

Statutory annual report 2003



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Contents

4	Management
6	Report of the Supervisory Board
10	Corporate Governance
15	Management Report
15	US GAAP and Dutch Statutory Financial Report
15	General Developments
16	Corporate Governance
17	Corporate Strategy
20	Significant events
21	Results of operations
27	Statutory Financial Statements 2003

Management

Board of Management

Doug J. Dunn

(1944)

President, Chief Executive Officer, Chairman of the Board of Management; Appointed in 1999; British nationality

Martin A. van den Brink

(1957)

Executive Vice President Marketing & Technology; Appointed in 1999; Dutch nationality

Stuart K. McIntosh

(1944)

Executive Vice President Operations and President Lithography; Appointed in 2001; British nationality

Peter T.F.M. Wennink

(1957)

Executive Vice President Finance and Chief Financial Officer; Appointed in 1999; Dutch nationality

David P. Chavoustie

(1943)

Executive Vice President Sales; Appointed in 2000; U.S. nationality

Supervisory Board

Henk Bodt

(1938)

(Chairman)
Former Executive Vice
President of Royal Philips
Electronics N.V.;
Dutch nationality;
First appointed 1995;
current term until 2004;

Additional functions:

Member of the Supervisory

Board of:

- DSM N.V.;
- Delft Instruments N.V.
- NeoPost SA

Jos W.B. Westerburgen

(1942)

Former Company Secretary
and Head of Tax of Unilever;
Former member of the
Peters Committee on
Corporate Governance in
the Netherlands;
Dutch nationality;
First appointed in 2002,
current term until 2005;

Additional functions:

Member of the Supervisory

Board of :

- Unilever Nederland B.V.

Member of:

- The Association Aegon

Jan A. Dekker

(1939)

Chief Executive Officer of
TNO;
Dutch nationality;
First appointed 1997;
Current term until 2006;

Additional functions:

Member of the Supervisory

Board of:

- Gamma Holding N.V.;
- Koninklijke BAM-NBM
N.V.

Peter H. Grassmann

(1939)

Former President and Chief
Executive Officer of Carl
Zeiss;
German nationality;
First appointed 1996,
current term until 2006;

Additional functions:

Member of the Supervisory

Board of:

- Gambro BV;
- Aradex AG;
- Febit AG;
- IONITY;

Member of the senate of

the Max-Planck-society

Member of the Advisory

Board of EQT Private

Equity Funds GmbH

Michael J. Attardo

(1941)

Former President and CEO
of IBM Microelectronics;
US Nationality;
First appointed 2001,
current term until 2005.

Syb Bergsma

(1936)

Former Executive Vice
President Financial Affairs
of Akzo Nobel N.V.;
Dutch nationality;
First appointed 1998;
current term until 2004;

Additional functions:

Chairman of the

Supervisory Board of:

- UPM Holding B.V.;
- Generali Verzekerings-
groep N.V.;
- Van der Moolen Holding
N.V.;

Member of the Supervisory

Board of:

- European Assets Trust
N.V.;

Chairman of the Board of:

- Stichting Continuïteit
Numico
- Stichting administratie-
kantoor Preferente
Financieringsaandelen
Ahold

Chairman of the Board of:

- Stichting Preferente
Aandelen Wolters
Kluwer
- Stichting administratie-
kantoor preferente
Aandelen Océ

Report of the Supervisory Board

Financial Statements

The Supervisory Board has reviewed the Dutch GAAP statutory financial statements and the notes therein of ASML Holding N.V. (the "Company") for the financial year 2003, as prepared by the Board of Management and included in this Annual Report. Deloitte & Touche, independent auditors, have duly examined the Company's financial statements, and their Auditors' Report is included in the Statutory Financial Statements 2003.

The Supervisory Board has adopted these financial statements in accordance with article 38, paragraph 5 of the Company's Articles of Association. The Supervisory Board recommends that the General Meeting of Shareholders approves these financial statements in accordance with the proposal of the Board of Management.

Supervision and advice

General

The Board of Management of ASML is responsible for the management of the Company. The role of the Supervisory Board is to oversee and advise the Board of Management in performing its management tasks and setting the direction of the Company.

During 2003, ASML solidified its position in the global market for semiconductor lithography systems, despite an unprecedented third consecutive year in the industry's worst-ever downturn. The Company strengthened its organization and enhanced its operations consistent with global market conditions. ASML management and employees around the world have been preparing during 2003 to take full advantage of a market upturn when it comes.

We support the Board of Management and the clarity of their commitment to secure the Company's core semiconductor lithography business. We endorse the Company's pursuit of technology leadership while intensifying its focus on customers and maintaining strong control of its cost base.

Strategy and business review

The Supervisory Board has reviewed ASML business policy and decision making with the Board of Management regarding the Company's strategy, human resources, organizational issues, financial performance, alliances and associated business risks, among other matters.

Throughout 2003, the Supervisory Board has been closely involved with the Board of Management by means of regular meetings, monthly reports and ongoing consultations.

Contrasted with the semiconductor capital equipment market peak in 2000, the past three years have slumped deeper and longer than ever experienced in the industry. Facing fierce competitive pressures and other challenges, the Company has demonstrated creativity and commitment, doing more work with fewer people and delivering more results with reduced resources.

Strong management control

During 2003, the Supervisory Board noted measurable improvements in operational efficiencies, cost control, inventory reduction and cash generation, among other internal aspects of the Company's performance. We see that the Board of Management continues to motivate and mobilize senior managers and employees to strive for operational excellence while raising levels

of customer satisfaction. We have also noted the Board of Management's commitment to improve the return on its invested capital.

Human resources

The excellence of any high tech company is a measure of the excellence of its employees. Therefore, to maintain its successful track record, the Company continues to ensure its ability to attract and retain the best talent in the world. The Supervisory Board is pleased to see that the Board of Management is determined to preserve and promote the Company's unique culture of individual and team commitment that makes outstanding accomplishments possible.

Restructuring

The Supervisory Board endorsed the Board of Management's assessment and intended actions regarding the Company's reorganization and utilization of resources in view of structural changes and cyclical conditions in the global semiconductor market. In a painful but necessary measure, the Company announced in July 2003 a reduction in work force in its lithography operation. It is critical that ASML calibrates its labor capacity and associated costs consistent with current and future market conditions.

Despite restructuring, the Company continues to fund research and development programs appropriately to meet the challenges of offering customers the right technologies at the right time. However, the Company requires efficiency improvements in R&D efforts, as it does in the rest of the organization.

Corporate governance

Independent members of the Supervisory Board

Like many Dutch public companies, the Company has a two-tier board structure where independent, non executive members serve on the Supervisory Board, which in turn supervises and advises the members of the Board of Management in performing its management tasks. Supervisory Board members are prohibited from serving as officers or employees of the Company.

Corporate governance developments

The Supervisory Board assists the Board of Management in its continuing efforts to ensure that the Company's practices and procedures reflect good corporate governance and comply with applicable U.S. and Dutch corporate governance requirements and best practices.

A more detailed description appears in this statutory annual report.

Meetings of the Supervisory Board

The Supervisory Board met six times in the course of 2003. Members of the Supervisory Board also held two regular meetings with the Works Council in the Netherlands during 2003. In addition, members of the Supervisory Board met several times with the Works Council regarding the workforce reduction announced in July 2003.

The Supervisory Board met once, without the Board of Management present, to discuss the functioning of the Supervisory Board and its individual members; the relationship with the Board of Management; the performance and composition of the Board of Management as well as performance and succession of its individual members, among other matters.

The Supervisory Board further discussed its own profile and rotation schedule and reviewed its

own composition. In addition, there were frequent consultations between the Supervisory Board and the Board of Management outside their regularly scheduled meetings.

Composition of the Supervisory Board

Mr. J.A. Dekker and Mr P.H. Grassmann retired by rotation on March 25, 2003 and were reappointed. Mr. H. Bodt and Mr. S. Bergsma will be retiring by rotation on March 18, 2004. Mr. H. Bodt has informed the Supervisory Board that he is available for reappointment on March 18, 2004. Mr. S. Bergsma informed the Supervisory Board that he was not available for reappointment. The Supervisory Board has furthermore resolved to expand the Supervisory Board from six to a maximum of eight members. The Supervisory Board would like to appoint Mr. F. Fröhlich and Mr. A. van der Poel, who both fit very well in the profile of the Supervisory Board as amended. Mr. F. Fröhlich, who has a substantive financial background, would fit ideally in the profile of the "financial expert," while Mr. A. van der Poel would bring a wealth of knowledge with his extensive international experience in the semiconductor industry.

Supervisory Board Committees

The Supervisory Board has a Remuneration Committee and an Audit Committee. Members of these committees are appointed from and among the Supervisory Board members. In 2003, the Audit Committee met seven times, each time with the external auditor present, and the Remuneration Committee met twice.

Audit Committee

Pursuant to the Audit Committee's revised procedures, prior approval of the Audit Committee is now required for any significant non-audit services to be rendered by the audit firm.

The implementation of this procedure in 2002 is consistent with revised independence requirements issued by the Royal Dutch Institute of Chartered Accountants (Royal NIVRA) and the Sarbanes-Oxley Act and rules proposed by the SEC. The current members of our Audit Committee are Syb Bergsma (chairman), Henk Bodt and Jan Dekker.

The members of the Audit Committee are all independent, non-executive members of the Supervisory Board. As a consequence of certification requirements under the Sarbanes-Oxley Act, the Audit Committee has also formulated a Control Enhancement Project to further improve the Company's internal control framework.

Remuneration Committee

The current members of the Company's Remuneration Committee are Jos Westerburgen (chairman), Henk Bodt, Syb Bergsma and Michael Attardo.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members is described in Note 23 to the Statutory Financial Statements 2003.

The remuneration of the members of the Supervisory Board is not linked to the financial results of the Company. None of the members of the Supervisory Board personally maintain a business relationship with the Company other than as a member of the Supervisory Board.

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board.

Michael J. Attardo owns 34,722 options on shares of the Company. Peter H. Grassman owns 3,000 shares of the Company. None of the other members of the Supervisory Board own shares or options on shares of the Company.

Composition of the Board of Management

The Board of Management consists of five members. There were no changes to the Board of Management in 2003. Details of the remuneration of the Board of Management in 2003 are described in Note 23 to the Statutory Financial Statements 2003.

On January 16, 2004, Doug Dunn announced his decision that he will retire as President, Chief Executive Officer and Chairman of the Board of Management of ASML in the course of 2004. The Supervisory Board much regrets but also respects Doug Dunn's decision and has formed an ad hoc selection committee to find a successor.

Remuneration of the Board of Management

The Remuneration Committee prepares and the Supervisory Board establishes the Company's remuneration policy for members of the Board of Management, and it oversees the development and implementation of compensation and benefits programs for members of the Board of Management.

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 the Company's short and long term performance and its current compensation and benefits structures and levels benchmarked against the relevant markets. External compensation survey data and, where necessary, external consultants are used to benchmark our remuneration levels and structures. Furthermore, the Remuneration Committee reviews and proposes to the Supervisory Board corporate goals and objectives relevant to the compensation of all members of the Board of Management. The Committee evaluates the performance of members of the Board of Management in view of those goals and objectives, and makes recommendations to the Supervisory Board regarding the resulting compensation levels of the members of the Board of Management based on this evaluation.

The Remuneration Policy for the Board of Management of the Company shall be submitted to the General Meeting of Shareholders on March 18, 2004 for discussion and adoption.

The remuneration of members of the Board of Management is described in Note 23 to the Statutory Financial Statements, which is included in this statutory annual report.

Recognition for ASML employees

2003 was an unprecedented third consecutive year of challenging global market conditions for everyone at ASML. We support the Board of Management, underscore their leadership and embrace their strategic insights to help strengthen and sustain the business success of ASML on behalf of all stakeholders worldwide.

The Supervisory Board also wishes to recognize the valuable contributions made by everyone associated with the Company during 2003, and in particular, we express our gratitude to the employees of ASML.

The Supervisory Board,
Veldhoven, January 30, 2004

Corporate Governance

ASML continuously monitors and assesses applicable corporate governance rules, including recommendations and initiatives regarding principles of corporate governance. These include those that have been developed in the United States both by NASDAQ and by the U.S. Securities and Exchange Commission ("SEC") pursuant to the Sarbanes-Oxley Act. Some of those rules and/or principles are already applicable and have been implemented by ASML over the past years; others will need to be implemented over the coming years.

In addition, the Tabaksblat Committee in the Netherlands has issued a new Corporate Governance Code (the "Code") in December 2003, which Code is effective for ASML as of January 1, 2004. The Code is applicable for all companies that are admitted to an officially recognized stock exchange and that are registered in the Netherlands. ASML believes that the Code in principle aims at similar objectives as the U.S. corporate governance principles, although differences exist with regard to the approach taken and areas covered.

The Code contains principles with regard to corporate governance as well as best practice provisions based on those principles. Beginning with the annual report over the financial year 2004, companies subject to the Code are expected to report on the application of the principles in the Code, as well as on compliance with the best practice provisions.

Reporting is based on the "apply or explain" rule.

The Tabaksblat Committee recommends that the companies concerned outline in the annual report over the financial year 2003 how they expect to apply the Code and which issues they foresee in that respect.

ASML's current corporate governance practices

Below is a general overview of ASML's current corporate governance practices in view of the principles as laid down in the Code. Headings refer to headings in the Code. For the full text of the principles and best practices, reference is made to the text of the Code. ASML already applies most of these principles and is in the process of reviewing in detail whether further implementation of the principles will take place through the best practices or through other methods.

The annual report over the financial year 2004 will contain a comprehensive report in conformance with the Code. Furthermore, in the course of 2004, ASML will adjust its website in accordance with the requirements of the Code.

I. Compliance with and enforcement of the Code

Principle: Responsibility Corporate Governance

ASML agrees that the Board of Management and the Supervisory Board are responsible for the corporate governance structure and compliance with the Code. ASML will continue to include and describe its corporate governance structure in its annual report and shall to the extent possible adhere to the Code in this respect.

In addition, ASML welcomes discussions with its shareholders regarding this subject.

II. Board of Management

Principle II.1 Role and Procedure

ASML endorses the principle regarding the role and procedure of the Board of Management as laid down in this paragraph. The Board of Management is responsible for managing the Company and to achieve its aims, strategy, policies and results and is accountable for this to the Supervisory Board and the shareholders. ASML's Supervisory Board has an advisory and supervising role and focuses especially on: (I) achievement of the Company's objectives, (II) corporate strategy and risk inherent to the business activities, (III) the structure and operation of the internal risk management and control systems, (IV) the financial reporting process and (V) compliance with legislation and regulations.

The above subjects are frequently discussed between the Board of Management and the Supervisory Board, in plenary meetings as well as by means of ongoing individual consultations. In addition, the Supervisory Board is provided with reports on the (financial) developments in ASML on a regular basis.

Furthermore, ASML's corporate governance structure is intended to: (I) provide shareholders with regular, reliable and relevant transparent information regarding ASML's activities, structure, financial situation, performance and other information; (II) apply high standards for disclosure, accounting and audit; (III) apply stringent rules with regard to insider trading.

Also because of the requirements dictated by the Sarbanes-Oxley Act, ASML focuses on its internal control systems. This subject is frequently discussed with ASML's Audit Committee. In addition, ASML's CEO and CFO are required, based on the Sarbanes-Oxley Act, to sign a certificate stating that the Company's disclosure controls and procedures and controls over financial reporting are adequate and effective for the Company. This certificate along with ASML's Form 20-F will be filed with the Securities and Exchange Commission (SEC) in the U.S. ASML is currently also implementing further procedures and practices to ensure that the financial reporting process is set up in such a manner that it can be audited, as required per 2005, under section 404 of the Sarbanes-Oxley Act.

ASML's Code on Ethical Business Conduct includes a so-called whistle blower procedure. The Principles of Ethical Business Conduct are posted on ASML's website.

II.2 Remuneration

Principle: Amount and composition of the remuneration

ASML is of the opinion that it complies with the principle laid down in this paragraph on remuneration. The remuneration of ASML's Board of Management is based on various criteria, goals and objectives and is benchmarked against the remuneration packages for board-level executives of other multinational companies operating in global markets. For more details, reference is made to the Remuneration paragraph in the Report of the Supervisory Board, as well as the Remuneration Policy to be adopted in the General Meeting of Shareholders on March 18, 2004.

Regarding some of the best practice provisions, it should be noted that ASML respects the existing rights of the members of the Board of Management.

Principle: Determination and disclosure of remuneration

The remuneration report as disclosed in the annual report on the financial year 2003 is in compliance with relevant laws and regulations. However, it does not specifically address the relevant recommendations of the Code, as these are not yet applicable over the financial year 2003. ASML expects to report on this subject in accordance with the Code as of the financial year 2004 and beyond.

II.3 Conflicts of Interest

Principle: Avoidance of conflict of interest

This subject has been addressed to a certain extent in both ASML's Articles of Association, and ASML's Code on Ethical Business Conduct. ASML's Code on Ethical Business Conduct will be reviewed to determine whether ASML deems it necessary to amend the current arrangements, as recommended by the (Tabaksblat) Code.

III Supervisory Board

Principle III.1 Role and procedure

ASML's Supervisory Board's role, as well as the subjects to be discussed in the Supervisory Board, is summarized above under II.1. We will review the best practice provisions related to this subject more in-depth and if deemed desirable, shall implement these provisions.

However, also referring to the content of the Report on the Supervisory Board, we believe that we comply with most of the recommendations related to the role of and the procedures applicable to the Supervisory Board.

The Rules of Procedure of the Supervisory Board shall be reviewed and amended if necessary and shall subsequently be published on ASML's website.

Principle III.2 Independence

We are of the opinion that we currently comply with this requirement. However, in the future we may encounter problems with some of the best practice provisions. The reason is that knowledge of and experience in the semiconductor industry is very important for ASML's Supervisory Board to be able to perform their supervising function. Because this industry has relatively few players, and ASML is a supplier to almost all non-Japanese semiconductor manufacturers, ASML may want to nominate candidates for the Supervisory Board who do not fully comply with the criteria as listed under III.2.2, especially III.2.2.c. In those circumstances, ASML and the candidate will ensure that any such business relationship does not compromise the candidate's independence.

Principle III.3 Expertise and composition

Regarding the profile of the Supervisory Board as well as its rotation schedule, the Supervisory Board is in the process of amending these documents, which will be available on ASML's website later this year. Regarding the other best practice provisions, ASML will look into the best method of implementing these.

Principle III.4 Role of the chairman of the Supervisory Board and the company secretary

ASML's current practice is to a large extent in line with the content of this principle; this will be formalized in the course of this year.

Principle III.5 Composition and role of the three key committees of the Supervisory Board

The Supervisory Board currently has two committees: an Audit Committee and a Remuneration Committee. Their roles and functions are described in the Supervisory Board's Rules of Procedure. For a summary of the role and function of those committees, the execution of their tasks as well as an overview of their members, reference is made to the Report of the Supervisory Board. Regarding the recommendation to establish a Selection and Appointment Committee: such a committee exists on an ad-hoc basis, but ASML intends to formalize the institution of such a committee and to amend the Supervisory Board's Rules of Procedure accordingly in the course of 2004.

Principle III.6 Conflicts of interest

ASML agrees with the principle to avoid any conflicts of interest or any apparent conflicts of interest between the Company and the Supervisory Board. However, ASML does not yet have a formal procedure to deal with this subject. ASML shall formalize this matter in the course of the year.

Principle III.7 Remuneration

The principle that the General Meeting of Shareholders determines the remuneration of Supervisory Board members and that the remuneration is not dependent on the results of the company is already current practice within ASML, including the requirement to report the remuneration in accordance with current law. We shall further look into the best practice provisions.

Principle III.8 One-tier management structure

This is not applicable for ASML, as ASML has a two-tier structure.

IV. The shareholders and general meeting of shareholders

Principle IV.1 Powers

ASML complies with all legal requirements regarding the participation and the supply of information to the shareholders, and endorses the principle of full participation by the shareholders in the system of checks and balances in the Company. Furthermore, as soon as legally and practically feasible, ASML intends to facilitate proxy voting. Several of the best practice provisions are in the process of being implemented; the others will be looked into.

Principle IV.2 Depositary receipts for shares

This is not applicable, as ASML does not have depositary receipts for shares.

Principle IV.3 Provision of information to and logistics of the General Meeting of Shareholders

ASML subscribes to this principle, and we shall look into the best practice provisions to determine whether we need to make adjustments to our current procedures.

Principle IV.4 Responsibility of institutional investors

ASML endorses this principle, as ASML would like its institutional investors (as well as other shareholders), to play a more active role in exercising their "shareholders' rights."

V. The audit of the financial reporting and the position of the internal auditor function and the external auditor

Principle V.1 Financial reporting

ASML has internal processes in place to ensure that all financial information to be disclosed will be reported in a timely and complete manner. Specifically, ASML instituted a Disclosure Committee to support and monitor such processes. The internal procedures are frequently discussed within the Audit Committee of ASML's Supervisory Board, including the role of the external auditor in the publication of the financial reports.

Principle V.2 Role, appointment, remuneration and assessment of the functioning of the external auditor

The General Meeting of Shareholders appointed ASML's external auditor in 1995.

Up to January 2004, the Audit Committee of the Supervisory Board has approved the remuneration of the external auditor as well as the non-audit services to be performed. ASML shall in the course of this year determine whether we deem it desirable to change this process.

Principle V.3 Internal auditor function

ASML does not have an internal auditor function; ASML feels that the internal risk and control systems should be fully integrated in the business processes and that they should fall under the responsibility of the responsible manager. In light of the requirements under section 404 of the Sarbanes-Oxley Act, ASML is in the process of implementing internal assessments of internal controls, which are of an auditing nature. The Disclosure Committee also plays an important role in this process.

Principle V.4 Relationship and communication of the external auditor with the organs of the Company

The external auditor issues a report to the Supervisory Board on the conclusions of the audit of ASML's financial statements. This report is issued at the same moment that the external auditor issues its management letter to the Board of Management. Such reports cover the topics as described in the best practice provisions. Furthermore, ASML will ensure that the external auditor is invited to the Supervisory Board meeting in which the annual accounts are being approved.

The Board of Management and the Supervisory Board

Veldhoven, January 30, 2004

Management Report

In this report the expressions 'ASML', 'the Company' and 'Group' are sometimes used for convenience in contexts where reference is made to ASML Holding N.V. and/or any of its subsidiaries in general or where no useful purpose is served by identifying the particular company or companies.

U.S. GAAP and Dutch Statutory Financial Report

The Company prepares two sets of financial statements, one based on accounting principles generally accepted in the United States of America ('U.S. GAAP') and one for Dutch statutory purposes based on accounting principles generally accepted in the Netherlands ('Dutch GAAP'). The financial statements included in this financial report are based on Dutch GAAP. The principal difference between ASML's U.S. and Dutch GAAP financial statements is that, under U.S. GAAP, the 2001 merger between Silicon Valley Group ("SVG") and ASML was accounted for as pooling of interests while, under Dutch GAAP, the merger was accounted for under the purchase method. This has resulted in differences in the presentation of the composition of the (comparative) statement of shareholders' equity.

The order of presentation of assets and liabilities in this statutory annual report is based on U.S. GAAP, which is not in compliance with Dutch GAAP. Doing so, ASML is consistent in presenting its balance sheet with prior year's statutory annual reports and ensures consistency and transparency for its Dutch and US shareholders. Under this format, the order of presentation of assets and liabilities is based on the degree of liquidity.

A copy of our U.S. GAAP Annual Report and other publications (i.e., quarterly earnings announcements) can be obtained free of charge at the offices of ASML. The U.S. GAAP annual report and the quarterly earnings announcements are also available on ASML's website at www.asml.com.

General Developments

Business environment - Semiconductor Industry

ASML is the world's leading provider of lithography systems for the semiconductor industry, manufacturing complex machines critical to the production of integrated circuits or chips. ASML operates globally, with activities in Europe, the US and Asia.

The year 2003 was an unprecedented third consecutive year of downturn in the global semiconductor industry. The semiconductor industry, traditionally one of the more cyclical industries, continued to suffer from overcapacity that had resulted from its higher level of capital expenditures during 2000.

The world market for the number of semiconductor lithography systems sold was around a third of the peak number in 2000, a hangover that has depressed customer demand for three straight years. Made-to-order chip contractors, known as foundries, during 2003 continued to spend much less on capital equipment compared with expenditures in 2000. ASML's customer base, the world's major semiconductor manufacturers, were cautious and unwilling throughout 2003 to invest significantly in new chip-making equipment.

ASML within the industry

ASML has been and continues to be a technological leader in the supply of lithography systems, the critical stage in the manufacturing of complex integrated circuits (ICs) or chips.

Nikon Corporation ("Nikon") and Canon Kabushika Kaisha ("Canon"), both based in Japan, are the Company's main competitors in the global lithography equipment market.

ASML differentiates itself from its competitors most notably through its business model and proven value proposition.

The ASML business model is based on outsourcing a significant part of the components and modules that comprise the Company's lithography systems. Outsourcing has been at the root of the Company's technology leadership, working in partnership with suppliers from all over the world. The Company jointly operates a formal strategy with suppliers known as Value Sourcing that is based on quality, logistics, technology and total cost. As from 2003 onwards, we are assembling a portion of our components and subassemblies at our facilities in Wilton, Connecticut, US, which were previously outsourced to an outside vendor.

The ASML value proposition is known as Value of Ownership, and it consists of the following:

- Offering ongoing improvements in productivity and value, by introducing advanced technology based on modular platforms;
- Providing customer services that ensure rapid, efficient installation and superior on-site support and training to optimize manufacturing processes and improve productivity;
- Maintaining appropriate levels of research and development to offer the most advanced technology suitable for high-throughput, low-cost volume production at the earliest possible date;
- Enhancing the capabilities of the installed base through ongoing field upgrades based on new technology developments;
- Reducing the cycle time between customer order of a system and the use of that system in volume production on-site; and
- Expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world-class partners.

The Company believes it is well positioned to sustain its market leadership in 2004. In 2003, we introduced the next generation of our TWINSCAN system, the XT 1250, a high productivity leading edge product using 193-nanometer wavelength technology for imaging 200 - as well as 300 - millimeter wafer sizes. We developed and launched the industry's first system based on immersion technology, the TWINSCAN XT:1250i, an innovative lithography product that replaces the air over the wafer with fluid to enhance focus and shrink line widths. During 2003, we delivered the industry's first full-field semiconductor lithography system using 157-nanometer wavelength technology to IMEC, Europe's leading chip consortium for independent research and development.

Corporate governance

The Board of Management reiterates the importance that the Company's practices and procedures reflect good corporate governance, notably significant elements such as independence, accountability and transparency, and we continually monitor and assess proposals, recommendations, initiatives and regulations regarding principles and practice of corporate governance.

In the United States, corporate governance rules have been issued by the NASDAQ stock market and by the U.S. Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002. In the Netherlands, the Corporate Governance Code as prepared by the Tabaksblat Committee has been adopted. The Dutch code applies to ASML as of January 1, 2004. We refer in respect to this to Chapter Corporate Governance, which is included in this statutory annual report.

It should also be noted that the Supervisory Board has adopted in its Rules of Procedure that it will resolve, in consultation with the Board of Management, to put on the agenda of the General Meeting of Shareholders any proposal from shareholders representing more than 1 percent of the Company's share capital, presented at least 60 days in advance of the General Meeting of Shareholders, unless substantive Company concerns prevail.

The Company is subject to the relevant provisions of Dutch law applicable to large corporations ('Structuurregime'). These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of the Supervisory Board. The Supervisory Board is self-electing, however the General Meeting of Shareholders and the Works Council each have a right of recommendation and a right to object to a proposed appointment of a new member of the Supervisory Board.

Corporate strategy

ASML's commitment is to be the industry's global leader in our core competence of semiconductor lithography equipment, which images nanometric circuit patterns on a silicon wafer, the material from which tiny chips (integrated circuits) are made. We define and direct our business strategy through technology leadership, customer focus and operational excellence.

Technology leadership

We drive technology leadership along the semiconductor industry roadmap in close consultation with existing customers and potential new ones. This means we seek to satisfy the needs of different types of chipmakers by customizing and configuring products to provide premium value for the owners of ASML lithography systems. We pursue world class productivity to benefit every type of customer. This includes high volume, reliability demands associated with production of memory chips; fast and frequent changeovers required by foundries or made-to-order chip contractors; complexity of making microprocessors; and unique specifications set by independent device manufacturers.

Changing technology and rising capital investments increasingly influence the equipment choices of chipmakers. Therefore, ASML continually anticipates, adapts and maintains its product offerings to embrace the stages, speed and size of growth in different lithography market segments. The Company's product range for steppers and advanced Step & Scan systems spans the industry's current wavelength technology for 200 and 300 millimeter wafers alike. Our proven products cover 365, 248 and 193 nanometer wavelengths, addressing the range of market needs for leading edge as well as less critical line widths. Since 2000, we offer the industry's only dual-stage wafer imaging system - our TWINSCAN platform - that allows exposure of one wafer while simultaneously measuring another wafer.

Consistent with our strategy to remain at the industry forefront for chipmaking, in 2003, we shipped the industry's first full-field Step & Scan tool at the 157 nanometer wavelength.

In 2003, we also introduced our new immersion lithography system, a pioneering and promising product that replaces the air over the wafer with fluid to enhance focus and shrink line widths. Consistent with a business strategy focused on our core lithography competence, we also strive to enhance productivity and process performance in the lithography area of chipmaking where wafers spend most of their overall process time. We form and maintain strategic alliances with other semiconductor equipment suppliers, allowing us to offer customers more complete solutions. For example, we have joint development programs with leading makers of track equipment in the so-called litho-cluster, where wafer coating and exposure can couple to better meet demands of chipmakers. We are seeking to jointly develop an optical maskless lithography system to reduce time to market of new devices and help solve escalating mask costs, an important factor for new semiconductor designs that feature advanced and ever smaller critical dimensions.

ASML also continues to offer solutions for special application markets and to provide proprietary mask technologies and software products that extend the limits of optical lithography for semiconductor manufacturing.

ASML's strategic pursuit is to offer technology choice, incremental quality and sustainable levels of added value. We increase the customization of our products for customers and strive to provide superior integration of our tools with theirs.

Customer focus

Customer focus is central to the Company's strategic pursuit of market share leadership. And ASML's strategic approach to customer focus lies in the empowerment of multi-discipline account management teams. Our account managers represent our customers across every function and business process at ASML, from marketing and technology to logistics and customer support. Doing so ensures that everyone at ASML is kept informed and involved, as appropriate, in the Company's customer focus process.

We track and treat levels of customer satisfaction three ways: our own systematic methods; ratings provided by individual customers using their own criteria, and independent industry surveys. The Company's commitment to customers is to develop, install and support technological tools for volume production. Doing so enables customers to become better competitors and make more profit in the medium and long term.

Strategically, we engage customers in very early stages of technology development; we listen to their needs surrounding product introduction and volume utilization. Together, we create a dynamic and shared roadmap that begins with a customer need and ends with a customer solution. ASML professionals continue building customer relationships as we assist in developing and delivering technology and associated results that are above and beyond normal expectations. As a result, ASML not only maintains its technology leadership, but also secures market leadership.

We foster a culture of openness as the core of our customer focus, while providing customers with confidentiality for their business, financial and proprietary information. In addition, customer support training provides leading edge learning solutions to meet customer needs involving operators, technicians and engineers for service, application, process and specialist requirements. The Company's strategy of superior value for owners of ASML systems allows each customer to operate their chip fabrication facilities - anywhere in the world - with the highest productivity.

When customers are satisfied, then they have confidence to commit capital expenditures: customers repeat purchases of ASML lithography systems and buy additional products and services from ASML. It also means that customers are willing to pay premiums consistent with ASML's added value, in the face of fierce pricing competition from rivals.

Operational excellence

To achieve technology leadership and customer focus, it is also important to look inward. During 2003, inside ASML we sharpened our strategic focus through the work of multiple cross-functional process improvement teams. From an operational perspective, these process improvement teams are striving to streamline and integrate main business processes such as new product introduction, acquisition of orders from customers, fulfillment of orders, and our post-delivery support and services. We strive to measure the output of each process, namely its quantified results and how it adds value.

ASML's business strategy includes outsourcing the majority of components and subassemblies that make up our lithography products. We work in partnership with suppliers, jointly operating a strategy known as Value Sourcing. It is based on the QLTC principle that stands for quality, logistics, technology and total cost. With ASML Value Sourcing, we strive to attain flexibility, best-of-breed contributions and cost savings. It exemplifies mutual commitment, alongside shared risk and reward. Selected sourcing from our own facilities in the Netherlands and in the United States provides an additional check on supplier performance.

The Company's value of ownership proposition is a strategic driver for increasing sales. This means customers assess ASML's added value. Their calculated return on capital employed in semiconductor fabrication facilities supports ASML's ability to maintain pricing for our lithography systems. Internally, ASML is committed to improvements in gross margin by reducing cost of goods.

Operational excellence is a strategic pillar that supports reduction of fixed and variable costs to increase operating profit and generate cash from working capital. Operational excellence enhances efficiencies and effectiveness. This means cost reductions in research and development; selling, general and administrative expenses; customer support; information technology and management systems; inventory and work-in-progress; manufacturing and facilities management; and other activities. Operational excellence strengthens the Company's ability to offer customers a range of technological and system choices at the right time.

Operational excellence is an internal strategic condition for increasing flexibility and reducing our breakeven level for the number of systems that we manufacture, depending on the mix of products ordered by customers in different market segments in various regions of the world. With a lower cost base and a higher capacity for flexibility, ASML can satisfy customer demand on a timely basis and continue to strengthen our competitive position.

Excellent people help make operational excellence happen. As technology roadmaps and customer requirements become more demanding, ASML needs the best talent available: fewer, better qualified, more completely committed people. The Company's human resource strategy embraces our unique culture of individual and team commitment that makes outstanding accomplishments possible.

Given the structural changes and intensified cyclical conditions in the world market for semiconductor lithography systems, the Company's strategy is to transform our technology and market success into a sustainable business success through operational excellence.

This means benchmarking financial results versus peer technology companies. It also means pursuit of predictable quarterly results that are consistent with shareholder expectations.

In summary, the Company's commitment is to add measurable value and long-term results to benefit our customers as they design, produce and price their products.

Financial criteria for ASML

We strive to provide to our shareholders attractive return on their invested capital. This means that we will continue working on increasing the value of ownership to our customers resulting in higher average unit sales prices for our systems. Furthermore, we will continue on controlling our cost base by focusing on cost of goods reduction programs and controlling research and development costs and selling, general and administrative expenses. Finally, we intend to further improve our working capital management. Our working capital improvement program includes inventory control, early collection of our receivables and effective management of payments.

To reflect our efforts in achieving return on capital invested by our shareholders, we measure ourselves, amongst others, on the following financial key performance criteria: gross margin, operating margin, inventory turns, days sales outstanding, operating income and market share.

Significant events

Cost containing measures

In December 2002, we announced cost containing measures, including a reduction in workforce, divestment of our Thermal business and termination of our Track operations. During the year 2003, we implemented the workforce reduction and substantially completed the discontinuance of our Track and Thermal businesses. In July 2003, we announced a further workforce reduction, of which the majority is planned in the Netherlands. Currently, ASML and its Works Council are nearing the completion of a joint study on implementing this workforce reduction in the Netherlands. As a consequence, the Dutch workforce reduction has been delayed and, any corresponding cost reductions have been delayed. We believe that by adjusting labor capacity and increasing operating flexibility, we can reduce our break-even level by the end of 2004 to approximately 130 new systems from its current level of approximately 160 new systems, depending upon our product mix. The break-even level is the minimum number of new systems that need to be sold in a year in order to achieve net profit in that year.

Patent Litigation with Nikon

Since late 2001, ASML has been a party to a series of litigation and administrative proceedings in which Nikon alleges ASML's infringement of Nikon patents relating to photolithography. ASML in turn filed claims against Nikon. These proceedings are presented in note 17 to the Statutory Financial Statements. The proceedings are at various stages of advancement, and their ultimate outcome is therefore uncertain. In each case, however, ASML believes it has meritorious defenses to Nikon's claims, including that Nikon's patents are both not infringed and are invalid, as well as valid counterclaims.

The Company intends to vigorously pursue these defenses and counterclaims. If a final non-appealable decision that was adverse to ASML were to be rendered in any of these proceedings, however, ASML's ability to conduct sales in one or more significant markets could be substantially restricted or prohibited, which in turn could have a material adverse effect on the Company's

financial position or results of operations.

Other events

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

In July and August 2003, ASML repurchased USD 139.6 million of USD 520 million principal amount of its 4.25 percent Convertible Subordinated Notes due November 30, 2004. In October 2003, ASML called for redemption on December 5, 2003, all of the notes that remained outstanding, at a redemption price of 100.85 percent of their principal amount plus accrued interest. Before December 5, 2003, bondholders converted notes for a total of USD 120 thousand into 1,430 ordinary shares, of which USD 20 thousand were converted into 536 shares in 2003. On December 5, 2003, the Company redeemed the remaining USD 380.3 million.

Results of operations

During the year 2003 we continued to face a significant downturn in the semiconductor industry, which started in 2001. In the last quarter of 2003, we have seen what may be the beginning of an upturn that is apparent in most business segments within the semiconductor industry.

Net sales

Total net sales from continued operations decreased from EUR 1,959 million in 2002 to EUR 1,543 million in 2003, a decrease of EUR 416 million or 21.2 percent. The decrease in sales was primarily due to a decreasing number of new systems recognized, partially offset by an increase in average unit sales price ("ASP"). The ASP for new systems increased by approximately 6 percent reflecting a shift in our product portfolio towards an increased share of our latest technology equipment (TWINSCAN systems), which accounted for 38 percent of total shipment volume of new systems in 2003 compared to approximately 33 percent in 2002. The number of new systems recognized decreased from 183 units in 2002 to 126 units in 2003 due to:

- further decline in equipment demand by the semiconductor industry in 2003 after a modest recovery shown in the first half of 2002 for delivery in the second half of 2002; and
- the effect of the accounting treatment of "new technology systems" (see Note 3 to our Statutory Financial Statements 2003) resulting in additional recognition of EUR 138 million of revenues of 13 systems in 2002 that were initially deferred in 2001.

The number of used systems sold increased from 22 units in 2002 to 43 in 2003. This increase reflects the uncertain market conditions in which our customers seek opportunities to quickly expand production capacity in their existing production facilities without significant capital expenditures to secure long-term growth. These systems are used in less critical resolution capabilities. The ASP for used systems increased by approximately 136 percent reflecting a shift from our older PAS 2500 towards our newer PAS 5500 family, including scanner systems. We estimate

that the number of used systems sold will increase in 2004, provided that the number of systems available on the market for repurchase is not limited.

Gross profit

Gross profit as a percentage of net sales in 2003 was equal to 2002 (23.9 percent). The gross profit on new systems decreased from 24.3 percent to 21.7 percent due to the negative influence of severe price competition (2.2 percent negative impact on our gross profit), relatively more sales of newer technology systems having lower gross profit (4.4 percent negative impact on our gross profit) and under-utilization of our production facilities due to less sales (2.5 percent negative impact on our gross profit). This decrease in gross profit was offset by lower repayments of Technical development credits as this program was fully repaid during 2003 (1.5 percent positive impact on our gross profit), lower costs of sales due to the replacement of independent sales agents with our own employees for the purpose of servicing our Asian customers (1.0 percent positive impact on our gross profit) and a decrease in charges to provisions for obsolete inventory (4.0 percent positive impact on our gross profit).

Research and development

Research and development costs decreased from EUR 324 million in 2002 to EUR 306 million in 2003 as a result of more cost-efficient programs and workforce reductions. The level of research and development expenditures reflects our continuing effort to introduce several leading edge lithography products for 193 nanometer applications and the newest versions of the TWINSCAN platform, combined with continued investments in 248 nanometer high numerical aperture (NA) program, immersion, next generation 157 nanometer lithography solutions and EUV.

Our future operating results will depend significantly on our ability to produce products and provide services that have a competitive advantage in our industry. To do this, we believe that we must continue to make substantial investments in our research and development efforts. Our research and development activities are intended to enable our customers to achieve a higher return on their capital investments and higher productivity through cost-effective, leading edge technology solutions.

Research and development credits decreased from EUR 26 million in 2002 to EUR 19 million in 2003 due to a decreased volume for research and development expenditures that qualified for credits. Included in 2002 credits is a postponed credit (EUR 3.5 million) on 2001 expenditures that was subject to certain criteria that were only achieved in 2002. We expect the level of credits in 2004 to be similar or slightly higher than in 2003, although the precise amount remains subject to further negotiation with the relevant granting authorities.

Selling, general and administrative costs

Selling, general and administrative costs decreased by 19.0 percent from EUR 263 million in 2002 to EUR 213 million in 2003, mainly as a result of workforce reductions and decreased legal fees associated with patent infringement cases. Selling, general and administrative costs as a percentage of net sales increased from 13.4 percent in 2002 to 13.8 percent in 2003, as a result of the decline in net sales.

Restructuring costs

On December 18, 2002, ASML announced workforce reductions of approximately 700 positions

worldwide. With respect to this plan, we recorded in 2003 restructuring charges for a total amount of EUR 7 million of which EUR 4 million in cost of sales and EUR 3 million in restructuring costs. As of December 31, 2003, this plan has been completed.

On July 16, 2003, ASML announced further workforce reductions of approximately 550 positions worldwide of which the majority is planned in the Netherlands. During 2003, ASML recorded a provision of EUR 15 million as an ongoing benefit arrangement of which EUR 4 million is included in cost of sales and EUR 11 million is included in restructuring costs. The amount of the provision was based upon the details of the exit plan agreed on with our Works Council in the Netherlands for the workforce reductions announced in December 2002. Currently, the Board of Management and the Dutch Works Council are nearing the completion of a joint study on implementing these workforce reductions in the Netherlands. Consequently, the Dutch workforce reduction has been delayed.

During 2003, we recorded restructuring costs of approximately EUR 7 million relating to the consolidation of our office and warehouse facilities at our headquarters in Veldhoven as we ceased using certain of our facilities. The facility exit charges included estimated future obligations for non-cancelable lease payments and the impairment of property and equipment (primarily leasehold improvements) for which there are insufficient cash flows to support the carrying cost.

Net cash flows provided by operating activities

Net cash flows provided by operating activities were EUR 509 million in 2003 compared to EUR 54 million cash used in operating activities in 2002. The primary reason of the cash provided by operating activities in 2003 has been changes in working capital, including accounts receivable, inventories and current assets. Net accounts receivable decreased from EUR 557 million to EUR 314 million. ASML's ratio of accounts receivable to total net sales was 28.4 percent and 20.4 percent in 2002 and 2003, respectively. Gross inventories decreased by 20.4 percent from December 31, 2002 to December 31, 2003. The decrease reflects our continuing efforts to reduce our inventory level by means of cycle time reduction and cost of goods reduction programs.

The provision for obsolescence decreased by 25 percent from December 31, 2003 to December 31, 2002, principally reflecting scrapping of inventories. In 2002 and 2003, ASML paid EUR 4 million and EUR 12 million in taxes, respectively. In 2003, ASML received EUR 176 million tax refund from the Dutch tax authorities. We refer to Note 20 to our Statutory Financial Statements.

Net cash flows used in investing activities

Net cash used in investing activities was EUR 80 million in 2002 and EUR 26 million in 2003. The 2002 figure reflected the further expansion of production facilities during that year as well as expenditure in own use equipment (e.g., prototypes, training systems, and demonstration systems), to support sales, manufacturing and demonstration capabilities relating to new 300 millimeter product lines. The 2003 figures mainly relate to expenditures in own use equipment. We expect capital expenditures in 2004 to range between EUR 75 million and EUR 85 million.

Net cash flows used in financing activities

Net cash used in financing activities in 2003 amounted to EUR 68 million. The 2003 amount primarily reflects the complete redemption and repurchase of USD 520 million of 4.25 percent Convertible Subordinated Notes due 2004, partially offset by the issuance of EUR 380 million of 5.5 percent Convertible Subordinated Notes due 2010. In 2002, proceeds from financing activities

amounted to EUR 21 million mainly reflecting EUR 27 million in proceeds from the exercise of stock options and EUR 5 million repayment of long term debts. In 2004, we have no repayment obligations on our outstanding convertible notes.

On December 31, 2003, our principal sources of liquidity consisted of EUR 1,028 million of cash and cash equivalents, and EUR 288 million of available credit facilities.

Management believes that its operating cash flows and working capital, together with existing cash balances, the availability of existing credit facilities, and improved working capital management will be sufficient to finance its scheduled capital expenditures and to fund its working capital for 2004.

Employees

As of December 31, 2003, we had 5,059 employees in our continuing operations, including temporary contract employees employed primarily in product development activities at our headquarters in Veldhoven. As of December 31, 2002, the total number of employees in continued operations was 5,971. We rely on our ability to vary the number of temporary employees to respond to fluctuating market demand for our products. The average number of temporary employees during 2003 was 203 compared to 263 during 2002.

Our future success will depend on our ability to attract, train, retain and motivate highly qualified 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.

With the decision to discontinue our Track business and to sell our Thermal business, we started reducing our workforce at the end of 2002. Furthermore, to manage the effects of the industry's continuing downturn during 2002, we reduced our lithography-related workforce by approximately 700 positions worldwide and, in July 2003 announced a further workforce reduction by approximately 550 positions worldwide, of which the majority is planned in the Netherlands. With respect to this announcement in July 2003, the Board of Management and the Dutch Works Council are nearing the completion of a joint study on implementing these workforce reductions in the Netherlands. Consequently, the Dutch workforce reduction has been delayed.

The average number of employees from continuing operations during 2002 and 2003 was 5,640 and 5,323, respectively (excluding non-payroll employees).

The total number of employees per sector as of December 31, 2002 and 2003, are as follows:

As of December 31	2002	2003
Marketing & Technology	1,708	1,507
Goodsflow	1,416	1,184
Customer Support	2,090	1,717
General	588	518
Sales	169	133
Total continuing operations	5,971	5,059
Total discontinued operations	712	119
Total number of employees (including non-payroll employees)	6,683	5,178

In 2002 and 2003, a total of 2,857 and 2,649 employees, respectively, were employed in The Netherlands.

Discontinued operations


Results from discontinued operations comprise the results of our Thermal business, which we substantially divested in October 2003, and our Track business which we terminated in December 2002. Our decision to discontinue these businesses was the result of the downturn in the semiconductor market, which has led to significant losses in these businesses. Substantial future investments in these businesses would have been required to achieve a positive contribution to our future financial results.

In December 2002 we reviewed our long-lived assets used in the Thermal business for potential impairment and recorded no impairment charges. During 2003, we again reviewed our long-lived assets for impairment as we entered into negotiations with several potential buyers and accordingly recorded impairment charges of EUR 16 million. In October 2003, we substantially completed the sale of our Thermal business to a privately held company formed by VantagePoint Venture Partners. At the time of the sale, no gain or loss was realized as the net assets were stated at the value equal to the proceeds of the sale. The net loss of our Thermal business amounted to EUR 32 million in 2003 compared to EUR 61 million in 2002.

The termination of the Track business resulted in an exit plan that included workforce reduction, fixed asset impairments and inventory write-offs due to discontinued product lines. The exit plan included the disposal of remaining assets related to the Track business. In 2002, ASML decided to continue to service existing customers of its Track business for whom ASML had warranty or other service obligations. Consequently, customer support related to the Track business was not included in discontinued operations for 2002. In June 2003, ASML sold certain of its fixed assets and inventories related to its Track business to Rite Track. No gain or loss was realized on the sale. The net loss of the Track business amounted to EUR 3 million in 2003 compared to EUR 59 million for 2002. The net loss for 2002 included total pre-tax estimated exit costs of EUR 47 million. These exit costs included asset impairments, inventory write downs, purchase and other commitment settlements and employee termination costs. The net loss in 2003 relates mainly to impairment charges recorded on a building in the United States, previously used by our Track business. This impairment was determined on the difference between the building's estimated fair value, as indicated by an independent real estate appraiser and its carrying value.



Doug J. Dunn
President, Chief Executive Officer,
Chairman of the Board of Management



Peter T.F.M. Wennink
Executive Vice President Finance
and Chief Financial Officer

ASML Holding N.V.
Veldhoven, January 30, 2004

ASML Holding N.V.

Statutory Financial Statements 2003

28	Consolidated Balance Sheets
29	Consolidated Statements of Operations
30	Consolidated Statements of Cash Flows
31	Notes to the Consolidated Financial Statements
63	Company-only Balance Sheets
63	Company-only Statements of Operations
64	Notes to the Company-only Financial Statements
66	Other Information

Consolidated Balance Sheets ¹

(After appropriation of net result for the year)

As of December 31 (Amounts in thousands)	Note	2002 EUR	2003 EUR
Assets			
Cash and cash equivalents	6	668,760	1,027,806
Accounts receivable, net	7	556,664	314,495
Inventories, net	8	730,025	595,017
Current tax assets	20	178,706	-
Deferred tax assets	20	-	49,590
Other current assets	9	175,095	157,912
Assets from discontinued operations	4	106,094	5,007
Total current assets		2,415,344	2,149,827
Deferred tax assets	20	314,795	325,271
Other assets	9	61,757	30,711
Intangible assets	10	14,069	14,590
Property, plant and equipment, net	11	495,723	347,883
Total assets		3,301,688	2,868,282
Liabilities and Shareholders' Equity			
Accounts payable		213,423	220,153
Accrued liabilities and other	12	448,848	442,383
Deferred tax liability	20	4,465	2,285
Current tax liability	20	19,947	8,247
Liabilities from discontinued operations	4	66,091	13,451
Total current liabilities		752,774	686,519
Deferred tax liability	20	133,516	169,641
Other deferred liabilities		15,391	10,850
Convertible subordinated debt	13	1,064,040	842,543
Other long-term debt	13	20,451	17,522
Total liabilities		1,986,172	1,727,075
Total shareholders' equity		1,315,516	1,141,207
Total liabilities and shareholders' equity		3,301,688	2,868,282

¹ See note 4 "Discontinued operations" and note 5 "Restructuring" to the Consolidated Financial Statements.

Consolidated Statements of Operations ¹

For the year ended December 31, (Amounts in thousands, except share and per share data)	Note	2002 EUR	2003 EUR
Net product sales	21	1,740,633	1,356,905
Net service sales		218,039	185,832
Total net sales		1,958,672	1,542,737
Cost of product sales	5	1,289,030	1,028,362
Cost of service sales		202,038	145,593
Total cost of sales		1,491,068	1,173,955
Gross profit on sales		467,604	368,782
Research and development costs		324,419	305,839
Research and development credits	19	(26,015)	(19,119)
Selling, general and administrative costs		263,243	212,609
Restructuring charges	5	-	24,485
Operating loss		(94,043)	(155,032)
Interest income		31,177	40,481
Interest expense		(67,958)	(69,630)
Loss from continuing operations before income taxes		(130,824)	(184,181)
Benefits from income taxes	20	42,779	59,675
Net loss from continuing operations		(88,045)	(124,506)
Loss from discontinued operations before income taxes	4	(183,624)	(59,026)
Benefits from income taxes	20	63,846	23,316
Net loss from discontinued operations		(119,778)	(35,710)
Net loss		(207,823)	(160,216)
Basic and diluted net loss from continuing operations per ordinary share		(0.18)	(0.26)
Basic and diluted net loss from discontinued operations per ordinary share		(0.26)	(0.07)
Basic and diluted net loss per ordinary share		(0.44)	(0.33)
Number of ordinary shares used in computing per share amounts (in thousands):			
Basic		476,866	482,240
Diluted		476,866	482,240

¹ See note 4 "Discontinued operations" and note 5 "Restructuring" to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows ¹

For the year ended December 31 (Amounts in thousands)	2002 EUR	2003 EUR
Cash Flows from Operating Activities		
Net loss from continued operations	(88,045)	(124,506)
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	166,035	144,800
Impairment charges	20,651	12,100
Allowance for doubtful debts	-	9,113
Allowance for obsolete inventory	112,164	32,431
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(57,183)	211,627
Deferred income taxes	(22,361)	(79,577)
Inventories	(77,408)	95,291
Other assets	31,365	44,945
Accrued liabilities	(41,683)	(8,948)
Accounts payable	(71,927)	7,231
Income taxes	(25,759)	164,826
Net cash provided by (used) in operating activities from continuing operations	(54,151)	509,333
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(138,587)	(71,440)
Proceeds from sale of property, plant and equipment	58,735	48,837
Purchase of intangible assets	-	(3,099)
Net cash used in investing activities from continuing operations	(79,852)	(25,702)
Cash Flows from Financing Activities		
Proceeds from issuance of Convertible Subordinated Notes	-	380,000
Payment of underwriting commission	-	(8,550)
Net proceeds from issuance of shares and stock options	26,630	6,360
Redemption and/or repayment of debt	(5,203)	(445,966)
Net cash provided by (used in) financing activities from continuing operations	21,427	(68,156)
Net cash flows	(112,576)	415,475
Effect of changes in exchange rates on cash	(1,869)	(69,165)
Net cash flow provided by (used in) provided by discontinued operations	(127,473)	12,736
Net increase (decrease) in cash and cash equivalents	(241,918)	359,046
Cash and cash equivalents at beginning of the year	910,678	668,760
Cash and cash equivalents at end of the year	668,760	1,027,806

Supplemental Disclosures of Cash Flow Information:

Cash paid for:

Interest	66,614	48,980
Taxes	3,642	11,974

Supplemental non-cash investing and financing activities:

Conversion of Bonds into 13,634,782 and 536 ordinary shares respectively in 2002 and 2003	265,411	16
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¹ See note 4 "Discontinued operations" and note 5 "Restructuring" to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. General

ASML Holding N.V. ("the company"), having its legal seat in Veldhoven, The Netherlands, is a worldwide business engaged in the development, production, marketing, sale and servicing of advanced semiconductor equipment system mainly consisting of lithography systems. ASML's principal operations are in The Netherlands, the United States of America and Asia.

The financial statements of the company will be filed at the Chamber of Commerce in Eindhoven, The Netherlands within 8 days after approval of the General Shareholders' meeting on March 18, 2004.

The accompanying Consolidated Financial Statements are stated in thousands of euros ("EUR") unless otherwise mentioned.

These Financial Statements, prepared for statutory purposes, have been prepared in accordance with accounting principles generally accepted in The Netherlands ("Dutch GAAP"). For internal and external reporting purposes, ASML follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). The principal difference between ASML's U.S. and Dutch GAAP financial statements is that, under U.S. GAAP, the 2001 merger between Silicon Valley Group ("SVG") and ASML was accounted for as pooling of interests while, under Dutch GAAP, the merger was accounted for under the purchase method. This has resulted in differences in the presentation of the composition of the (comparative) statement of shareholders' equity. We refer for more information to Note 25 to the Consolidated Financial Statements.

The order of presentation of assets and liabilities in this statutory annual report is based on U.S. GAAP, which is not in compliance with Dutch GAAP. Doing so, ASML is consistent in presenting its balance sheet with prior year's statutory annual reports and ensures consistency and transparency for its Dutch and US shareholders. Under this format, the order of presentation of assets and liabilities is based on the degree of liquidity.

On December 18, 2002 ASML announced the proposed divestiture of its Thermal business, including related customer support activities, and the termination of its activities in the Track business. As a result of this decision, the presentation of the Company's financial statements and the notes thereto have been retroactively adjusted to reflect the effects of the decision to discontinue these operations. Further reference is made to Note 4.

2. Principles of Consolidation

All significant intercompany balances and transactions are eliminated in consolidation. The consolidated financial statements integrally include the financial statements of the company and the following group companies, which are economically and organizationally linked to the company:

Name	Legal Seat	Percentage ownership
ASML Netherlands B.V.	Veldhoven, The Netherlands	100%
ASML Finance B.V.	Veldhoven, The Netherlands	100%
ASML SARL	Montbonnot, France	100%
ASML MaskTools B.V.	Veldhoven, The Netherlands	100%
ASML Korea Co. Ltd.	Kyunggi-Do, Republic of Korea	100%
ASML Hong Kong Ltd.	Hong Kong, SAR	100%
ASML Italy S.r.l.	Milan, Italy	100%
ASML (China) Co. Ltd.	Tianjin, China	100%
ASML Japan, Co. Ltd.	Kawasaki-shi, Kanagawa-Ken, Japan	100%
ASML Ireland Ltd.	Dublin, Republic of Ireland	100%
ASML Subholding B.V.	Veldhoven, The Netherlands	100%
ASML Shanghai Int. Trading Co. Ltd.	Shanghai Free Trade Zone, China	100%
ASML Equipment Malaysia Sdn Bhd.	Penang, Malaysia	100%
ASML UK Ltd.	Paisley, Scotland	100%
ASML Germany GmbH.	Dresden, Germany	100%
ASML U.S. Inc.	Delaware, United States of America	100%
ASML Singapore Pte. Ltd.	Singapore	100%
ASML MaskTools Inc.	Delaware, United States of America	100%
ASML Capital US Inc.	Delaware, United States of America	100%
ASML Information Systems Ltd. (Israel)	Ramat-Gan, Israel	100%
ASML Participations US Inc.	Delaware, United States of America	100%
SVG International Service	California, United States of America	100%
Lehrer Pearson Inc.	Delaware, United States of America	100%
ASML-Micronic Joint Venture Company Ltd.	Dublin, Ireland	100%
SVG Europe Ltd.	Radlett, United Kingdom	100%
ASML Radlett Ltd.	Radlett, United Kingdom	100%
SVG Thermal (UK) Ltd.	Radlett, United Kingdom	100%
ASML Macau Commercial Offshore Ltd.	Macau China	100%
ASML Taiwan Ltd.	Hsinchu, Republic of China	100%

Assets, shareholders' equity and liabilities of foreign group companies not denominated in euros are for consolidation purposes translated into euros at the rates of exchange prevailing at year-end. Income and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from the translation are recorded directly in shareholders' equity.

Certain insignificant subsidiaries have been excluded from the table above.

3. Summary of significant accounting policies

The accounting principles of the company are summarized below. These accounting principles have all been applied consistently throughout the year and the preceding year.

Assets and liabilities are stated at face value unless indicated otherwise.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair market value of the identifiable assets and liabilities of SVG. Goodwill has been deducted from shareholders equity. For fiscal years beginning on or after January 1, 2001, charging goodwill to equity is no longer allowed by the Dutch Guidelines for Financial Reporting ('Richtlijnen voor de Jaarverslaggeving'). In 2003, Dutch law has followed in this regard. In 2001, ASML concluded charging goodwill to equity was appropriate for the following reasons:

- ASML applied the pooling-of-interests method for its U.S. GAAP external reporting purposes;
- Shifting international standards with respect to goodwill treatment; and
- Delay in Dutch legislative response on this matter.

The Company purchased SVG for EUR 1,772 million using 47 million shares of ASML. The fair market value of the assets purchased totaled EUR 667 million resulting in goodwill EUR 1,135 million. This goodwill was charged directly through shareholders' equity in 2001 (including EUR 30 million merger and acquisition costs).

This difference has resulted as of December 31, 2002 and 2003 in a different presentation of the composition of the Shareholders equity between Dutch GAAP and U.S. GAAP. For more information, we refer to Note 25.

Foreign currency translation

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

Derivative financial instruments

The Company principally uses derivative foreign currency hedging instruments for the management of foreign currency risks. The Company accounts for derivative financial instruments in accordance with accounting principles generally accepted in the United States. For ASML, these principles in substance do not differ materially from draft directive 290A of the Dutch Guidelines for Financial Reporting. Differences between ASML's accounting policy and current Dutch practice are not material.

Cash Flow Hedges

Forwards and options used to hedge the impact of the fluctuations in exchange rates on cash flows from purchase activities and sales transactions in non-functional currencies are treated as cash flow hedges. The critical terms of the hedging instruments are the same as those for the underlying transactions, and thus these hedging relationships are perfectly effective. The changes

in fair value of the derivatives are intended to offset changes in the expected cash flows from the underlying transactions. The change in the fair value of cash flow hedges are deferred under accumulated currency translation and other in shareholders' equity until the underlying exposure is recognized in the statement of operations.

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

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

Fair Value Hedges

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

Interest rate swaps that are being used to hedge the fair value of fixed loan coupons payable are designated as fair value hedges, with changes in fair value recorded under interest income and expense in the statement of operations. The change in fair value is intended to offset the change in the fair value of the underlying fixed loan coupons, which is recorded accordingly.

The Company records any ineffective portion of foreign currency hedging instruments in cost of sales in the statement of operations. Ineffectiveness of hedging instruments had a positive impact of EUR 0 million, EUR 0.8 million and EUR 3 million on cost of sales in 2003, 2002 and 2001, respectively. The ineffective portion of interest rate swaps is recorded in interest income (expense). The Company did not incur benefits or costs due to ineffectiveness of interest rate swaps in 2003 and 2002.

Cash and cash equivalents

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

Inventories

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

Intangible assets

Intangible assets include acquired intellectual property rights that are valued at cost and are amortized on a straight-line basis over their estimated useful life of 3 - 10 years.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets. In the case of leasehold improvements, the estimated useful lives of the related assets do not exceed the remaining term of the corresponding lease. The following table presents the assigned economic lives of ASML's property, plant and equipment:

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

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

Evaluation of Long-Lived Assets for Impairment

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

Recognition of revenues, income and expenses

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

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

Cost of sales

Costs of product sales comprise direct product costs such as materials, labor, cost of warranty,

depreciation, shipping and handling costs and related overhead costs. Repayments of certain technical development credits, which are calculated as a percentage of sales, are also charged to cost of product sales (see "Research and development costs and credits," below). ASML accrues for the estimated cost of the warranty on its systems, which includes the cost of labor and parts necessary to repair systems during the warranty period. The amounts recorded in the warranty accrual are estimated based on actual historical expenses incurred and on estimated probable future expenses related to current sales. Actual warranty costs are charged against the accrued warranty reserve. Costs of service sales comprise direct service costs such as materials, labor, depreciation and overhead costs relating to providing extended warranty and maintenance services.

Restructuring

ASML applies the criteria defined in directive 252 of the Dutch Guidelines of Financial Reporting: "Provisions" in order to determine when a liability for restructuring or exit costs should be recognized. With respect to employee termination costs, company recognizes restructuring provisions if prior to period ending an authorized plan has been communicated to the employees involved in a sufficient level of detail.

Research and development cost and credits

Costs relating to research and development are charged to operating expense as incurred. Subsidies and other governmental credits for research and development costs relating to approved projects are recorded as research and development credits in the period when the research and development cost to which the subsidy or credit relates occurs. Technical development credits (Technische Ontwikkelingskredieten or "TOKs") received from the Dutch government to offset the cost of certain research and development projects are contingently repayable, including accrued interest, as a percentage of the revenues from future sales, if any, of equipment developed in such projects. These repayments are charged to cost of sales at the time such sales are recorded. No repayments are required if such sales do not occur.

Net income per ordinary share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average ordinary shares outstanding. Diluted net income per share reflects the potential dilution that could occur if options issued under ASML's stock compensation plan were exercised, and if ASML's convertible loans were converted. There is no difference between the diluted earnings and the basic computations for 2002 and 2003 because such conversions and exercise of stock options would have an antidilutive effect.

Excluded from the diluted weighted average share outstanding calculation are Cumulative Preference Shares contingently issuable to the preference share foundation as they represent a different class of stock than the Ordinary Shares.

Use of estimates

The preparation of the Company's Consolidated Financial Statements in conformity with generally accepted accounting principles necessarily requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Segment disclosure

Prior to 2002, ASML reported in two business segments, Lithography and Track & Thermal. As ASML decided in 2002 to terminate its Track business and to divest its Thermal business, they are presented as discontinued operations and no longer disclosed as a separate segment. ASML operates in three general geographic areas (see Note 21).

Income taxes

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

Discontinuance of Track and Thermal businesses

4. Discontinued operations

On December 18, 2002 ASML announced the proposed sale of its Thermal business and the termination of its activities in the Track business. Both discontinued businesses met the criteria of directive 345 "Discontinued operations" and have been classified accordingly.

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

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

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

Summarized results of operations for discontinued operations are as follows:

Year ended December 31	2002	2003
Revenues		
Track	7,236	2,514
Thermal	105,929	38,198
Total	113,165	40,712
Loss from discontinued operations, net of taxes		
Track loss from operations	(27,991)	(1,456)
Track exit costs (net of taxes)	(30,626)	(1,944)
Thermal loss from operations	(61,161)	(21,906)
Thermal exit costs (net of taxes)	-	(10,404)
Total	(119,778)	(35,710)

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

As of December 31	2002	2003
Assets		
Intangible assets	4,410	-
Tangible fixed assets	32,994	3,167
Inventories	34,693	-
Receivables	33,064	1,840
Other	933	-
Total Assets	106,094	5,007
Liabilities		
Accounts payable	10,463	-
Accrued liabilities	41,741	13,451
Installation and warranty	13,887	-
Total Liabilities	66,091	13,451

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

Year ended December 31	2002	2003
Net cash provided by (used in) operating activities of discontinued operations	(121,039)	12,736
Net cash used in investing activities of discontinued operations	(6,434)	-
Net cash provided by (used in) discontinued operations	(127,473)	12,736

5. Restructuring

As a result of the industry's prolonged downturn, ASML announced on July 16, 2003 restructuring measures to further reduce costs company-wide by further reducing its workforce with approximately 550 positions worldwide. The Company recorded a provision of EUR 15 million of which EUR 3.7 million is included in cost of sales and EUR 11.3 million is included in restructuring costs. The Board of Management and the Dutch Works Council are nearing the completion of a joint study on implementing these workforce reductions in the Netherlands. Consequently, the Dutch workforce reduction has been delayed.

During 2003, ASML recorded a charge of approximately EUR 7 million in restructuring costs relating to the consolidation of its office and warehouse facilities at its headquarters in Veldhoven as the Company ceased using certain of its facilities. The facility exit charges included:

- estimated future obligations for non-cancelable lease payments (net of estimated sublease income of EUR 25 million). The Company's management estimated the cost of exiting by referring to the contractual terms of the lease agreements and by evaluating the sublease agreements concluded for these facilities or, where applicable, by referring to amounts being negotiated; and
- the impairment of property and equipment (primarily leasehold improvements) for which there are insufficient cash flows to support the carrying cost. The property and equipment impairment was determined based on the difference between the assets' estimated fair value and their carrying value.

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

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

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

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

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

6. Cash and cash equivalents

Cash at December 31, 2003 includes short-time deposits for the amount of EUR 702 million (2002: EUR 341 million) and commercial papers for an amount of EUR 176 million (2002: EUR 263 million). No further restrictions on usage of cash and cash equivalents exist.

7. Accounts receivable

Accounts receivable consist of the following:

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

A summary of activity in the allowance for doubtful debt:

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

8. Inventories

Inventories consist of the following:

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

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

Year ended December 31	2002	2003
Balance at beginning of year	(500,491)	(285,264)
Provision of the year	(112,164)	(32,431)
Effect of exchange rates	36,673	22,976
Utilization of the provision	290,718	81,097
Balance at end of year	(285,264)	(213,622)

9. Other assets

Other non-current assets consist of the following:

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

¹ For more information, we refer to Note 14. Employee Benefits.

² For more information, we refer to Note 16. Contractual obligation and commercial commitments.

The loan to Micronic has a notional amount of 320 million Swedish Krona and is non-interest bearing. The loan is repayable in 2004 or can be converted into 1 million shares of Micronic upon the first request of ASML and has therefore been classified as other current assets.

Other current assets consist of the following:

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

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

10. Intangible assets

In 1999, ASML obtained, through its purchase of the business of MaskTools, the intellectual property rights relating to Optical Proximity Correction technology. This technology enhances leading edge lithography systems to accurately and reliably print line widths below 0.2 micron.

These rights have been valued at cost and are amortized on a straight-line basis over their estimated useful life of 10 years.

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

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

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

2004:	3,653
2005:	3,575
2006:	2,100
2007:	2,100
2008:	2,100
Thereafter:	1,062

11. Property, plant and equipment

Property, plant and equipment consist of the following:

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

The balance property, plant and equipment as of December 31, 2003 includes assets under construction for buildings and constructions of EUR 591, machinery & equipment of EUR 2,310, leasehold improvements of EUR 38 and office furniture and fixtures of EUR 8,383.

During 2003, the Company recorded impairment charges of EUR 12.1 million in cost of sales for own used equipment that was identified as idle capacity.

12. Accrued liabilities and other

Accrued liabilities and other consist of the following:

As of December 31	2002	2003
Deferred revenue	35,274	44,542
Warranty and installation	69,684	33,331
Materials and costs to be paid	73,620	65,554
Advances from customers	126,860	187,677
Personnel related items	60,814	53,229
Investment credits payable	31,651	12,282
Restructuring	11,826	22,565
Other	39,119	23,203
Total accrued liabilities and other	448,848	442,383

13. Long-term debt and borrowing arrangement

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

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

Convertible debt securities

The following table summarizes the Company's outstanding Convertible Subordinated Notes as of December 31, 2002 and 2003, including fair value of interest rate swaps used to hedge the fair value of the underlying fixed loan coupon:

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

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

In November 1999, ASML completed an offering of USD 520 million principal amount of its 4.25 percent Convertible Subordinated Notes due November 30, 2004, with interest payable semi-annually on November 30 and May 30 of each year, commencing on May 30, 2000.

In July and August 2003, ASML repurchased USD 139.6 million. In October 2003, ASML called for redemption on December 5, 2003, all of the bonds that remained outstanding, at a redemption price of 100.85 percent of their principal amount plus accrued interest. Before December 5, 2003, bondholders converted bonds for a total of USD 120 thousand into 1,430 ordinary shares,

of which USD 20 thousand were converted into 536 shares in 2003. On December 5, 2003, the Company redeemed the remaining USD 380.3 million.

In October 2001, ASML completed an offering of USD 575 million principal amount of its 5.75 percent Convertible Subordinated Notes due October 15, 2006, with interest payable semi-annually on April 15 and October 15 of each year, commencing on April 15, 2002.

The notes are convertible into 30,814,576 ordinary shares at USD 18.66 (EUR 14.77) per share at any time prior to maturity. At any time on or after October 22, 2004, the notes are redeemable at the option of ASML, in whole or in part, at 100 percent of its principal amount, together with accrued interest, provided that the Company's shares close above 130 percent of the conversion price for twenty trading days out of a thirty-day period. During 2003 none of the notes were converted into ordinary shares.

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

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

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

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

The fair value of the Company's long-term debt is estimated based on the quoted market prices as of December 31, 2002 and December 31, 2003, respectively. These loans do not contain any covenants.

Other long term debt

In February 1997, the Company received a USD 6.5 million (EUR 5.1 million) loan from the Connecticut Development Authority. The loan has a ten-year term, bears interest at 8.25 percent, and is secured by the Company's Wilton, Connecticut, U.S. facility. At December 31, 2003, the Company's outstanding debt with respect to this loan amounted to USD 2.7 million (EUR 2.1 million).

In 1999, the Company assumed three yen-denominated loans in connection with its merger with SVG. Approximately EUR 3.7 million (JPY 503 million) is outstanding at December 31, 2003, which is secured by land and buildings in Japan, is payable in monthly installments through the

year 2011, bearing interest at 2.5 percent. Approximately EUR 10 million (JPY 1,350 million) and EUR 1.5 million (JPY 200 million) are outstanding at December 31, 2003. These loans are unsecured, repayable in 2006 and 2007, and bear interest at 3.1 percent and 2.2 percent, respectively, payable semi-annually. These loans do not contain any covenants.

Lines of credit

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

14. Employee benefits

In February 1997, SVG adopted a non-qualified deferred compensation plan that allowed a select group of management and highly compensated employees and directors to defer a portion of their salary, bonus and commissions. The plan allowed SVG to credit additional amounts to participants' account balances, depending on the amount of the employee's contribution, up to a maximum of 5 percent of an employee's annual salary and bonus.

In addition, interest is credited to the participants' account balances at 120 percent of the average Moody's corporate bond rate. For calendar years 2002 and 2003, participants' accounts were credited at 8.89 percent and 8.50 percent, respectively.

SVG's contributions and related interest became 100 percent vested in May 2001 with the merger of SVG and ASML. During fiscal years 2002 and 2003, the expense incurred under this plan was EUR 1 million and EUR 0.9 million, respectively.

As of December 31, 2002 and 2003, the Company's liability under the deferred compensation plan was EUR 14 million and EUR 9 million, respectively.

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

Pension plans

ASML and its consolidated subsidiaries maintain various retirement plans covering substantially all of its employees. Employees in the Netherlands participate in a multi-employer union plan determined in accordance with the respective collective bargaining agreements.

This plan is subject to a salary cap. Employees with a salary exceeding this cap also participate in an ASML defined contribution pension plan.

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

The Company's pension costs for all employees were:

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

Bonus plan

ASML has a performance-related bonus plan for senior management, who are not members of the Board of Management. Under this plan, the ultimate bonus amount is dependant on the actual performance on corporate, departmental and personal targets. The bonus for senior management can range between 0 percent and 60 percent of their annual salary. For the year 2002, no bonuses were granted. A bonus for senior management is accrued for in the statement of operations for the year ended December 31, 2003 for an amount of EUR 6.5 million, expected to be paid in the first quarter of 2004.

Profit-sharing plan

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

Stock options

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

In 1998, the Company issued 3,348,576 options to purchase ordinary shares, consisting of options to purchase 2,097,831 ordinary shares for eligible employees of ASML and options to purchase 1,250,745 ordinary shares for key personnel and management. This issuing of options included a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of distribution under the profit-sharing plan.

The options have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext Amsterdam on the applicable grant dates. Stock options granted to eligible employees vested over a three-year period with any unexercised stock options expiring six years after the grant date. Stock options granted to key personnel in 1998 vested over a three and four-year period with any unexercised stock options expiring six years after the grant date.

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

In 2000, options were authorized to purchase up to 4,500,000 ordinary shares. Granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date.

In 2001, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of distribution under the profit sharing plan. Options granted under these plans have fixed exercise prices that are equal either to the closing price of the Company's ordinary shares on Euronext on the applicable grant date, or 135 percent of the closing price of the Company's ordinary shares on Euronext on the applicable grant dates. Granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date, with the exception of a designated part of grants made in July 2001 that have a graded vest of 1/3 (one third) after the first year, 1/3 (one third) after the second year and 1/3 (one third) in the third year. During 2001, 232,520 options to purchase ordinary shares were granted to the Board of Management. No options were exercised during 2001 by members of the Board of Management.

In 2002, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of a percentage of their salary. Options granted under these plans have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext on the applicable grant dates. A designated part of the granted stock options vest over a one year period with any unexercised stock options expiring six years after the grant date. The remaining part of the granted stock options vest over a three-year period with any unexercised stock options expiring six years after the grant date.

In 2003, options were authorized to purchase up to 6,000,000 ordinary shares, including a feature whereby eligible employees were given the right to elect to receive options to purchase ordinary shares in lieu of a percentage of their salary. Options granted under these plans have fixed exercise prices equal to the closing price of the Company's ordinary shares on Euronext on the applicable grant dates. Granted stock options vest over a three-year period with any unexercised stock options expiring ten years after the grant date.

Stock Option Extension Plans

In 2002, employees were offered an extension of the option period for options granted in 1997 up to and including 2000. For the years 1997 up to and including 1999, this extension is either until October 21, 2008, or October 21, 2005. For 2000, the option period is extended until 2012. Employees who accepted the extension became subject to additional exercise periods in respect of their options and a higher strike price.

Financing of stock option plans

Option plans that were issued before 2001 were constructed with a virtual financing arrangement whereby ASML financed the tax value of the options granted to employees subject to the Netherlands tax-regime. The loans issued under this arrangement are repayable to ASML on the exercise date of the respective option, provided that the option was actually exercised. If the options expire unexercised, the respective loans are forgiven.

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

Stock option transactions are summarized as follows:

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

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

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

15. Financial instruments

Financial instruments recorded on the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and convertible subordinated notes. The carrying amounts of all financial instruments approximates fair value due to the short-term nature of these instruments, except for our convertible subordinated notes (See Note 13).

Foreign currency management

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

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

actions occurring. The effectiveness of all outstanding hedge contracts is monitored closely throughout the life of the hedges.

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

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

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

Interest rate management

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

Sensitivity analysis derivative financial instruments

The following table summarizes the Company's derivative financial instruments, their market values and their sensitivity to changes in foreign exchange rate or interest rates as of December 31, 2002 and 2003:

Derivative	National Amount		Fair Value		Fair value change resulting from a 1% non-favorable increase in interest rate		Fair value change resulting from a 10% weakening of EUR against other currency	
	2002	2003	2002	2003	2002	2003	2002	2003
December 31, Forward contracts ¹	223,000	(54,173) ²	845	444	N/A	N/A	5,246	(4,398)
Currency options	41,000	8,314	782	(217)	N/A	N/A	(12)	(173)
Interest rate swaps	982,000	981,285	5,684	6,102	(18,659)	(21,801)	N/A	N/A

(Source: Bloomberg)

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

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

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

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

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

16. Contractual obligation and commercial commitments

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

Lease Commitments

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

The Company has concluded several operating leases for its buildings that contain a purchase option. The Company is party to a transaction involving a special purpose vehicle relating to the lessor of the Veldhoven headquarters building that has been completed in 2003.

Total assets of the special purpose vehicle amount to approximately EUR 54 million and are funded through:

- equity of EUR 1.9 million;
- straight loans granted by the shareholders of the special purpose entity of EUR 12.3 million, partly redeemable over 15 years and quarterly interest-bearing;
- a third party loan of EUR 34.9 million, partly redeemable over 15 years and quarterly interest-bearing;
- a subordinated loan provided by the Company of EUR 5.4 million, recorded under non-current assets.

The lease will expire in 2018. The Company has an option to purchase the property, at a predetermined price scheme, throughout the term of the lease. The purchase option at the end of the lease term amounts to EUR 24.5 million.

Purchase Obligations

The Company enters into purchase commitments with vendors in the ordinary course of business to ensure a smooth and continuous supply chain for key components. Purchase obligations

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

See Tabular Disclosure of Contractual Obligations below.

Other Off-Balance Sheet Arrangements

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

The Company provides guarantees to third parties in connection with transactions entered into by its subsidiaries in the ordinary course of business.

Tabular Disclosure of Contractual Obligations

The Company's contractual obligations and commercial commitments as of December 31, 2003 can be summarized as follows:

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

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

17. Legal contingencies

ASML is party to various legal proceedings generally incidental to its business. Since late 2001, ASML has been a party to a series of litigation and administrative proceedings in which Nikon alleges ASML's infringement of Nikon patents relating to photolithography. These are discussed below. ASML also faces exposure from other actual or potential claims and legal proceedings. Although the ultimate disposition of these other claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such other claim that is pending or threatened, either individually or on a combined basis, is expected not to have a materially adverse effect on ASML's consolidated financial condition. On occasion, certain ASML customers have received notices of infringement from third parties. These notices allege that the ASML equipment used by those customers in the manufacture of semiconductor products, and/or the methods relating to use of the ASML equipment, infringes one or more patents issued to those third parties. ASML has been advised that, if these claims were successful, it could be required to indemnify such customers for some or all of any losses incurred or damages

assessed against them as a result of that infringement.

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

Ultratech case U.S.

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

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

Nikon case U.S.

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

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

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

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

On April 5, 2002, ASML filed a counterclaim in the ITC action alleging that Nikon's photolithography machines sold in the United States infringe five ASML patents.

According to ITC procedure, these counterclaims were initially transferred to the United States District Court for the District of Arizona. On October 17, 2002, these claims were transferred to the United States District Court for the Northern District of California, where they are now pending.

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

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

Nikon case Japan

On July 8, 2003, Nikon withdrew its counterclaim against ASML filed in October 2002, alleging that ASML's photolithography machines infringe 12 Japanese patents held by Nikon.

On November 19, 2003, Nikon filed a new complaint against ASML and its subsidiary in Japan alleging that ASML's photolithography machines sold in Japan infringe patents held by Nikon.

This litigation is in the early stage, and a final decision is not expected before 2006. In the event a final non-appealable decision in the Japanese proceeding was rendered that was adverse to ASML, it could substantially restrict or eliminate ASML's ability to achieve future sales growth in Japan, which could in turn have a material adverse effect on the Company's results of operations, the amount which currently cannot be estimated.

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

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

Nikon case Korea

On October 8, 2002, Nikon filed a patent infringement action against ASML and its Korean subsidiary in the Seoul District Court alleging that ASML's photolithography machines infringe five of Nikon's patents, four of which are related to Nikon's patents asserted in its U.S. litigation. The complaint seeks to prohibit ASML from the manufacture, use, sale, import or export of infringing products, the destruction of the manufacturing facilities for these products and damages.

Exchanges of briefs from both sides have taken place on the preliminary issues; exchanges of several additional briefs are expected. ASML filed invalidation actions against two Nikon patents related to this to this District Court action in April 2003 with the Korean Intellectual Property Office, and the initial exchanges of briefs have occurred.

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

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

18. Other contingencies

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

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

19. Research and development credits

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

As of December 31	2002	2003
Netherlands government technology subsidy	25,981	19,119
European community and other subsidies	34	-
Total subsidies and credits received	26,015	19,119

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

20. Income taxes

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

The components of income before income taxes are as follows:

Year ended December 31	2002	2003
Domestic	(206,001)	(288,370)
Foreign	(108,447)	45,163
Total	(314,448)	(243,207)

The foreign component predominantly relates to the U.S.

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

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

ASML's provision for income taxes consists of the following:

Year ended December 31	2002	2003
Domestic - Current	26	2,307
Foreign - Current	5,668	17,094
Domestic - Deferred	(46,020)	(99,426)
Foreign - Deferred	(66,299)	(2,966)
Total	(106,625)	(82,991)

Deferred tax assets (liabilities) consist of the following:

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

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

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

Deferred tax assets are resulting from net operating loss carry-forwards incurred predominantly in the U.S. and the Netherlands. Net operating losses qualified as tax losses under Dutch tax laws incurred by Netherlands group companies can in general be offset for an indefinite period against future taxable profits. Net operating losses qualified as tax losses under U.S. federal tax laws incurred by U.S. group companies can in general be offset against future profits realized in 20 years following the year in which the losses are incurred. The possibility to carry forward U.S. federal tax losses will expire in the period 2021 through 2023. Net operating losses qualified as tax losses under U.S. state tax laws incurred by U.S. group companies can in general be offset against future profits realized in 5 to 20 years following the year in which the losses are incurred. The period of net operating loss carryforward for U.S. state tax purposes depend on the state in which the tax loss arose. The possibility to carry forward U.S. state tax losses will expire in the period 2006 through 2023. The total amount of tax loss carried forward as of December 31, 2003 is EUR 842 million. Based on its analysis, management believes that it is probable that all tax losses will be offset by future taxable income before the statute on loss compensation expires. The analysis takes into account the projected future taxable income from operations, possible tax planning alternatives, and the expected outcome of a bi-lateral Advance Pricing Agreement ("APA") initiated by ASML. Management believes that it is probable that these negotiations will result in an APA agreement between ASML and the U.S. and Netherlands tax authorities regarding inter-company transfers of certain tangible and intangible assets. These transactions are the result of the realignment of group operations. The APA negotiations are expected to be finalized before the end of 2004.

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

21. Segment disclosure

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

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

	Asia	Europe	United States	Eliminations	Consolidated
2002					
Net sales to unaffiliated customers	1,066,476	190,196	702,000	-	1,958,672
Inter-company sales	-	1,580,790	27,971	(1,608,761)	-
Total net sales	1,066,476	1,770,986	729,971	(1,608,761)	1,958,672
Operating income (loss)	5,569	(84,460)	30,392	(45,544)	(94,043)
Identifiable assets	438,976	3,360,456	630,824	(1,248,732)	3,181,524
2003					
Net sales to unaffiliated customers	762,384	220,190	560,163	-	1,542,737
Inter-company sales	26,897	1,212,740	54,331	(1,293,968)	-
Total net sales	789,281	1,432,930	614,494	(1,293,968)	1,542,737
Operating income (loss)	5,038	(224,608)	95,404	(30,866)	(155,032)
Identifiable assets	611,477	3,332,335	565,531	(1,660,658)	2,848,685

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

22. Personnel

Personnel expenses for all employees were:

Year ended December 31	2002	2003
Wages and salaries	371,281	326,678
Social security expenses	31,897	24,640
Pension and retirement expenses	22,324	23,150
Total	425,502	374,468

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

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

As of December 31	2002	2003
Marketing & Technology	1,708	1,507
Goodsflow	1,416	1,184
Customer Support	2,090	1,717
General	588	518
Sales	169	133
Total continuing operations	5,971	5,059
Total discontinued operations	712	119 ¹
Total number of employees (including non-payroll employees)	6,683	5,178

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

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

23. Board of Management and Supervisory Board remuneration

Board of Management

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

Year ended December 31	2002	2003
Salaries	2,016,000	1,912,966
Bonuses	-	1,052,131
Pension cost	263,000	212,058
Total	2,279,000	3,177,155

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

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

ASML has a performance-related bonus plan for the Board of Management. Under this plan, the ultimate bonus amount is dependent on the actual achievement on corporate targets.

These targets are market share, financial and operational performance parameters relating to return on invested capital parameters.

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

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

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

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

Supervisory Board

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

Year ended December 31	2002	2003
H. Bodt	40,000	40,000
P.H. Grassmann	25,000	25,000
S. Bergsma	25,000	25,000
A. Westerlanden	25,000	-
J.A. Dekker	25,000	25,000
M.J. Attardo	25,000	25,000
J.W.B. Westerburgen	-	25,000

Members of the Board of Management and/or Supervisory Board are free to acquire or dispose of ASML shares or options for their own account, provided they comply with the ASML Insider

Trading Rules 2002. Those securities are not part of members' remuneration from the Company and are therefore not included.

Insurance and Indemnification

Members of the Board of Management and Supervisory Board, as well certain senior management members, are insured under the ASML's Directors and Officers Insurance Policy. Although the insurance policy provides for a wide coverage, our directors and officers may occur additional uninsured liabilities. ASML has indemnified 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.

24. Vulnerability due to certain concentrations

ASML relies on outside vendors to manufacture the components and subassemblies used in its systems, each of which is obtained from a sole supplier or a limited number of suppliers. ASML's reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these subassemblies and components. In particular, the number of systems ASML has been able to produce has occasionally been limited by the production capacity of Zeiss. Zeiss is currently ASML's sole external supplier of lenses and other critical optical components and is capable of producing these lenses only in limited numbers and only through the use of its manufacturing and testing facility in Oberkochen, Germany. ASML sells a substantial number of lithography systems to a limited number of customers.

In 2003, sales to one customer accounted for EUR 314 million or 20 percent of net sales. In 2002, sales to one customer accounted for EUR 377 million, or 19 percent of net sales. As a result of the limited number of customers, credit risk on receivables is concentrated.

ASML's three largest customers accounted for 44 percent of accounts receivable at December 31, 2003, compared to 42 percent at December 31, 2002. Business failure of one of ASML's main customers may result in adverse effects on its business, financial condition and results of operations.

25. Differences between Dutch GAAP and U.S. GAAP

The ASML Consolidated Financial Statements prepared in accordance with Dutch GAAP differ from the ASML Consolidated Financial Statements prepared in accordance with U.S. GAAP. The principal difference is discussed below.

The ASML consolidated Financial Statements for the year ended December 31, 2002 and 2003 do not include any differences anymore for the statements of operations, nor for total shareholders' equity. However, the composition of shareholders equity differs in our Dutch GAAP financial statements as compared to our U.S. GAAP financial statements.

U.S. GAAP

The merger with SVG is accounted for under the "pooling-of-interests" method. Under the pooling-of-interests accounting method shareholders' equity has been restated to reflect the issuance of approximately 47 million ordinary shares of ASML in exchange for all of the outstanding SVG ordinary shares. The shareholders' equity subsequent to the merger equals the sum of the shareholders' equity of ASML and SVG prior to the merger. Resulting from the conversion rate of 1.286 ASML shares for each SVG share the segregation between nominal value and share premium has been adjusted. The Combined Statement of Operations under the pooling-of-interests accounting method combines the results of ASML and SVG for all years presented.

Dutch GAAP

Under the purchase accounting method the issuance of approximately 47 million ordinary shares with a fair market value of EUR 1,772 million on October 1, 2000, is accounted for as the consideration paid by ASML. Goodwill represents the excess of the cost of the acquisition over the fair market value of the identifiable assets and liabilities of SVG. Goodwill has been deducted from shareholders equity.

Company-only Balance Sheets

(After appropriation of net result for the year)

As of December 31 (Amounts in thousands)	2002 EUR	2003 EUR
Assets		
Cash and cash equivalents	471,960	411,745
Amounts due from subsidiaries	833,013	674,209
Current tax asset	178,516	-
Deferred tax asset	-	27,176
Other current assets	86,281	113,108
Total current assets	1,569,770	1,226,238
Investments in subsidiaries	533,017	856,565
Loans due from subsidiaries	364,958	-
Deferred tax assets	5,485	72,240
Other assets	50,494	16,208
Total non-current assets	953,954	946,154
Total assets	2,523,724	2,171,251
Liabilities and shareholders' equity		
Accrued liabilities and other	10,652	18,526
Total current liabilities	10,652	18,526
Deferred tax liability	133,516	168,975
Convertible subordinated debt	1,064,040	842,543
Total long term liabilities	1,197,556	1,011,518
Cumulative Preference Shares, EUR 0.02 nominal value; 900,000,000 shares authorized; none outstanding at December 31, 2002 and 2003	-	-
Priority Shares, EUR 0.02 nominal value; 23,100 shares authorized, issued and outstanding at December 31, 2002 and 2003	1	1
Ordinary Shares, EUR 0.02 nominal value; 900,000,000 shares authorized; 482,182,485 shares issued and outstanding at December 31, 2002 and 482,513,502 at December 31, 2003	9,463	9,650
Share premium	1,105,303	1,110,679
Retained earnings	225,019	64,803
Accumulated currency translation and other	(24,450)	(43,926)
Total shareholders' equity	1,315,516	1,141,207
Total liabilities and shareholders' equity	2,523,724	2,171,251

Abbreviated Company-only Statements of perations

For the year ended December 31 (Amounts in thousands)€	2002 EUR	2003 EUR
Net loss from subsidiaries	(219,887)	(135,390)
Loss after taxes	12,064	(24,826)
Net loss	(207,823)	(160,216)

Notes to the Company-only Financial Statements

1. General

The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company-only financial statements.

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

2. Summary of significant accounting policies

Significant accounting policies

The accounting policies used in the preparation of the Company-only Financial Statements is the same as those used in the preparation of the Consolidated Financial Statements. Please refer to the Notes to the Consolidated Financial Statements. In addition to those accounting policies, the following accounting policies for the Company-only Financial Statements are described below.

Financial Fixed Assets

Investments in subsidiaries are stated at net asset value as the Company effectively exercises influence on significance over the operational and financial activities of these investments. The net asset value is determined on the basis of the accounting principles applied by the Company.

Presentation of amounts

Amounts presented in the Company Statements of Operations are presented net of income taxes. The accompanying Financial Statements include the accounts of ASML Holding N.V. ASML Holding N.V. follows accounting principles in conformity with those generally accepted in the Netherlands.

3. Changes in fixed assets

Changes in fixed assets during 2003 were as follows:

	Investments in subsidiaries	Loans due from subsidiaries	Other assets
Balance, January 1	533,017	364,958	50,494
Additions	14,831	-	8,550
Contribution in Kind	495,254 ¹	(364,958)	-
Amortization	-	-	(7,660)
Net result from subsidiaries	(135,390)	-	-
Dividends received	(15,809)	-	-
Reclassification to current assets	-	-	(35,342)
Effect of exchange rates	(35,338)	-	166
Balance, December 31	856,565	-	16,208

¹ Includes contribution in kind of loans due from subsidiaries, accrued interest due from subsidiaries and current accounts due from subsidiaries.

4. Statement of shareholders' equity

	Cumulative Preference shares	Priority shares	Ordinary shares	share premium	Retained Earnings	Accumulated currency translation and other	Total
Balance ¹ January 2002	-	1	9,339	814,414	432,842	(30,309)	1,226,287
Issuance of Shares	-	-	304	290,889	-	-	291,193
Translation gain and other	-	-	-	-	-	5,859	5,859
Appropriation of Net loss	-	-	-	-	(207,823)	-	(207,823)
Balance 31 December 2002	-	1	9,643	1,105,303	225,019	(24,450)	1,315,516
Balance ¹ January 2003	-	1	9,643	1,105,303	225,019	(24,450)	1,315,516
Issuance of Shares	-	-	7	5,376	-	-	5,383
Translation loss and other	-	-	-	-	-	(19,476)	(19,476)
Appropriation of Net loss	-	-	-	-	(160,216)	-	(160,216)
Balance 31 December 2003	-	1	9,650	1,110,679	64,803	(43,926)	(1,141,207)

Cumulative preference shares consist of 900,000,000 authorized preference shares of which none are issued and outstanding at December 31, 2003. The shares have a par value of EUR 0.02 each.

Priority shares consist of 23,100 authorized priority shares of which 23,100 shares are issued and outstanding at December 31, 2003. The shares have a par value of EUR 0.02 each.

Ordinary shares consist of 900,000,000 authorized ordinary shares of which 482,513,502 shares are issued and outstanding at December 31, 2003. The shares have a par value of EUR 0.02 each.

5. Commitments and contingencies

Joint and several liability

General guarantees as defined in Book 2, Section 403 of The Netherlands Civil Code have been given by ASML Holding N.V. on behalf of several Group companies in The Netherlands.

- ASML Netherlands B.V.
- ASML Finance B.V.
- ASML MaskTools B.V.
- ASML Subholding B.V.

The liabilities of these companies to third parties amount to EUR 451 million (2002, EUR 523 million)

Signing of the Financial Statement

Veldhoven, The Netherlands

January 30, 2004

Prepared by

The Board of Management:

Doug J. Dunn
Peter T.F.M. Wennink
Martin A. van den Brink
David P. Chavoustie
Stuart K. McIntosh

Adopted by

The Supervisory Board:

Henk Bodt
Syb Bergsma
Michael J. Attardo
Peter H. Grassmann
Jos W.B. Westerburgen
Jan A. Dekker

Other information

The additional information below includes a brief summary of the most significant provisions of the Articles of Association of ASML Holding N.V. (the "Company").

Adoption of Financial Statements

The Board of Management will submit the Company's annual Dutch statutory accounts, together with a certificate of the auditor in respect thereof, to the Supervisory Board for adoption. There upon, these Financial Statements will be submitted to the General Meeting of Shareholders for approval.

Statements Appropriation and determination of profits

Dividends may be payable out of annual profit shown in the Financial Statements of the Company as adopted by the Supervisory Board and approved by the General Meeting of Shareholders of the Company, after payment first of (accumulated) dividends on any outstanding Cumulative Preference Shares. At its discretion, however, subject to statutory provisions, the Board of Management may, with the prior approval of the Supervisory Board and the Meeting of Priority Shareholders, distribute one or more interim dividends on the Ordinary Shares before the Financial Statements for any financial year have been approved by the General Meeting of Shareholders. The Board of Management, with the approval of the Supervisory Board, may decide that all or part of the Company's profits should be retained and not be made available for distribution to shareholders, except for dividends on the Cumulative Preference Shares. Those profits that are not retained may be distributed to shareholders pursuant to a shareholders' resolution, provided that the distribution does not reduce shareholders' equity below the amount of reserves required by Dutch law. Existing reserves that are distributable in accordance with Dutch law may be made available to the General Meeting of Shareholders for distribution upon a proposal by the Board of Management, subject to prior approval by both the Supervisory Board and the

Meeting of Priority Shareholders. As regards cash payments, the rights to dividends and distributions shall lapse if such dividends or distributions are not claimed within five years following the day after the date on which they were made available.

The Board of Management with the approval of the Supervisory Board has decided that the Company's loss for 2003 will be deducted from retained earnings. This proposal has already been reflected in the 2003 Financial Statements.

Voting rights

The Company is subject to the relevant provisions of Dutch law applicable to large corporations ('Structuurregime'). These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of the Supervisory Board. The Supervisory Board is self-electing, however the General Meeting of Shareholders and the Works Council each have a right of recommendation and a right to object to a proposed appointment of a new member of the Supervisory Board.

Members of the Board of Management are appointed by the Supervisory Board. The Supervisory Board shall notify the General Meeting of Shareholders of intended appointments to the Board of Management. General Meetings of Shareholders will be held at least once a year. The Company does not solicit from or nominate proxies for its shareholders. However, shareholders and other persons entitled to attend General Meetings of Shareholders may be represented by proxies with written authority.

Extraordinary General Meetings of Shareholders may be held as often as deemed necessary by the Supervisory Board or Board of Management and must be held if the Meeting of Priority Shareholders or one or more Ordinary or Cumulative Preference Shareholders jointly representing at least 10 percent of the issued share capital make a written request to that effect to the Supervisory Board and the Board of Management specifying in detail the business to be dealt with.

Resolutions are adopted at General Meetings of Shareholders by an absolute majority of the votes cast (except where a different proportion of votes are required by the Articles of Association or Dutch law) and there are generally no quorum requirements applicable to such meetings. Each Ordinary, Cumulative Preference and Priority Share confers the right to one vote.

Cumulative Preference Shares

In April 1998, as extended in 2003, the Company has granted to the preference share foundation 'Stichting Preferente Aandelen ASML' ('the Foundation') an option to acquire Cumulative Preference Shares in the capital of the Company (the 'Preference Share Option'). The object of the Foundation is to protect the interests of the Company and the enterprises maintained by it. The Cumulative Preference Shares have the same voting rights as Ordinary Shares but are entitled to dividends on a preferential basis at a percentage based on the average official interest rate determined by EURIBOR plus 2 percent.

The Preference Share Option gives the Foundation the right to acquire a number of cumulative preference shares equal to the number of ordinary shares outstanding at the time of exercise of the cumulative preference share option for a subscription price equal to their EUR 0.02 nominal value. Only one-fourth of this subscription price is payable at the time of initial issuance of the cumulative preference shares. The cumulative preference shares may be cancelled and repaid by

the Company upon the authorization by the General Meeting of the Shareholders or a proposal to do so by the Board of Management and the Meeting of Priority Shareholders. Exercise of the Preference Share Option would effectively dilute the voting power of the ordinary shares then outstanding by one-half. The practical effect of any such exercise could be to prevent attempts by third parties to acquire control of the Company.

Declaration of Independence

The Board of Directors of the Foundation and the Board of Management of the Company together declare that the Foundation is independent of the Company as defined in article A2bl of "Bijlage X bij het Fondsenreglement van Euronext Amsterdam N.V." The Board of the Foundation comprises three voting members from the Dutch business and academic communities, Mr. R. Selman, Mr. F. Grapperhaus and Mr. M den Boogert, and one non-voting member; the Chairman of the Company's Supervisory Board, Mr. H. Bodt.

Priority Shares

A number of special powers have been conferred to the Meeting of Priority Shareholders under the Articles of Association. Such special powers relate, amongst others, to changes to the issued capital, amendment of the Articles of Association and dissolution of the Company. All outstanding priority shares are held by "Stichting Prioriteitsaandelen ASML Holding N.V.", a foundation having a self-elected board that must consist solely of members of the Company's Supervisory Board and Board of Management.

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

- Doug J. Dunn
- Henk Bodt
- Syb Bergsma
- Jan A. Dekker
- Peter T.F.M. Wennink

An overview of the other functions held by above persons can be obtained at the Company's office. In the joint opinion of the Company and the foregoing members of the board of the priority share foundation, the composition of the board conforms to Appendix X, Article C10 of the listing and issuing rules of the Euronext Amsterdam Exchange N.V.

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

Issue of Shares

The Board of Management of the Company has the power to issue Ordinary Shares and Cumulative Preference Shares if and in so far as the Board of Management has been authorized to do so by the General Meeting of Shareholders (whether by means of an authorizing resolution or by an amendment to the Company's Articles of Association). The Board of Management requires the approval, however, of the Supervisory Board and the Meeting of the Priority Shareholders for such an issue.

Shareholders have a pro rata pre-emptive right of subscription to any Ordinary Share issue for

cash, which right may be limited or eliminated. Shareholders have no pro rata pre-emptive subscription right with respect to any Ordinary Shares issued for a contribution other than cash. If designated for this purpose by the General Meeting of Shareholders, the Board of Management has the power, on approval by the Supervisory Board and the Meeting of Priority Shareholders, to limit or eliminate such rights.

The Company may repurchase Ordinary Shares, subject to compliance with certain legal requirements.

Any such purchases are subject to the approval of the Supervisory Board and the authorization of the General Meeting of Shareholders, which authorization may not be for more than 18 months.

Auditors' report

Introduction

We have audited the financial statements of ASML Holding N.V., Veldhoven, The Netherlands, for the year 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in The Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code, except for the compliance with the Annual Accounts Format Decree ('Besluit Modellen Jaarrekening') as prescribed by article 363.6 of the Netherlands Civil Code regarding the presentation of the balance sheet (Model B of the Decree).

Deloitte & Touche Accountants

Eindhoven, The Netherlands
January 30, 2004

Information and Investor Relations

Financial Calendar

March 18, 2004

General meeting of Shareholders
at the Evoluon,
Noord Brabantlaan 1A in Eindhoven
The Netherlands

April 21, 2004

Announcement of first quarter results for 2004

July 21, 2004

Announcement of semi-annual results for 2004

October 20, 2004

Announcement of third quarter results for 2004

January 20, 2005

Announcement of annual results for 2004

Fiscal Year

ASML's fiscal year ends as of December 31

Listing

The ordinary shares of the Company are listed on the official market of the Euronext Amsterdam N.V. and on the Nasdaq Stock Market® (NASDAQ) in the United States, both under the symbol "ASML".

Investor Relations

ASML Investor Relations will supply information or further copies of the original English Annual Report, including Form 20-F filed with the US Securities and Exchange Commission. Copies of other publications (i.e., quarterly earnings announcements) can also be obtained free of charge at the offices of ASML. The financial reports are also available on the ASML website (www.asml.com).

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Central, Hong Kong, SAR

For more information please visit our website www.asml.com

Other available information

Copies of other publications (i.e. the Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and the Amsterdam Exchanges and quarterly earnings announcements) can also be obtained free of charge at the offices of ASML. These financial reports are also available on the ASML website (www.asml.com).