or discounted products or services (award credits) to our customers as part of a volume purchase agreement. The sales transaction that gives rise to these award credits is accounted for as a multiple element revenue transaction as the agreements involve the delivery of multiple products. The consideration received from the sales transaction is allocated between the award credits and the other elements of the sales transaction. The consideration allocated to the award credits is recognized as deferred revenue until award credits are delivered to the customer. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

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

In the event that an arrangement with a customer becomes onerous, the Company recognizes a liability for the amount that the cost of settling the arrangement exceeds the amount of the contract price. When the Company satisfies the onerous arrangement, it derecognizes the related liability.

Multiple element arrangements

The main portion of ASML s revenue is derived from contractual arrangements with the Company s customers that have multiple deliverables, which mainly include the sale of our systems, installation and training services and prepaid extended and enhanced (optic) warranty contracts. As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended the guidance on arrangements with multiple deliverables in ASC 605-25. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. The Company applies this accounting guidance prospectively to arrangements originating or materially modified on or after January 1, 2011. The implementation resulted in additional qualitative disclosures that are included below, but did not result in additional units of accounting and only had an insignificant impact on timing and allocation of revenues. Furthermore, the Company does not expect the pending contents of ASC 605-25 to have a significant impact on timing and allocation of revenues.

Each element in the arrangement is accounted for as a separate unit of accounting provided the following criteria are met: the delivered products or services have value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by us. We consider a deliverable to have stand-alone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Further, our revenue arrangements do not include a general right of return relative to the delivered products. Where the aforementioned criteria for a separate unit of accounting are not met, the deliverable is combined with the undelivered element(s) and treated as a single unit of accounting for the purposes of allocation of the arrangement consideration and revenue recognition.

The hierarchy of evidence to determine a selling price in ASC 605-25 is as follows:

- Vendor-Specific Objective Evidence (VSOE) the price at which the Company sells the element in a separate stand-alone transaction;
- Third-Party Evidence (TPE) evidence from the Company or other companies of the value of a largely interchangeable element in a transaction;
- Best Estimate of Selling Price (BESP) the Company s best estimate of the selling price of an element in the transaction.

To determine the selling price in multiple elements arrangements, we establish VSOE of the selling price for installation and training services and prepaid extended and enhanced (optic) warranty contracts. VSOE is determined based on the prices that ASML charges for installation and comparable services (such as relocating a system to another customer site) and prepaid extended and enhanced (optic) warranty contracts on a stand-alone basis, which are subject to normal price negotiations. Revenue from installation and training services is recognized when the services are completed. Revenue from prepaid extended and enhanced (optic) warranty contracts is recognized over the term of the contract. When the Company is unable to establish the selling price using VSOE or TPE, the Company uses BESP. The objective of using estimated selling price-based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine BESP considering several internal and

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external factors including, but not limited to, pricing practices, gross margin objectives, market conditions, competitive environment, internal costs and geographies. The Company reviews selling prices every reporting period and maintains internal controls over the establishment and updates of these estimates.

For arrangements entered into through December 31, 2010, the Company primarily recognizes revenue based on the previous guidance of ASC 605-25. The revenue relating to the installation and training services and prepaid extended and enhanced (optic) warranty contracts is deferred at their fair value until delivery of these elements. As the Company is not able to determine the fair value for the system, but is able to determine the fair value for all other elements in the arrangement, revenue is allocated as the difference between the total arrangement consideration less the aggregate fair value of all other elements in the arrangement, and no revenue is recognized until all elements without fair value have been delivered.

The deferred revenue balance from installation and training services as of December 31, 2011 amounted to EUR 1.8 million (2010: EUR 10.1 million) and EUR 11.9 million (2010: EUR 12.7 million), respectively.

The deferred revenue balance from extended and enhanced (optic) warranty contracts as of December 31, 2011, amounted to EUR 280.1 million (2010: EUR 243.4 million).

Warranty

We provide standard warranty coverage on our systems for 12 months and on certain optic parts for 60 months, providing labor and parts necessary to repair systems and optic parts during the warranty period. The estimated warranty costs are accounted for by accruing these costs for each system upon recognition of the system sale. The estimated warranty costs are based on historical product performance and field expenses. Based upon historical service records, we calculate the charge of average service hours and parts per system to determine the estimated warranty charge. On a semi-annual basis, the Company assesses, and updates if necessary, its accounting estimates used to calculate the standard warranty reserve based on the latest actual historical warranty costs and expected future warranty costs. The actual product performance and/or field expense profiles may differ, and in those cases we adjust our warranty reserves accordingly. Future warranty costs may exceed our estimates, which could lead to an increase in our cost of sales. In 2011, 2010 and 2009, the reassessments of the warranty reserve, and resulting change in accounting estimate, did not have a material effect on the Company s consolidated statements of operations and per share amounts.

Evaluation of long-lived assets for impairment and costs associated with exit or disposal activities

Long-lived assets include goodwill, other intangible assets and property, plant and equipment.

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

All of ASML s goodwill as of December 31, 2011 relates to the acquisition of Brion in March 2007. For the purpose of impairment testing, goodwill is allocated to the reporting unit Brion. The fair value of the reporting unit Brion is calculated based on the discounted cash flow method (income approach). These calculations use after-tax discounted cash flow projections based on a strategic plan approved by management.

The material assumptions used by management for the fair value calculation of the reporting unit (based on past experience) are:

- Cash flow projections for the coming five years are based on a significant growth scenario, reflecting the start-up nature of Brion. Projections are built bottom-up, using estimates for revenue, gross profit, R&D costs and SG&A costs.
- Brion will grow at a weighted average growth rate of 3.0 percent from the fifth year onwards, which management believes is a reasonable estimate that does not exceed the long-term historical average growth rate for the lithography business in which Brion operates.
- A post-tax discount rate of 13.7 percent representing Brion s weighted average cost of capital (WACC) based on our assessment of the WACC that would be used by an external market participant, was determined using an

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adjusted version of the Capital Asset Pricing Model. Since Brion is not financed with debt, WACC was assumed to equal Brion s cost of equity. The discount rate in 2011 increased compared with the discount rate of 13.1 percent used in 2010. This reflects management s assessment of 2011 increased market uncertainty. Management believes that the fair value calculated reflects the amount a market participant would be willing to pay. Based on this analysis management believes that the fair value of the reporting unit substantially exceeded its carrying value and that, therefore, goodwill was not impaired as of December 31, 2011 and December 31, 2010.

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

- Estimated cash flows associated with Brion s operations after the initial five-year period accounted for 60.8 percent of the reporting unit s estimated fair value, based on the assumed 3.0 percent growth rate. Assuming management s estimate of cash flows for the initial five-year period is unchanged; growth in subsequent years could reduce to zero percent without Brion s estimated fair value falling below its carrying amount of EUR 151.4 million. Management does not believe, however, that such a long-term no growth scenario is reasonably likely, given that the long-term historical growth rate of the lithography industry exceeds 3.0 percent and the growing importance of Brion product solutions.
- The estimated cash flows associated with Brion s initial five-year period including the estimated cash flows after the initial five year period, could be reduced by up to 42.3 percent without causing the fair value of Brion to decrease below its carrying amount of EUR 151.4 million. Management does not believe that such a decline is reasonably likely based on management s future expectations on the development of these cash flows.
- The discount rate used in the fair value calculation could increase from 13.7 percent to 21.2 percent without causing the fair value of Brion to decrease below its carrying amount of EUR 151.4 million. Management does not believe such an increase is reasonably likely.

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

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

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

During 2011, we recorded impairment charges of EUR 12.3 million in property, plant and equipment of which we recorded EUR 6.2 million in cost of sales, EUR 3.5 million in R&D costs and EUR 2.6 million in SG&A costs. The impairment charges recorded in 2011 mainly related to machinery and equipment and furniture, fixture and other equipment (EUR 9.5 million) with respect to technical equipment and software which are ceased to be used. The impairment charges were determined based on the difference between the assets estimated fair value (being EUR 1.9 million) and their carrying amount. We did not record any impairment charges in other intangible assets.

Inventories

Inventories, including spare parts and lenses, are stated at the lower of cost (first-in, first-out method) or market value. Costs include net prices paid for materials purchased, charges for freight and customs duties, production labor cost and factory overhead. Allowances are made for slow moving, obsolete or unsellable inventory and are reviewed on a quarterly basis. Our methodology involves matching our on-hand and on-order inventory with our requirements based on the expected demand and resulting manufacturing forecast. In determining inventory allowances, we evaluate inventory in excess of our forecasted needs on both technological and economic criteria and make appropriate provisions to reflect the risk of obsolescence. This methodology is significantly affected by our forecasted needs for inventory. If actual requirements were to be lower than estimated, additional inventory allowances for excess or obsolete inventory may be required, which could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2011, the allowance for inventory obsolescence amounted to EUR 193.5 million (2010: EUR 189.2 million).

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In 2011, additions to the allowance mainly relate to certain obsolete parts due to technological developments and design changes. This was offset by the utilization of the provision which mainly relates to sale and scrap of impaired inventories. In 2011, ASML made EUR 4.5 million profit on the sale of inventories that had been previously written down (2010: EUR 68.7 million).

Accounts receivable

A majority of our accounts receivable are derived from sales to a limited number of large multinational semiconductor manufacturers throughout the world. In order to monitor potential credit losses, we perform ongoing credit evaluations of our customers financial condition. An allowance for doubtful accounts is maintained for potential credit losses based upon management s assessment of the expected collectability of all accounts receivable. The allowance for doubtful accounts is reviewed periodically to assess the adequacy of the allowance. In making this assessment, management takes into consideration (i) any circumstances of which we are aware regarding a customer s inability to meet its financial obligations; and (ii) our judgments as to potential prevailing economic conditions in the industry and their potential impact on the Company s customers. Where we deem it prudent to do so, we may require some form of credit enhancement, such as letters of credit, down payments and retention of ownership provisions in contracts, before shipping systems to certain customers, which are intended to recover the systems in the event a customer defaults on payment. We have not incurred any material accounts receivable credit losses during the past three years. Our three largest customers (based on net sales) accounted for 40.7 percent of accounts receivable at December 31, 2011, compared with 42.4 percent at December 31, 2010. A business failure of one of our main customers could result in a substantial credit loss in respect to amounts owed to the Company by that customer, which could adversely affect our business, financial condition and results of operations.

Provisions

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

As of December 31, 2011, the provision for lease contract termination costs amounted to EUR 12.3 million (2010: EUR 14.1 million) and relates to an operating lease contract for a building for which no economic benefits are expected.

Contingencies and litigation

We are party to various legal proceedings generally incidental to our business, as disclosed in Note 18 to our consolidated financial statements. In connection with these proceedings and claims, management evaluates, based on the relevant facts and legal principles, the likelihood of an unfavorable outcome and whether the amount of the loss could be reasonably estimated. In most cases, management determined that either a loss was not probable or was not reasonably estimable. In 2011, no estimated losses were recorded as a charge to the Company s consolidated statements of operations (2010: EUR 1.5 million loss and 2009: no estimated losses were recorded). Significant subjective judgments were required in these evaluations, including judgments regarding the validity of asserted claims and the likely outcome of legal and administrative proceedings. The outcome of these proceedings, however, is subject to a number of factors beyond our control, most notably the uncertainty associated with predicting decisions by courts and administrative agencies. In addition, estimates of the potential costs associated with legal and administrative proceedings frequently cannot be subjected to any sensitivity analysis, as damage estimates or settlement offers by claimants may bear little or no relation to the eventual outcome. Finally, in any particular proceeding, even where we believe that we would ultimately prevail, we may agree to settle or to terminate a claim or proceeding where we believe that doing so, when taken together with other relevant commercial considerations, is more cost-effective than engaging in expensive and protracted litigation, the outcome of which is uncertain.

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

Share-based compensation expenses

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognized based upon the grant-date fair value of stock options and stock. The grant-date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes model requires the use of assumptions, including expected share price volatility, the estimated life of each award and the estimated dividend yield. The risk-free

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interest rate used in the model is determined, based on an index populated with euro-denominated European government agency bond with AAA ratings, and with a life equal to the expected life of the equity-settled share-based payments. The grant-date fair value of shares is determined based on the closing price of the Company s ordinary shares on Euronext in Amsterdam (Euronext Amsterdam) on the grant date.

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

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

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

Income taxes

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

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

We continuously assess our ability to realize our deferred tax assets resulting, among others, from net operating loss carry-forwards. The total amount of tax effect of the loss carry-forward as of December 31, 2011 was EUR 7.7 million (2010: EUR 27.8 million), which resides with ASML US, Inc. and US-based subsidiaries of ASML US Inc. We believe that all losses will be offset by future taxable income before our ability to utilize those losses expires. This analysis takes into account our projected future taxable income from operations and possible tax planning alternatives available to us.

Consistent with the provisions of ASC 740, as of December 31, 2011, ASML has a liability for unrecognized tax benefits of EUR 155.4 million (2010: EUR 162.1 million). In 2011, the total liability for unrecognized tax benefits is classified as non-current deferred and other tax liabilities since payment of cash is not expected within one year. If reversed, this liability would have a favorable effect on the Company s effective tax rate.

Expected interest and penalties related to income tax liabilities have been accrued for and are included in the liability for unrecognized tax benefits and in the (provision for) benefit from income taxes. The balance of accrued interest and penalties recorded in the consolidated balance sheets of December 31, 2011 amounted to EUR 24.5 million (2010: EUR 33.8 million). Accrued interest and penalties recorded in the consolidated statements of operations of 2011 amounted to a tax benefit of EUR 9.3 million (2010: tax charge of EUR 5.3 million; 2009: tax charge of EUR 4.9 million) and are included in the (provision for) benefit from income taxes.

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

As of December 31	**2011**	**2010**
(in thousands)	**EUR**	EUR
Balance, January 1	**162,066**	133,270
Gross increases tax positions in prior period	**11,121**	8,574
Gross decreases tax positions in prior period	**(24,566)**	(1,075)
Gross increases tax positions in current period	**21,258**	24,690
Settlements	**(10,403)**	(3,393)
Lapse of statute of limitations	**(4,044)**	-

Total liability for unrecognized tax benefits	**155,432**	162,066
Less: current portion of liability for unrecognized tax benefits	**-**	18,158
Non-current portion of liability for unrecognized tax benefits	**155,432**	143,908

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For the year 2011 the gross decreases in tax positions in prior period mainly relates to the release of tax positions as a result of concluded tax audits.

The Company estimates that the total liability for unrecognized tax benefits will decrease by EUR 10.1 million within the next 12 months. The estimated changes to the liability for unrecognized tax benefits within the next 12 months are mainly due to expected settlements and the expiration of statutes of limitations.

The Company is subject to tax audits in its major tax jurisdictions for years from and including 2007 onwards in the Netherlands, for years from and including 2004 onwards in Hong Kong, and for years from and including 2001 onwards in the United States. In the course of such audits, local tax authorities may challenge the positions taken by the Company. For the years 2004 through 2010, the exemption from tax of taxable profits is subject to tax audits in certain tax jurisdictions.

In December 2010, ASML reached agreement with the Dutch fiscal authorities regarding the application of the Innovation Box , a facility under Dutch corporate tax law pursuant to which income associated with R&D is partially exempted from taxation. This tax ruling has retroactive effect to January 1, 2007 and is valid through December 31, 2016. Thereafter the validity of this ruling may be extended or this ruling may be adapted depending on a possible change of circumstances.

Results of Operations

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

Set out below our consolidated statements of operations data for the three years ended December 31, 2011:

Year ended December 31 (in millions)	**2011** [1] **EUR**	**2010** EUR	**2009** EUR
Total net sales	**5,651.0**	4,507.9	1,596.1
Cost of sales	**3,201.6**	2,552.7	1,137.7
Gross profit on sales	**2,449.4**	1,955.2	458.4
Research and development costs	**590.3**	523.4	466.8
Selling, general and administrative costs	**217.9**	181.1	154.7
Income (loss) from operations	**1,641.2**	1,250.7	(163.1)
Interest income (expense), net	**7.4**	(8.2)	(8.4)
Income (loss) before income taxes	**1,648.6**	1,242.5	(171.5)
(Provision for) benefit from income taxes	**(181.6)**	(220.7)	20.6
Net income (loss)	**1,467.0**	1,021.8	(150.9)

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.

Set out below are our consolidated statements of operations data for the three years ended December 31, 2011, expressed as a percentage of our total net sales:

Year ended December 31	**2011** [1]	**2010**	**2009**
(as a percentage of net sales)			

Total net sales	**100.0**	100.0	100.0
Cost of sales	**56.7**	56.6	71.3
Gross profit on sales	**43.3**	43.4	28.7
Research and development costs	**10.4**	11.6	29.2
Selling, general and administrative costs	**3.9**	4.1	9.7
Income (loss) from operations	**29.0**	27.7	(10.2)
Interest income (expense), net	**0.2**	(0.1)	(0.5)
Income (loss) before income taxes	**29.2**	27.6	(10.7)
(Provision for) benefit from income taxes	**(3.2)**	(4.9)	1.2
Net income (loss)	**26.0**	22.7	(9.5)

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.

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Results of operations 2011 compared with 2010

Net sales and gross profit

The following table shows a summary of net sales (revenue and units sold), gross profit on sales and ASP data on an annual and semi-annual basis for the years ended December 31, 2011 and 2010.

	2011 [1]			2010		
	First half year	Second half year	Full year	First half year	Second half year	Full year
Net sales (EUR million)	**2,981.6**	**2,669.4**	**5,651.0**	1,810.5	2,697.4	4,507.9
Net system sales (EUR million)	**2,618.0**	**2,265.9**	**4,883.9**	1,554.6	2,340.1	3,894.7
Net service and field option sales (EUR million)	**363.6**	**403.5**	**767.1**	255.9	357.3	613.2
Total sales of systems (in units)	**126**	**96**	**222**	77	120	197
Total sales of new systems (in units)	**114**	**81**	**195**	58	96	154
Total sales of used systems (in units)	**12**	**15**	**27**	19	24	43
Gross profit as a percentage of net sales	**44.9**	**41.6**	**43.3**	41.9	44.4	43.4
ASP of system sales (EUR million)	**20.8**	**23.6**	**22.0**	20.2	19.5	19.8
ASP of new system sales (EUR million)	**22.6**	**27.2**	**24.5**	25.7	23.1	24.1
ASP of used system sales (EUR million)	**3.5**	**4.0**	**3.8**	3.4	5.2	4.4

1 As of January 1, 2011, ASML adopted Accounting Standards Update (ASU) 2009-13, Revenue Arrangements with Multiple Deliverables which amended ASC 605-25. The ASU was adopted prospectively, and had an insignificant impact on timing and allocation of revenues. See Note 1 of the consolidated financial statements.

Net sales increased by EUR 1,143.1 million, or 25.4 percent to EUR 5,651.0 million in 2011 from EUR 4,507.9 million in 2010. The increase in net sales mainly resulted from an increase in net system sales of EUR 989.2 million, or 25.4 percent to EUR 4,883.9 million in 2011 from EUR 3,894.7 million in 2010. Net service and field option sales increased to EUR 767.1 million in 2011 from EUR 613.2 million in 2010. The number of total systems sold increased by 12.7 percent to 222 systems in 2011 from 197 systems in 2010. The increase in total net sales was caused by increased demand for lithography imaging systems required for all of the various chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments in new technology and capacity to meet demand. Sales were derived from all three major markets in which our customers operate, with the Logic segment generating the majority of system sales and DRAM and Nand-Flash memory generating the remainder.

The ASP of our systems increased by 11.1 percent to EUR 22.0 million in 2011 from EUR 19.8 million in 2010 (2009: EUR 16.8 million) resulting from a decrease in the number of used systems sold with relatively lower ASPs. The ASP of our new systems increased by 1.7 percent to EUR 24.5 million in 2011 from EUR 24.1 million in 2010 (2009: EUR 21.1 million), which was mainly driven by three NXE:3100 systems recognized with an ASP of EUR 39.8 million, partly offset by a change in product mix.

From time to time, ASML repurchases systems that it has manufactured and sold and, following factory-rebuild or refurbishment, resells those systems to other customers. This repurchase decision is mainly driven by market demand for capacity expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The number of used systems sold in 2011 decreased to 27 from 43 in 2010. The ASP of our used systems decreased by 13.6 percent to EUR 3.8 million in 2011 from EUR 4.4 million in 2010, which was the result of a shift in the mix of used systems sold toward more low-end system types.

Through 2011, all of the top 10 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. In 2011, recognized sales to our largest customer accounted for EUR 1,311.7 million, or 23.2 percent of our net sales. In 2010, recognized sales to our largest customer accounted for EUR 1,270.8 million, or 28.2 percent of our net sales.

Gross profit increased to EUR 2,449.4 million or 43.3 percent of net sales in 2011 from EUR 1,955.2 million or 43.4 percent of net sales in 2010 (2009: EUR 458.4 gross profit or 28.7 percent of net sales). The higher absolute amount of gross profit reflects increased demand for lithography imaging systems across all chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments both in new technology and in capacity to meet demand. The 2011 gross profit as a percentage of net sales almost equals the 2010 percentage, which can be explained by the following: In 2011, net sales and cost of sales included three NXE:3100 systems which represent net sales of around EUR 120.0 million

with zero gross profit at the time these were recognized as revenue. Our gross profit is negatively impacted by increased cost of sales incurred on all six NXE:3100 systems shipped to our customers as a result of significant costs due to the introduction of the EUV program. These effects had a negative impact on the 2011 gross profit as a percentage of net sales of 1.5 percent. In addition, manufacturing costs increased in 2011 compared to 2010 (mainly EUV related expenditures).

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We started 2011 with a systems backlog excluding EUV of 157 systems. In 2011, we booked orders for 137 systems, received order cancellations or push-outs beyond 12 months for 4 systems and recognized sales for 219 systems. This resulted in a systems backlog of 71 as of December 31, 2011.

As of December 31, 2011, our systems backlog excluding EUV was valued at EUR 1,732.5 million and included 71 systems with an ASP of EUR 24.4 million. As of December 31, 2010, the systems backlog was valued at EUR 3,855.7 million and included 157 systems with an ASP of EUR 24.6 million.

Research and development costs

R&D costs (net of credits) increased by EUR 66.8 million, or 12.8 percent to EUR 590.3 million in 2011, or 10.4 percent of net sales, from EUR 523.4 million in 2010, or 11.6 percent of net sales. This increase reflects our acceleration of strategic investment in the development and enhancement of the next-generation TWINSCAN systems based on immersion, EUV and holistic lithography solutions to extend these systems.

Selling, general and administrative costs

SG&A costs increased by EUR 36.9 million, or 20.4 percent, as a result of both a higher sales level and increased costs to implement and support IT solutions and for improvement programs (relating mainly to employee development costs).

Interest income (expense), net

Net interest income in 2011 was EUR 7.4 million compared with a net interest expense in 2010 of EUR 8.2 million. Interest income relates to interest earned on our cash and cash equivalents and was in 2011 only partly offset by net interest expense on our outstanding debt, mainly due to a significantly higher cash balance.

Income taxes

The effective tax rate was 11.0 percent of income before income taxes in 2011, compared with 17.8 percent of income before income taxes in 2010. This decrease is mainly caused by the fact that ASML reached agreement with the Dutch fiscal authorities regarding the application of the Innovation Box in December 2010, a facility under Dutch corporate tax law pursuant to which income associated with R&D is partially exempted from taxation. This tax ruling has retroactive effect to January 1, 2007 and is valid through December 31, 2016. Thereafter the validity of this ruling may be extended or this ruling may be adapted depending on a possible change of circumstances. For 2010, the beneficial impact of the Innovation Box was partially offset with the cumulative negative Innovation Box effects (previously called Royalty Box) incurred in The Netherlands during the period 2007-2009. In 2011, the Innovation Box effect is no longer offset by these prior year effects.

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Results of operations 2010 compared with 2009

Net sales and gross profit

The following table shows a summary of net sales (revenue and units sold), gross profit on sales and ASP data on an annual and semi-annual basis for the years ended December 31, 2009 and 2010.

	2010			2009		
	First half year	Second half year	Full year	First half year	Second half year	Full year
Net sales (EUR million)	**1,810.5**	**2,697.4**	**4,507.9**	460.2	1,135.9	1,596.1
Net system sales (EUR million)	**1,554.6**	**2,340.1**	**3,894.7**	284.4	890.5	1,174.9
Net service and field option sales (EUR million)	**255.9**	**357.3**	**613.2**	175.8	245.4	421.2
Total sales of systems (in units)	**77**	**120**	**197**	21	49	70
Total sales of new systems (in units)	**58**	**96**	**154**	11	36	47
Total sales of used systems (in units)	**19**	**24**	**43**	10	13	23
Gross profit as a percentage of net sales	**41.9**	**44.4**	**43.4**	10.2	36.2	28.7
ASP of system sales (EUR million)	**20.2**	**19.5**	**19.8**	13.5	18.2	16.8
ASP of new system sales (EUR million)	**25.7**	**23.1**	**24.1**	20.1	21.5	21.1
ASP of used system sales (EUR million)	**3.4**	**5.2**	**4.4**	6.3	9.1	7.9

Net sales increased by EUR 2,911.8 million, or 182.4 percent to EUR 4,507.9 million in 2010 from EUR 1,596.1 million in 2009. The increase in net sales mainly resulted from an increase in net system sales of EUR 2,719.8 million, or 231.5 percent to EUR 3,894.7 million in 2010 from EUR 1,174.9 million in 2009. Net service and field option sales increased to EUR 613.2 million in 2010 from EUR 421.2 million in 2009. The number of total systems sold increased by 181.4 percent to 197 systems in 2010 from 70 systems in 2009. This increase was caused by the recovery of the semiconductor equipment industry, which started in the second half of 2009 and continued in 2010, as customers invested in KrF systems for basic capacity growth and new leading-edge immersion technology in order to enable new technology ramp-ups. In contrast, the first half of 2009, was characterized by the collapse of the semiconductor equipment demand as a result of the financial and economic crisis.

The ASP of our systems increased by 17.9 percent to EUR 19.8 million in 2010 from EUR 16.8 million in 2009 (2008: EUR 16.7 million) resulting from a shift to more leading-edge systems. The ASP of our new systems increased by 14.2 percent to EUR 24.1 million in 2010 from EUR 21.1 million in 2009 (2008: EUR 20.4 million) which was mainly driven by increased sales of our leading-edge technology products (such as XT:1950i and NXT:1950i systems) compared with 2009.

From time to time, ASML repurchases systems that it has manufactured and sold and, following factory-rebuild or refurbishment, resells those systems to other customers. This repurchase decision is mainly driven by market demand for capacity expressed by other customers and not by explicit or implicit contractual arrangements relating to the initial sale. The number of used systems sold in 2010 increased to 43 from 23 in 2009. The ASP of our used systems decreased by 44.3 percent to EUR 4.4 million in 2010 from EUR 7.9 million in 2009 which was the result of a shift in the mix of used systems sold toward more low-end system types.

Through 2010, all of the top 10 chipmakers worldwide, in terms of semiconductor capital expenditure, were our customers. In 2010, recognized sales to our largest customer accounted for EUR 1,270.8 million, or 28.2 percent of our net sales. In 2009, recognized sales to our largest customer accounted for EUR 348.8 million, or 21.9 percent of our net sales.

Gross profit increased to 1,955.2 million or 43.4 percent of net sales in 2010 from EUR 458.4 million or 28.7 percent of net sales in 2009 (2008: EUR 1,015.5 gross profit or 34.4 percent of net sales). The higher gross profit was mainly attributable to the significant increase in net sales resulting from the recovery of the semiconductor equipment industry, which started in the second half of 2009 and continued in 2010 as customers invested in KrF systems for basic capacity growth and in new leading-edge immersion technology, in order to enable new technology ramp-ups. The increase in gross profit was partly offset by increased manufacturing costs as a result of longer lead-times in the first half of 2010. Our manufacturing facilities were fully utilized. In contrast, the first half of 2009, was characterized by the collapse of the semiconductor equipment demand as a result of the financial and economic crisis. Although the recovery of the semiconductor equipment industry started in the second half of 2009, the full year 2009 gross margin was negatively impacted by very low net sales and underutilization of capacity in the first half of 2009.

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We started 2010 with a systems backlog of 69 systems. In 2010, we booked orders for 285 systems, received order cancellations or push-outs beyond 12 months for 0 systems and recognized sales for 197 systems. This resulted in a systems backlog of 157 as of December 31, 2010. The total value of our systems backlog as of December 31, 2010 amounted to EUR 3,855.7 million with an ASP of EUR 24.6 million, compared with a systems backlog of EUR 2,113.7 million with an ASP of EUR 30.6 million as of December 31, 2009.

The significant increase in our systems backlog reflects our customers NAND Flash memory investments for the high volume ramp-up of new technologies and Foundry/Logic commitments for new strategic fabrication projects, offset by weakening DRAM lithography demand (albeit at a rate less than originally anticipated). The increase will support both technology shrink as well as an increase in manufacturing capacity. The systems backlog as of December 31, 2010, includes a broad mix of systems for all chip layers.

Research and development costs

R&D costs (net of credits) increased by EUR 56.7 million, or 12.1 percent to EUR 523.4 million in 2010, or 11.6 percent of net sales, from EUR 466.8 million in 2009, or 29.2 percent of net sales. This increase reflects the acceleration of strategic investment in technology leadership in 2010 through investments in the development and enhancement of the next-generation TWINSCAN systems based on immersion, double patterning and EUV.

Selling, general and administrative costs

SG&A costs increased by EUR 26.3 million, or 17.0 percent as a result of both a higher sales level and costs to implement and support IT solutions and costs for improvement programs (mainly employee development costs).

Interest income (expense), net

Net interest expense in 2010 was largely unchanged compared with 2009 (2010: EUR 8.2 million; 2009: EUR 8.4 million). Interest income relates to interest earned on our cash and cash equivalents and was more than offset by net interest expense on our outstanding debt in both 2010 and 2009.

Income taxes

The effective tax rate was 17.8 percent of income from operations before income taxes in 2010, compared with 12.0 percent of loss from operations before income taxes in 2009. In 2009, ASML recognized tax expense of EUR 36.3 million or 21.2 percent of loss from operations before income taxes attributable to the reversal of the 2007 Royalty Box benefit which had an unfavorable impact on the effective tax rate for 2009 (EUR 43.5 million including interest or 25.4 percent). In 2009, based on a tax law change effective January 1, 2010, ASML decided to reverse the Royalty Box benefits of 2007, as management at that time expected that a clean start of the Innovation Box (which under Dutch law replaced the Royalty Box as of January 1, 2010) in 2010 would result in a higher cumulative benefit for ASML.

In December 2010, ASML reached agreement with the Dutch fiscal authorities regarding the application of the Innovation Box , a facility under Dutch corporate tax law pursuant to which income associated with R&D is partially exempted from taxation. This tax ruling has retroactive effect to January 1, 2007 and is valid through December 31, 2016. Thereafter the validity of this ruling may be extended or this ruling may be adapted depending on a possible change of circumstances. While the Company s domestic nominal rate was 25.5 percent in 2010, for the ASML entities in the Dutch fiscal group, the tax rate is effectively reduced as a result of the Innovation Box effect for current and prior years. As a result certain Dutch deferred tax assets, Dutch deferred tax liabilities and other taxes will be realized in future years against the reduced effective tax rate resulting from the Innovation Box, the effect amounts to EUR 26.8 million (loss) or 2.2 percent of income from operations before income taxes.

In 2010, ASML recognized tax benefit of EUR 25.6 million or 2.1 percent of income from operations before income taxes mainly attributable to the application of the Innovation Box for prior years, which had a favorable effect on the effective tax rate for 2010 (EUR 37.5 million including interest or 3.0 percent). The Innovation Box effect for the current year amounts to EUR 93.5 million (gain) or 7.5 percent of income from operations before income taxes.

At the end of 2010, the Dutch government enacted a tax rate reduction from 25.5 percent in 2010 to 25.0 percent in 2011. As a result, the value of certain Dutch deferred tax assets and liabilities was reduced by EUR 0.4 million (loss).

Foreign Exchange Management

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

New U.S. GAAP Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011 -04, Fair Value Measurement (Topic 820). The amendments in this ASU generally represent clarifications of Topic

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820 but also results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The ASU is effective for annual periods beginning after December 15, 2011. The Company anticipates that the adoption of ASU 2011-04 will not have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220). Under the ASU, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. Under both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income (OCI) along with a total for OCI and a total amount for comprehensive income. The option under current guidance which permits the presentation of components of OCI as part of the statement of changes in stockholders equity has been eliminated. In December 2011, the FASB issued ASU 2011-12 which indefinitely defers certain provisions of ASU 2011-05, the main deferred provision relating to a requirement for entities to present reclassification adjustments out of accumulated OCI by component in both the statements in which net income is presented and the statement in which OCI in any period is presented. The ASU is effective for annual periods beginning after December 15, 2011. Early adoption is permitted. The Company is currently assessing what impact ASU 2011-05 may have on its consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350). The amendments in this ASU will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU is effective for annual periods beginning after September 15, 2011. Early adoption is permitted. The ASU 2011-08 will not have any effect on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80). The amendments in this ASU require additional disclosures about an employer s participation in a multiemployer plan. The ASU is effective for annual periods ending after December 15, 2011. We adopted the ASU in 2011 and refer to note 16 for more information. The adoption of ASU 2011-09 only resulted in limited additional disclosures and did not have any impact on our consolidated financial statements.

B. Liquidity and Capital Resources

ASML generated cash from operating activities of EUR 2,070.4 million, EUR 940.0 million and EUR 99.2 million in 2011, 2010 and 2009, respectively. Cash provided by operating activities in 2011 mainly relates to increased sales levels as a result of increased demand for lithography imaging systems required for all of the various chip layers. The primary drivers of cash provided by operating activities in 2011 were net income of EUR 1,467.0 million, an increase in accrued and other liabilities (EUR 589.2 million) mainly as a result of EUV down payments, partly offset by a net increase in working capital. This net increase in working capital mainly relates to a decrease in accounts payable (EUR 126.2 million).

ASML used EUR 300.9 million for investing activities in 2011 and EUR 124.9 million in 2010 (2009: EUR 98.1 million). The 2011 investing activities are mainly related to machinery and equipment, EUV and NXT production facilities in Veldhoven, the Netherlands, information technology and leasehold improvements to our facilities. The majority of the 2010 expenditures were mainly related to machinery and equipment and the start of the second part of the EUV and NXT production facilities in Veldhoven, the Netherlands. The majority of the 2009 expenditures were attributable to the finalization of the first part of the construction of the new production facilities in Veldhoven, the Netherlands.

Net cash used in financing activities was EUR 991.6 million in 2011 compared with net cash provided by financing activities of EUR 92.7 million in 2010 (2009: used EUR 74.9 million). In 2011 net cash used in financing activities includes the cash outflow of EUR 700.5 million for our share buy back program, our annual dividend payment of EUR 172.6 million and a repayment of deposits from customers of EUR 150.0 million, partly offset by the net proceeds from issuance of shares in connection with the exercise and purchase of employee stock options of EUR 34.1 million. In 2010 net cash provided by financing activities included EUR 150.0 million cash inflow from deposits from customers and EUR 31.0 million cash inflow from the issuance of shares in connection with the exercise and purchase of employee stock options, partly offset by EUR 87.0 million cash outflow for our dividend payment. In 2009 net cash used in financing activities included EUR 86.5 million as a result of the dividend payment and EUR 11.1 million cash inflow from the issuance of shares in connection with the exercise and purchase of employee stock options.

ASML s principal sources of liquidity consist of cash flows from operations, EUR 2,731.8 million of cash and cash equivalents as of December 31, 2011 and EUR 500.0 million of available credit facilities as of December 31, 2011. In addition, the Company may from time to time raise additional capital in debt and equity markets. ASML s goal is to remain an investment grade rated company and maintain a capital structure that supports this.

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ASML invests its cash and cash equivalents mainly in euro-denominated short-term deposits with high-rated financial institutions and the Dutch government and partly in euro-denominated AAAm-rated money market funds that invest in high-rated short-term debt securities of financial institutions and governments.

The Company s available credit facility consists of a EUR 500.0 million committed revolving credit facility from a group of banks that will mature in 2015. The credit facility contains a restrictive covenant that requires the Company to maintain a minimum committed capital to net total assets ratio of 40.0 percent calculated in accordance with contractually agreed definitions. In 2011, the Company was in compliance with the covenant and currently does not expect any difficulty in continuing to meet its covenant requirement. Outstanding amounts under this credit facility will bear interest at EURIBOR or LIBOR plus a margin that depends on the Company s liquidity position. No amounts were outstanding under this credit facility at the end of 2011 and 2010.

The undrawn EUR 200.0 million loan facility (between the Company and the European Investment Bank) matured in 2011, as the availability period to draw the facility ended on March 31, 2011.

We have repayment obligations in 2017, amounting to EUR 600.0 million, on our 5.75 percent senior notes due 2017 (the Eurobond). The coupons on the Eurobond have been swapped to a floating rate thereby creating a partial fair value hedge of the floating rate cash flows which we receive from our investments of our cash and cash equivalents.

We expect that our capital expenditures (purchases of property, plant and equipment) in 2012 will be approximately EUR 233.5 million (2011: EUR 300.9 million). Capital expenditures in 2012 will mainly consist of investments in the finalization of capacity expansion of EUV production facilities as a result of customer commitments.

Our liquidity needs are affected by many factors, some of which are based on the normal ongoing operations of the business, and others that relate to the uncertainties of the global economy and the semiconductor industry. Although our cash requirements fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash balances and our borrowing capability are sufficient to satisfy our requirements throughout every phase of the industry cycles, including our 2012 capital expenditures. We intend to return cash to our shareholders on a regular basis in the form of dividend payments and, subject to our actual and anticipated liquidity requirements and other relevant factors, share buy backs or repayment of capital.

See Notes 3, 4, 14 and 15 to our consolidated financial statements for discussion of our counterparty risk management, our cash and cash equivalents, our long-term debt and credit lines and Notes 26 and 27 for information on dividend and share buy backs.

C. Research and Development, Patents and Licenses, etc

Research and Development

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

Intellectual Property Matters

See Item 3.D. Risk Factors, Failure to Adequately Protect the Intellectual Property Rights Upon Which We depend Could Harm Our Business and Risk Factors, Defending Against Intellectual Property Claims by Others Could Harm Our Business and Item 4.B. Business Overview, Intellectual Property .

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D. Trend Information

The year 2011 was characterized by increased demand for lithography imaging systems required for all of the various chip layers: customers continued to invest in new leading-edge immersion technology as well as dry lithography tools in order to execute their strategic investments in new technology and capacity to meet demand. Sales were derived from all three major markets in which our customers operate, with the Logic segment generating the majority of system sales and DRAM and Nand-Flash memory generating the remainder. Also in 2011, we shipped five second-generation (NXE:3100) EUV systems, in addition to one shipped in 2010.

The following table sets forth our systems backlog, excluding EUV, as of December 31, 2011 and 2010.

Year ended December 31	2011[1]	2010
New systems backlog excluding EUV (in units)	**61**	135
Used systems backlog excluding EUV (in units)	**10**	22
Total systems backlog excluding EUV (in units)	**71**	157
Value of new systems backlog excluding EUV (EUR million)	**1,702.7**	3,744.3
Value of used systems backlog excluding EUV (EUR million)	**29.8**	111.4
Total value of systems backlog excluding EUV (EUR million)	**1,732.5**	3,855.7
ASP of new systems backlog excluding EUV (EUR million)	**27.9**	27.7
ASP of used systems backlog excluding EUV (EUR million)	**3.0**	5.1
ASP of total systems backlog excluding EUV (EUR million)	**24.4**	24.6

1 As of January 1, 2011, ASML values its net bookings and systems backlog at system sales value including factory options. The comparative figures have not been adjusted because the impact on the comparative figures is insignificant (approximately EUR 20 million negative impact on backlog value per December 31, 2010). Before 2011, ASML valued net bookings and systems backlog at full order value (i.e. including options and services).

Our systems backlog includes only orders for which written authorizations have been accepted and system shipment and revenue recognition dates within 12 months have been assigned. Historically, orders have been subject to cancellation or delay by the customer. Due to possible customer changes in delivery schedules and to cancellation of orders, our systems backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

ASML expects first quarter 2012 net sales of approximately EUR 1.2 billion, and gross margin of about 43.0 percent. R&D expenditures for the first quarter of 2012 are expected to be approximately EUR 145.0 million and SG&A costs are expected to be approximately EUR 54.0 million.

We now see a growing demand for third generation (NXE:3300) EUV system deliveries and for which we had received 11 orders as of December 31, 2011.

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

E. Off-Balance Sheet Arrangements

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

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F. Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 31, 2011 can be summarized as follows:

Payments due by period (in thousands)	Total EUR	Less than 1 year EUR	1 -3 years EUR	3-5 years EUR	After 5 years EUR
Long-Term Debt Obligations, including interest expenses[1]	**859,575**	38,779	77,224	77,141	666,431
Operating Lease Obligations	**102,051**	32,858	38,714	20,064	10,415
Purchase Obligations	**1,884,452**	1,674,077	199,040	8,131	3,204
Unrecognized Tax Benefits	**64,990**	10,141	6,636	17,051	31,162
Total Contractual Obligations	**2,911,068**	1,755,855	321,614	122,387	711,212

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

Long-term debt obligations mainly relate to interest payments and principal amount of our 5.75 percent notes due in 2017. See Note 14 to our consolidated financial statements.

Operating lease obligations include leases of equipment and facilities. Lease payments recognized as an expense were EUR 40.6 million, EUR 37.9 million and EUR 37.1 million as of December 31, 2011, 2010 and 2009, respectively.

Several operating leases for our buildings contain purchase options, exercisable at the end of the lease, and in some cases, during the term of the lease. The amounts to be paid if ASML should exercise these purchase options at the end of the lease as of December 31, 2011, can be summarized as follows:

Purchase options due by period (in thousands)	Total EUR	Less than 1 year EUR	1 -3 years EUR	3-5 years EUR	After 5 years EUR
Purchase options	**22,982**	-	8,999	13,983	-

Purchase obligations include purchase commitments with vendors in the ordinary course of business. ASML expects that it will honor these purchase obligations to fulfill future sales, in line with the timing of those future sales. However, the general terms and conditions of the agreements relating to the major part of the Company s purchase commitments as of December 31, 2011 contain clauses that enable ASML to delay or cancel delivery of ordered goods and services up to the dates specified in the corresponding purchase contracts. These terms and conditions that ASML has agreed with its supply chain partners give ASML additional flexibility to adapt its purchase obligations to its requirements in light of the cyclicality of the semiconductor equipment industry. The Company establishes a provision for cancellation fees when it is probable that the liability has been incurred and the amount of cancellation fees is reasonably estimable.

Unrecognized tax benefits relate to a liability for uncertain tax positions for a total amount of EUR 65.0 million. Additionally, we have recorded uncertain tax positions for an amount of EUR 90.4 million for which the timing of cash outflows is uncertain because in certain tax jurisdictions ASML s position has been contested by the tax authorities. The duration of the associated litigation procedures cannot be assessed. See Note 19 to our consolidated financial statements.

G. Safe Harbor

See Part I Special Note Regarding Forward-Looking Statements .

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Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

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

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

1 Member of the Audit Committee.
2 Member of the Selection and Nomination Committee.
3 Member of the Technology and Strategy Committee.
4 Member of the Remuneration Committee.
5 As announced on July 13, 2011, ASML s Supervisory Board, subject to notification to the 2012 Annual General Meeting of Shareholders, decided to extend Eric Meurice s appointment term as President and Chief Executive Officer of the Company for a mutually agreed period of two more consecutive years, until March 2014, with the option to further extend the appointment term by another two years if both parties so wish.
6 There are no specified terms for members of the Board of Management appointed prior to March 2004.

Messrs. Siegle and Westerburgen retired by rotation in 2011 and were reappointed for a maximum period of two years. No new supervisory board members were appointed in 2011.

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

Since 2005, the Works Council of ASML Netherlands B.V. has an enhanced right to make recommendations which recommendation may be rejected by the Supervisory Board in limited circumstances for nomination of one-third of the members of the Supervisory Board. See Item 6.C. Board Practices, Supervisory

Board . At the 2005 General Meeting of Shareholders, Ms. Van den Burg was appointed pursuant to this recommendation right, and at the 2009 General Meeting of Shareholders she was reappointed in accordance with this recommendation right. At the 2009 General Meeting of Shareholders, Ms. Van der Meer Mohr was appointed pursuant to this recommendation right.

Director and Officer Biographies

Arthur P.M. van der Poel

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

Jos W.B. Westerburgen

Mr. Westerburgen was appointed to our Supervisory Board in March 2002. Mr. Westerburgen has extensive experience in the field of corporate law and tax. Mr. Westerburgen is former Company Secretary and Head of Tax of Unilever N.V. and Plc. Mr. Westerburgen was a member of the Supervisory Board of Unibail-Rodamco S.E. until April 2010, and currently serves as Vice-Chairman of the Board of the Association Aegon.

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Fritz W. Fröhlich

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

Hendrika (leke) C.J. van den Burg

Ms. Van den Burg was appointed to our Supervisory Board in March 2005. Ms. Van den Burg was a member of the European Parliament from 1999 until 2009. Currently she is a member of the Supervisory Board of APG Group N.V. , serves as a member of the Dutch Monitoring Committee Corporate Governance, is chairperson of the Stichting Toetsing Verzekeraars *(Monitoring Foundation Dutch Insurance Companies)* and is a member of the Advisory Boards of College Bescherming Persoonsgegevens *(Dutch Data Protection Authority)* and Nationaal Register Commissarissen en Toezichthouders *(Dutch National Register Supervisory Directors).* Ms. Van den Burg also serves as a member of the Advisory Scientific Committee European Systemic Risk Board (ECB Frankfurt) and as a member of the Advisory Council International Affairs Commission Human Rights (Dutch Ministry Foreign Affairs).

OB Bilous

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

William T. Siegle

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

Pauline F.M. van der Meer Mohr

Ms. Van der Meer Mohr was appointed to our Supervisory Board in March 2009. As of January 1, 2010, Ms. Van der Meer Mohr serves as President of the Executive Board of the Erasmus University Rotterdam. Prior thereto she was managing partner of the Amstelbridge Group, Senior Executive Vice President at ABN AMRO Bank, Head of Group Human Resources at TNT, and held several senior executive roles at the Royal/Dutch Shell Group of Companies in various areas. Ms. Van der Meer Mohr is a member of the Supervisory Boards of Royal DSM N.V., Duisenberg School of Finance and Netherlands School for Public Governance.

Wolfgang H. Ziebart

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

Eric Meurice

Mr. Meurice joined ASML on October 1, 2004 as President, Chief Executive Officer and Chairman of the Board of Management. Prior to joining ASML, and since March 2001, he was Executive Vice President of Thomson Television Worldwide. Between 1995 and 2001, Mr. Meurice served as Vice President for Dell Computer, where he ran the Western, Eastern Europe and Dell s Emerging Markets business within EMEA. Before 1995, he gained extensive technology experience in the semiconductor industry at ITT Semiconductors Group and Intel Corporation, in the microcontroller group. Mr. Meurice was a member of the Board of Directors of Verigy, Inc. until the acquisition of Verigy, Inc. by Advantest Corporation on July 4, 2011.

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Peter T.F.M. Wennink

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

Martin A. van den Brink

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

Frits J. van Hout

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

Frédéric J.M. Schneider-Maunoury

Mr. Schneider-Maunoury joined ASML on December 1, 2009 as Executive Vice President and Chief Operating Officer and was appointed to ASML s Board of Management on March 24, 2010. Before joining ASML, Mr. Schneider-Maunoury served as Vice President Thermal Products Manufacturing of the power generation and rail transport equipment group Alstom. Previously, he ran the worldwide Hydro Business of Alstom as general manager. Before joining Alstom in 1996, Mr. Schneider-Maunoury held various positions at the French Ministry of Trade and Industry.

B. Compensation

For details on Board of Management and Supervisory Board remuneration as well as benefits upon termination, see Note 21 to our consolidated financial statements.

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

Bonus and Profit-sharing plans

For details of employee bonus and profit-sharing plans, see Note 17 to our consolidated financial statements.

Pension plans

For details of employee pension plans, see Note 17 to our consolidated financial statements.

C. Board Practices

General

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

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

Our corporate governance structure is intended to:

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

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Two-tier board structure

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

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

Board of Management

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

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

For details of the terms of office of the current members of the Board of Management, see Item 6.A Directors and Senior Management. For details of the benefits provided to members of Board of Management upon termination, see Note 21 to our consolidated financial statements.

Supervisory Board

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

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

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

Members of the Supervisory Board serve for a maximum term of four years from the date of their appointment, or a shorter period as set out in the rotation schedule as adopted by the Supervisory Board. They may be re-appointed, provided that their entire term of office does not exceed twelve years. The General Meeting of Shareholders may, with

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an absolute majority of the votes representing at least one-third of the total outstanding capital, dismiss the Supervisory Board in its entirety for lack of confidence. In such event, the Enterprise Chamber of the Amsterdam Court shall appoint one or more members of the Supervisory Board at the request of the Board of Management.

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

For details of the terms of office of the current members of the Supervisory Board, see Item 6.A Directors and Senior Management. For details of the benefits provided to members of Supervisory Board upon termination, see Note 21 to our consolidated financial statements.

Approval of Board of Management Decisions

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

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

Rules of Procedure

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

Directors and Officers Insurance and Indemnification

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

Corporate Governance Developments

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

The Dutch Corporate Governance Code came into effect on January 1, 2004 and is amended as of January 1, 2009 (the Code). Dutch listed companies are required to either comply with the principles and the best practice provisions of the Code, or to explain on which points they deviate from these best practice provisions and why.

ASML will report on its compliance with the amended Code in its statutory annual report for the year ended December 31, 2011.

Committees of ASML s Supervisory Board

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

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

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Audit Committee

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

The Audit Committee assists the Supervisory Board in:

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

In 2011, the Audit Committee held four scheduled meetings in person and four conference calls.

Remuneration Committee

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

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

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

In 2011, the Remuneration Committee held four scheduled meetings, two conference calls and several ad-hoc meetings.

Selection and Nomination Committee

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

The Selection and Nomination Committee assists the Supervisory Board in:

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

In 2011, the Selection and Nomination Committee held five scheduled meetings and several ad hoc meetings.

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Technology and Strategy Committee

ASML s Technology and Strategy Committee is composed of four members of the Supervisory Board. The current members of our Technology and Strategy Committee are William Siegle (chairman), Arthur van der Poel, OB Bilous and Wolfgang Ziebart. In addition, the Technology and Strategy Committee may appoint one or more advisors from within the Company and/or from outside the Company. The advisors to the Technology and Strategy Committee may be invited as guests to the meetings, or parts thereof, of the Committee, but are not entitled to vote in the meetings.

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

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

In 2011, the Technology and Strategy Committee held five meetings in person and one conference call.

Disclosure Committee

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

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

During 2011, the Disclosure Committee reviewed the quarterly-earnings announcements, statutory interim report, the annual reports including the audited consolidated financial statements and other public announcements containing financial information. They also advised the Chief Executive Officer and Chief Financial Officer on the assessment of ASML s disclosure controls and procedures and on the assessment of ASML s internal controls over financial reporting.

D. Employees

The following table presents the total numbers of payroll employees and temporary employees as of December 31, 2011, 2010 and 2009 (in FTEs), employed by ASML, primarily in manufacturing, product development and customer support activities:

As of December 31	2011	2010	2009
Payroll Employees	**7,955**	7,184	6,548
Temporary Employees	**1,935**	2,061	1,137
Employees (in FTEs)	**9,890**	9,245	7,685

During 2011, the average number of payroll employees in FTEs employed was 7,627, and the average number temporary of employees in FTE s employed was 2,084.

For a more detailed description of payroll employee information, including a breakdown of our employees in FTEs by sector, see Notes 17 and 22 to our consolidated financial statements. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products.

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

ASML Netherlands B.V., our operating subsidiary in the Netherlands, has a Works Council, as required by Dutch law. A Works Council is a representative body of the employees of a Dutch company elected by the employees. The Board of Management of any Dutch company that runs an enterprise with a Works Council must seek the non-binding advice

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of the Works Council before taking certain decisions with respect to the company, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a member of the Board of Management. In case the Works Council renders a contrary advice on a particular decision and the Board of Management nonetheless wishes to proceed, the Board of Management must temporarily suspend any further action while the Works Council determines whether to appeal to the Enterprise Chamber of the Amsterdam Court of Appeal. Other decisions directly involving employment matters that apply either to all employees, or certain groups of employees, may only be taken with the Works Council s approval. Failing approval of the Works Council, the decision first has to be submitted to the Enterprise Chamber for mediation. If no resolution has been reached, the decision can only be taken by with the approval of the Dutch District Court.

E. Share Ownership

Information with respect to share ownership of members of our Supervisory Board and Board of Management is included in Item 7 Major Shareholders and Related Party Transactions and Note 21 to our consolidated financial statements. Information with respect to the grant of shares and stock options to employees is included in Note 17 to our consolidated financial statements.

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Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth the total number of ordinary shares owned by each shareholder whose beneficial ownership of ordinary shares exceeds 5.0 percent of the ordinary shares issued and outstanding, as well as the ordinary shares (including options) owned by members of the Board of Management (which includes those persons specified in Item 6 Directors, Senior Management and Employees), as a group, as of December 31, 2011. The information set out below is solely based on public filings with the SEC and AFM *(Autoriteit Financiële Markten;* the Netherlands Authority for the Financial Markets) as through February 9, 2012.

Identity of Person or Group	Shares Owned	Percent of Class[6]
Capital Research & Management Company [1]	44,579,832	10.78%
FMR LLC [2]	23,267,918	5.62%
Capital World Investors[3]	25,132,167	6.08%
Members of ASML s Board of Management, as a group (5 persons)[4][5]	135,040	-

1 As reported to the Dutch Authority for the Financial Markets on August 2, 2011, Capital Research & Management Company has voting rights related to 44,579,832 shares of our ordinary shares, but does not have ownership rights related to those shares.
2 Based solely on the Schedule 13-G/A filed by FMR LLC with the Commission on June 10, 2011.
3 Based solely on the Schedule 13-G/A filed by Capital World Investors with the Commission on February 14, 2011.
4 Does not include unvested shares and shares underlying options granted to members of ASML s Board of Management. For further information, please refer to Note 21 to our consolidated financial statements.
5 No shares are owned by members of the Supervisory Board.
6 As a percentage of the total number of shares outstanding (413,669,257) as of December 31, 2011.

According to SEC filings, (i) FMR LLC increased its shareholding from 56,750,236 as of October 31, 2008 to 65,359,636 as of December 31, 2008, and decreased its shareholding to 49,292,206 as of December 31, 2009, and (ii) Capital World Investors decreased its shareholding from 37,869,170 as of December 31, 2008 to 22,158,167 as of December 31, 2009 and increased its shareholding to 25,132,167 as of December 31, 2010.

Our major shareholders do not have voting rights different from other shareholders.

We do not issue share certificates, except for registered New York Shares. For more information see Item 10.B. Memorandum and Articles of Association .

As of December 31, 2011, 133,464,766 million ordinary shares were held by 408 registered holders with a registered address in the United States. Since certain of our ordinary shares were held by brokers and nominees, the number of record holders in the United States may not be representative of the number of beneficial holders or of where the beneficial holders are resident.

Obligations of Shareholders to Disclose Holdings under Dutch Law

Holders of our shares may be subject to reporting obligations under the Dutch Financial Markets Supervision Act *(Wet op het financieel toezicht,* the Act).

The disclosure obligations under the Act apply to any person or entity that acquires, holds or disposes of an interest in the voting rights and/or the capital of a public limited company incorporated under the laws of the Netherlands whose shares are admitted to trading on a regulated market within the European Union, such as ASML. Disclosure is required when the percentage of voting rights or capital interest of a person or an entity reaches, exceeds or falls below 5.0, 10.0, 15.0, 20.0, 25.0, 30.0, 40.0, 50.0, 60.0, 75.0 or 95.0 percent (as a result of an acquisition or disposal by such person, or as a result of a change in our total number of voting rights or capital issued). With respect to ASML, the Act requires any person or entity whose interest in the voting rights and/or capital of ASML reached, exceeded or fell below those percentage interests to notify the AFM immediately.

A legislative proposal pursuant to which the 5.0 percent threshold will be replaced by a 3.0 percent threshold is currently before the Second Chamber of the Dutch Parliament. Under this proposal, each holder of a 3.0 percent interest would need to declare, in a filing with the AFM, whether it has any objections to our strategy as publicly submitted to the AFM. The proposal would also introduce a mechanism pursuant to which ASML would be able to identify, and communicate with, beneficial holders of its shares through the respective custodians. ASML is required to notify the AFM immediately if the Company s voting rights and/or capital have changed by 1.0 percent or more since its previous notification on outstanding voting rights and capital. In addition, ASML must notify the AFM of changes of less than 1.0 percent in ASML s outstanding voting rights and capital at least once per calendar quarter, within eight days after the end of the quarter. Any person whose direct or indirect voting rights and/or capital interest meets or passes the thresholds referred to in the previous paragraph as a result of a change in the outstanding voting rights or capital must notify the AFM no later than the fourth trading day after the AFM has published such a change.

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Once every calendar year, within four weeks after the end of the calendar year, holders of an interest of 5.0 percent or more in ASML s voting rights or capital must notify the AFM of any changes in the composition of their interest resulting from certain acts (including, but not limited to, the exchange of shares for depositary receipts and vice versa, and the exercise of rights to acquire shares).

Subsidiaries, as defined in the Act, do not have independent reporting obligations under the Act, as interests held by them are attributed to their (ultimate) parents. Any person may qualify as a parent for purposes of the Act, including an individual. A person who ceases to be a subsidiary and who disposes of an interest of 5.0 percent or more in ASML s voting rights or capital must immediately notify the AFM. As of that moment, all notification obligations under the Act become applicable to the former subsidiary.

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

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

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

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

B. Related Party Transactions

Consistent with the Company s corporate responsibilities to its surrounding community and together with several other companies in the region, ASML entered into a loan agreement with a local sports club PSV N.V.; pursuant to which ASML provided PSV N.V., as of August 1, 2011, a 14 year, interest free, subordinated loan of EUR 5.0 million. The chairman of the Supervisory Board of ASML, Mr. Arthur van der Poel is currently (until June 2012) member of the Supervisory Board of PSV N.V. Mr. Peter Wennink (Chief Financial Officer of ASML) was appointed as member of the Supervisory Board of PSV N.V. as of August 2011.

Except for the above, there have been no transactions during our most recent fiscal year, and there are currently no transactions, between ASML or any of its subsidiaries, and any significant shareholder and any director or officer or any relative or spouse thereof other than ordinary course compensation arrangements. During our most recent fiscal year, there has been no, and at present there is no, outstanding indebtedness to ASML owed or owing by any director or officer of ASML or any associate thereof, other than the virtual financing arrangement with respect to shares and stock options described under Notes 17 and 21 to our consolidated financial statements.

C. Interests of Experts & Counsel

Not applicable.

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Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

Consolidated Statements

See Item 18 Financial Statements .

Export Sales

See Note 20 to our consolidated financial statements included in Item 18 Financial Statements , which is incorporated herein by reference.

Legal Proceedings

See Item 4.B. Business Overview, Intellectual Property and Note 18 to our consolidated financial statements included in Item 18 Financial Statements .

Dividend Policy

As part of our financing policy, we aim to pay an annual dividend that will be stable or growing over time. Annually, the Board of Management will, upon prior approval from the Supervisory Board, submit a proposal to the Annual General Meeting of Shareholders with respect to the amount of dividend to be declared with respect to the prior year. The dividend proposal in any given year will be subject to the availability of distributable profits or retained earnings and may be affected by, among other factors, the Board of Management s views on our potential future liquidity requirements, including for investments in production capacity, the funding of our research and development programs and for acquisition opportunities that may arise from time to time; and by future changes in applicable income tax and corporate laws. Accordingly, it may be decided to propose not to pay a dividend or to pay a lower dividend with respect any particular year in the future.

For 2011, a proposal to declare a dividend of EUR 0.46 per ordinary share of EUR 0.09 nominal value will be submitted to the Annual General Meeting of Shareholders to be held on April 25, 2012.

B. Significant Changes

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

Item 9 The Offer and Listing

A. Offer and Listing Details

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

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

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

Pursuant to the terms of the Transfer Agent Agreement, the Company has agreed to reimburse the New York Transfer Agent for certain out of pocket expenses, including in connection with any mailing of notices, reports or other communications made generally available by the Company to holders of ordinary shares and the New York Transfer Agent has waived its fees associated with routine services to the Company associated with the New York shares. In addition, the New York Transfer Agent has agreed to reimburse certain reasonable expenses incurred by the Company in connection with the issuance and transfer of New York shares. In the year ended December 31, 2011, the Transfer Agent reimbursed USD 900,000 of expenses incurred by ASML, which mainly comprised legal, audit and accounting fees incurred due to the existence of the New York shares.

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

	NASDAQ		Euronext Amsterdam	
	USD		EUR	
	High	Low	High	Low
Annual Information				
2011	45.82	31.08	32.81	22.28
2010	38.45	24.73	29.26	19.68
2009	34.67	14.28	24.24	11.35
2008	30.47	12.66	20.97	10.68
2007	35.79	22.89	24.99	17.15
Quarterly Information				
4th quarter 2011	43.55	33.50	32.50	25.56
3rd quarter 2011	38.64	31.08	27.40	22.28
2nd quarter 2011	44.43	34.98	31.43	24.43
1st quarter 2011	45.82	35.90	32.81	27.35
4th quarter 2010	38.45	29.48	29.26	21.07
3rd quarter 2010	33.02	24.73	25.15	19.68
2nd quarter 2010	35.99	27.14	26.83	21.96
1st quarter 2010	35.56	30.58	26.57	22.23
Monthly Information				
February (through February 6) 2012	45.55	44.10	34.60	33.55
January 2012	43.83	40.91	33.67	31.81
December 2011	42.25	39.05	32.50	29.06
November 2011	42.98	36.21	30.90	27.36
October 2011	43.55	33.50	30.33	25.56
September 2011	37.12	33.45	27.40	23.28
August 2011	35.81	31.08	25.10	22.28

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. Offer and listing Details .

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

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Item 10 Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information required by Item 10.B. is incorporated by reference in ASML s Report on Form 6-K, filed with the Commission on January 25, 2012.

Current Authorizations to Issue and Repurchase Ordinary Shares

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

At our Annual General Meeting of Shareholders, held on April 20, 2011, the Board of Management was authorized for a period of 18 months, subject to the approval of the Supervisory Board, to issue shares and/or rights thereto representing up to a maximum of 5.0 percent of our issued share capital as of the date of authorization, plus an additional 5.0 percent of our issued share capital as of the date of authorization that may be issued in connection with mergers and acquisitions. At our Annual General Meeting of Shareholders to be held on April 25, 2012, our shareholders will be asked to authorize the Board of Management (subject to the approval of the Supervisory Board) to issue shares and/or rights thereto through October 25, 2013 up to an aggregate maximum of 10.0 percent of the Company s issued share capital.

Holders of ASML s ordinary shares have a preemptive right of subscription, in proportion to the aggregate nominal amount of the ordinary shares held by them, to any issuance of ordinary shares for cash, which right may be restricted or excluded. Ordinary shareholders have no pro rata preemptive right of subscription to any ordinary shares issued for consideration other than cash or ordinary shares issued to employees. If authorized for this purpose by the General Meeting of Shareholders (either by means of a resolution or by an amendment to our Articles of Association), the Board of Management has the power subject to approval of the Supervisory Board, to restrict or exclude the preemptive rights of holders of ordinary shares. At our Annual General Meeting of Shareholders held on April 20, 2011, the Board of Management was authorized for a period of 18 months, subject to approval of the Supervisory Board, to restrict or exclude preemptive rights of holders of ordinary shares up to a maximum of 10 percent of the Company s issued share capital as of the date of authorization. At our Annual General Meeting of Shareholders to be held on April 25, 2012, our shareholders will be asked to grant this authority through October 25, 2013. At this Annual General Meeting of Shareholders, the shareholders will be asked to grant authority to the Board of Management to issue shares or options separately. These authorizations will each be requested to be granted for a period of 18 months. As a consequence of the most recent changes in the Articles of Association of the Company, adopted at the Annual General Meeting of Shareholders held on April 20, 2011, the 10,000 ordinary shares with a nominal value of EUR 0.01 were canceled.

We may repurchase our issued ordinary shares at any time, subject to compliance with the requirements of Dutch law and our Articles of Association. Any such repurchases are subject to the approval of the Supervisory Board and the authorization of shareholders at our General Meeting of Shareholders, which authorization may not be for more than 18 months. The Board of Management is currently authorized, subject to Supervisory Board approval, to repurchase through October 20, 2012, up to a maximum of three times 10.0 percent of the Company s issued share capital as of the date of authorization (April 20, 2011) at a price between the nominal value of the ordinary shares purchased and 110.0 percent of the market price of these securities on Euronext Amsterdam or NASDAQ. At our Annual General Meeting of Shareholders to be held on April 25, 2012, our shareholders will be asked to extend the authority to repurchase through October 25, 2013.

C. Material Contracts

Not applicable.

D. Exchange Controls

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

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E. Taxation

Dutch Taxation

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

General

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

Substantial Interest

A person that, (inter alia) directly or indirectly, owns 5.0 percent or more of our share capital, owns profit participating rights that correspond to at least 5.0 percent of the annual profits of a Dutch company or to at least 5.0 percent of the profits made on liquidation of such company, or who is entitled to 5.0 percent of the voting power in the shareholders meeting, or holds options to purchase 5.0 percent or more of our share capital, is deemed to have a substantial interest in our shares, or our options, as applicable. Specific rules apply in case the partner or certain family members of the Non-resident hold a substantial interest. A deemed substantial interest also exists if (part of) a substantial interest has been disposed of, or is deemed to be disposed of, in a transaction where no taxable gain has been recognized. Special attribution rules exist in determining the presence of a substantial interest.

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

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

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

Corporate Income Tax Consequences for Corporate Non-resident Holders

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

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

To qualify for the Dutch participation exemption, the holder must generally hold at least 5.0 percent of our nominal paid-in capital and meet certain other requirements.

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Dividend Withholding Tax

In general, a dividend distributed by us in respect of our ordinary shares will be subject to a withholding tax imposed by the Netherlands at the statutory rate of 15.0 percent.

Dividends include:

- Dividends in cash and in kind;
- Deemed and constructive dividends;
- Consideration for the repurchase or redemption of ordinary shares (including a purchase by a direct or indirect ASML subsidiary) in excess of qualifying average paid-in capital unless such repurchase is made for temporary investment purposes or is exempt by law;
- Stock dividends up to their nominal value (unless distributed out of qualifying paid-in capital);
- Any (partial) repayment of paid-in capital not qualifying as capital for Dutch dividend withholding tax purposes; and
- Liquidation proceeds in excess of qualifying average paid-in capital for Dutch dividend withholding tax purposes.

A reduction of Dutch dividend withholding tax can be obtained if:

- The participation exemption applies and the ordinary shares are attributable to a business carried out in the Netherlands;
- The dividends are distributed to a qualifying EU corporate holder satisfying the conditions of the EU Parent-Subsidiary Directive; or
- The rate is reduced by a Tax Treaty.

A Non-resident Holder of ordinary shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a Tax Treaty that is in effect between the Netherlands and the Non-resident Holder s country of residence. The Netherlands has concluded such treaties with the United States, Canada, Switzerland, Japan, most European Union member states, as well as many other countries. Under the Treaty between the United States and the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the Tax Treaty), dividends paid by us to a Non-resident Holder that is a resident of the United States as defined in the Tax Treaty (other than an exempt organization or exempt pension trust, as discussed below) are generally liable to 15.0 percent Dutch withholding tax or, in the case of certain United States corporate shareholders owning at least 10.0 percent of our voting power, a reduction to 5.0 percent, provided that the Holder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which the dividends are attributable. The Tax Treaty also provides for a dividend withholding tax exemption on dividends, but only for an 80.0 percent shareholder meeting all other requirements. The Tax Treaty provides for a complete exemption from tax on dividends received by exempt pension trusts and exempt organizations, as defined therein. Except in the case of exempt organizations, the reduced dividend withholding tax rate (or exemption from withholding) can be applied at the source upon payment of the dividends, provided that the proper forms have been filed in advance of the payment. Exempt organizations remain subject to the statutory withholding rate of 15.0 percent and are required to file for a refund of such withholding.

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

Dividend Stripping Rules

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

Gift or Inheritance Taxes

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

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

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

Gift tax and inheritance tax are levied on the beneficiary. For purposes of Dutch gift and inheritance tax, an individual of Dutch nationality is deemed to be a resident of the Netherlands if he has been a resident thereof at any time during

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the ten years preceding the time of the gift or death. For purposes of Dutch gift tax, a person not possessing Dutch nationality is deemed to be a resident of the Netherlands if he/she has resided therein at any time in the twelve months preceding the gift.

Value Added Tax

No Dutch value added tax is imposed on dividends in respect of our ordinary shares or on the transfer of our shares.

Residence

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

United States Taxation

The following is a discussion of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of ordinary shares by a United States Holder (as defined below) acting in the capacity of a beneficial owner who is not a tax resident of the Netherlands. This discussion deals only with ordinary shares held as capital assets and does not deal with the tax consequences applicable to all categories of investors, some of which (such as tax-exempt entities, financial institutions, regulated investment companies, dealers in securities/traders in securities that elect a mark-to-market method of accounting for securities holdings, insurance companies, investors owning directly, indirectly or constructively 10.0 percent or more of our outstanding voting shares, investors who hold ordinary shares as part of hedging or conversion transactions and investors whose functional currency is not the U.S. dollar) may be subject to special rules. In addition, the discussion does not address any alternative minimum tax or any state, local, FIRPTA related United States federal income tax consequences, or non-United States tax consequences.

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

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

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

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

Passive Foreign Investment Company Considerations

ASML believes it was not a Passive Foreign Investment Company (PFIC) for U.S. federal income tax purposes in 2011 and that it will not be a PFIC in 2012. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty as to our actual PFIC status in any particular year until the close of the taxable year in question. ASML has not conducted a detailed study at this time to confirm its non- PFIC status. If ASML were treated as a PFIC in any year during which a United States Holder owns common shares, certain adverse tax consequences could apply. Investors should consult their tax advisors with respect to any PFIC considerations.

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Taxation of Dividends

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

Subject to limitations provided in the United States Internal Revenue Code, a United States Holder may generally deduct from its United States federal taxable income, or credit against its United States federal income tax liability, the amount of qualified Dutch withholding taxes. However, Dutch withholding tax may be credited only if the United States Holder does not claim a deduction for any Dutch or other non-United States taxes paid or accrued in that year. In addition, Dutch dividend withholding taxes will likely not be creditable against the United States Holder s United States tax liability to the extent ASML is not required to pay over the amount withheld to the Dutch Tax Administration. Currently, a Dutch corporation that receives dividends from qualifying non-Dutch subsidiaries may credit source country tax withheld from those dividends against Dutch withholding tax imposed on a dividend paid by a Dutch corporation, up to a maximum of 3.0 percent of the dividend paid by the Dutch corporation. The credit reduces the amount of dividend withholding that ASML is required to pay to the Dutch Tax Administration but does not reduce the amount of tax ASML is required to withhold from dividends.

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

Dividends received by a United States Holder will generally be taxed at ordinary income tax rates. However, the Jobs and Growth Tax Reconciliation Act of 2003 and subsequently the Tax Increase and Prevention Act of 2006 reduce to 15.0 percent the maximum tax rate for certain dividends received by individuals through taxable years beginning on or before December 31, 2011, so long as the stock has been held for at least 60 days during the 121 day period beginning 60 days before the ex-dividend date. Dividends received from qualified foreign corporations generally qualify for the reduced rate. A non-United States corporation (other than a foreign personal holding company, foreign investment company, or passive foreign investment company) generally will be considered to be a qualified foreign corporation if: (i) the shares of the non-United States corporation are readily tradable on an established securities market in the United States or (ii) the non-United States corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that has been identified as a qualifying treaty and contains an exchange of information program. Individual United States Holders should consult their tax advisors regarding the impact of this provision on their particular situations.

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

Taxation on Sale or Other Disposition of Ordinary Shares

Upon a sale or other disposition of ordinary shares, a United States Holder will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount realized, if paid in U.S. dollars, or the U.S. dollar value of the amount realized (determined at the spot rate on the settlement date of the sale) if proceeds are paid in currency other than the U.S. dollar, as the case may be, and the United States Holder s U.S. tax basis (determined in U.S. dollars) in such ordinary shares. Generally, the capital gain or loss will be long-term capital gain or loss if the holding period of the United States Holder in the ordinary shares exceeds one year at the time of the sale or other disposition. The deductibility of capital losses is subject to limitations for United States federal income tax purposes. Gain or loss from the sale or other disposition of ordinary shares generally will be treated as United States source income or loss for United States foreign tax credit purposes. Generally, any gain or loss resulting from currency

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fluctuations during the period between the date of the sale of the ordinary shares and the date the sale proceeds are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States. Each United States Holder should consult his or her tax advisor with regard to the translation rules applicable when computing its adjusted U.S. tax basis and the amount realized upon a sale or other disposition of its ordinary shares if purchased in, or sold or disposed of for, a currency other than U.S. dollar.

Information Reporting and Backup Withholding

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain reporting requirements of the US Securities Exchange Act of 1934 (the Exchange Act). As a foreign private issuer , we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of shares. In addition, we are not required to file reports and financial statements with the Commission as frequently or as promptly as companies that are not foreign private issuers whose securities are registered under the Exchange Act. However, we are required to file with the Commission, within four months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm and interactive data comprising financial statements in extensible business reporting language which, with respect to our annual report on Form 20-F for the year ended December 31, 2011, should be furnished within 30 days [check timing requirements] of filing our annual report on Form 20-F. We publish unaudited interim financial information after the end of each quarter. We furnish this quarterly financial information to the Commission under cover of a Form 6-K.

Documents we file with the Commission are publicly available at its public reference room at 100 F Street, N.E., Washington, DC 20549. The Commission also maintains a website that contains reports and other information regarding registrants that are required to file electronically with the Commission. The address of this website is http:// www.sec.gov. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

I. Subsidiary Information

See Item 4.C. Organizational Structure .

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Item 11 Quantitative and Qualitative Disclosures About Market Risk

ASML is exposed to certain financial risks such as market risk (including foreign currency exchange risk and interest rate risk), credit risk, liquidity risk and capital risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on the Company s financial performance. The Company uses derivative instruments to hedge certain risk exposures. None of the transactions are entered into for trading or speculative purposes. We believe that market information is the most reliable and transparent means of measurement for our derivative instruments that are measured at fair value. To mitigate the risk that any of our counterparties in hedging transactions is unable to meets its obligations, ASML only enters into transactions with a limited number of major financial institutions that have high credit ratings and closely monitors the creditworthiness of its counterparties. Concentration risk is mitigated by limiting the exposure on a single counterparty. Our risk management program focuses appropriately on the current environment of uncertainty in the financial markets, especially in the euro-zone.

Foreign currency risk management

The Company s sales are predominately denominated in euros. Exceptions may occur on a customer by customer basis. Our cost of sales and other expenses are mainly denominated in euros, to a certain extent in U.S. dollars and Japanese yen and to a limited extent in other currencies. Therefore, the Company is exposed to foreign currency risk.

It is the Company s policy to hedge material transaction exposures, such as forecasted sales and purchase transactions, and material net remeasurement exposures, such as accounts receivable and payable. The Company hedges these exposures through the use of foreign exchange contracts. It is the Company s policy not to hedge currency translation exposures resulting from net equity investments in foreign subsidiaries.

Details of the foreign exchange contracts and hedging activities are included in Note 3 to our consolidated financial statements.

Interest rate risk management

The Company has interest-bearing assets and liabilities that expose the Company to fluctuations in market interest rates. The Company uses interest rate swaps to align the interest-typical terms of interest-bearing assets with the interest-typical terms of interest-bearing liabilities. There may be residual interest rate risk to the extent the asset and liability positions do not fully offset.

As part of its hedging policy, the Company uses interest rate swaps to hedge changes in fair value of its Eurobond due to changes in market interest rates, thereby offsetting the variability of future interest receipts on part of its cash and cash equivalents.

Furthermore, as part of its hedging policy, the Company uses interest rate swaps to hedge the variability of future interest cash flows relating to certain of its operating lease obligations.

Details of the interest rate swaps and hedging activities are included in Note 3 of the consolidated financial statements.

Financial instruments

The Company uses forward foreign exchange contracts to manage its currency risk and interest rate swaps to manage its interest rate risk. The following table summarizes the notional amounts and estimated fair values of the Company s financial instruments:

As of December 31 (in thousands)	**2011 Notional Amount EUR**	**Fair Value EUR**	**2010 Notional Amount** EUR	**Fair Value** EUR
Forward foreign exchange contracts[1]	**389,579**	**(23,999)**	(1,933)	(28,974)
Interest rate swaps[2]	**641,500**	**109,991**	641,500	90,256

1 Relates to forward contracts assigned as a hedge to forecasted sales and purchase transactions and to monetary assets and liabilities, mainly in U.S. dollar and Japanese Yen.
2 Relates to interest rate swaps assigned as a hedge to interest bearing assets and liabilities, mainly related to the EUR 600.0 million Eurobond; the fair value of the interest rate swaps includes accrued interest.

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

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

Sensitivity analysis financial instruments

Foreign currency sensitivity

ASML is mainly exposed to fluctuations in exchange rates between the euro and the U.S. dollar and the euro and the Japanese yen. The following table details the Company s sensitivity to a 10.0 percent strengthening of foreign currencies against the euro. The sensitivity analysis includes foreign currency denominated monetary items outstanding and adjusts their translation at the period end for a 10.0 percent strengthening in foreign currency rates. A positive amount indicates an increase in income from operations before income taxes or equity, as shown.

	2011 Impact on income before income taxes	**Impact on equity**	**2010 Impact on income before income taxes**	**Impact on equity**
(in thousands)	**EUR**	**EUR**	EUR	EUR
U.S. dollar	**(2,317)**	**17,293**	(6,048)	25,858
Japanese yen	**(902)**	**(6,255)**	(4,207)	(5,500)
Other currencies	**(3,628)**	**-**	(700)	-
Total	**(6,847)**	**11,038**	(10,955)	20,358

It is the Company s policy to limit the effects of currency exchange rate fluctuations on its consolidated statements of operations. The negative effect on income from operations before income taxes as presented in the table above for 2011 and 2010 is mainly attributable to timing differences between the arising and hedging of exposures.

The decrease in the U.S. dollar and Japanese yen effect on income from operations before income taxes in 2011 compared with 2010 reflects the Company s lower net U.S. dollar and Japanese yen exposures at year end.

The revaluation effects of the fair value movements of cash flow hedges, entered into for U.S. dollar and Japanese yen transactions are recognized in other comprehensive income within equity. The decreased U.S. dollar effect on other comprehensive income in 2011 compared with 2010 is the result of lower U.S. dollar exposures.

For a 10.0 percent weakening of the foreign currencies against the euro, there would be approximately an equal but opposite effect on the income from operations before income taxes.

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Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The table below shows the effect of 1.0 percentage point increase in interest rates on the Company s income before income taxes and other comprehensive income. For 1.0 percentage point decrease in interest rates there would be an approximately equal but opposite effect on other comprehensive income and income before income taxes. A positive amount indicates an increase in income from operations before income taxes and other comprehensive income.

(in thousands)	**2011 Impact on income before income taxes EUR**	**Impact on equity EUR**	**2010 Impact on income before income taxes** EUR	**Impact on equity** EUR
	21,020	**1,691**	13,274	1,986

The positive effect on other comprehensive income, within equity, is mainly attributable to the fair value movements of the interest rate swaps designated as cash flow hedges. The effect on income from operations before income taxes has increased, reflecting an increase in cash and cash equivalents in 2011 compared with 2010.

See Note 3 to our consolidated financial statements for more information on the Company s financial risk management.

Item 12 Description of Securities Other Than Equity Securities

Not applicable.

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Part II

Item 13 Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

Item 15 Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, the management of ASML conducted an evaluation, under the supervision and with the participation of ASML s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of ASML s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on such evaluation, ASML s Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2011, ASML s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by ASML in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by ASML is accumulated and communicated to ASML s management, including ASML s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

ASML s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, for ASML. Under the supervision and with the participation of ASML s Chief Executive Officer and Chief Financial Officer, ASML s management conducted an evaluation of the effectiveness of ASML s internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of the end of the period covered by this report. Based on that evaluation, management has concluded that ASML s internal control over financial reporting was effective as of December 31, 2011 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2011 there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

Item 16

A. Audit Committee Financial Expert

Our Supervisory Board has determined that effective March 18, 2004, Mr. Fritz Fröhlich, an independent member of the Supervisory Board, qualifies as the Audit Committee Financial Expert. See also Item 6A.

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B. Code of Ethics

In 2011, ASML adopted a new code of ethics and conduct (Code of Conduct). The new Code of Conduct focuses on the following five key areas:

1. Show respect for people and planet;

2. Operate with integrity;