ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

NXP SEMICONDUCTORS N.V.

Forward-looking statements

This document includes forward-looking statements which include statements regarding NXP's business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. By their nature, forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include the following: market demand and semiconductor industry conditions; the ability to successfully introduce new technologies and products; the end-market demand for the goods into which NXP's products are incorporated; the ability to generate sufficient cash, raise sufficient capital or refinance corporate debt at or before maturity; the ability to meet the combination of corporate debt service, research and development and capital investment requirements; the ability to accurately estimate demand and match manufacturing production capacity accordingly or obtain supplies from third-party producers; the access to production capacity from third-party outsourcing partners; any events that might affect third-party business partners or NXP's relationship with them; the ability to secure adequate and timely supply of equipment and materials from suppliers; the ability to avoid operational problems and product defects and, if such issues were to arise, to correct them quickly; the ability to form strategic partnerships and joint ventures and to successfully cooperate with alliance partners; the ability to win competitive bid selection processes to develop products for use in customers' equipment and products; the ability to achieve targeted efficiencies and cost savings; the ability to successfully hire and retain key management and senior product architects; and, the ability to maintain good relationships with our suppliers.

In addition, this document contains information concerning the semiconductor industry and NXP's business generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, NXP's markets and product areas may develop. NXP has based these assumptions on information currently available, if any one or more of these assumptions turn out to be incorrect, actual results may differ from those predicted. While NXP does not know, what impact any such differences may have on its business, if there are such differences, its future results of operations and its financial condition could be materially adversely affected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak to results only as of the date the statements were made.

Except for any ongoing obligation to disclose material information as required by the United States federal securities laws, NXP does not have any intention or obligation to publicly update or revise any forward-looking statements after we distribute this document, whether to reflect any future events or circumstances or otherwise. For a discussion of potential risks and uncertainties, please refer to the risk factors listed in filings with the U.S. Securities and Exchange Commission ("SEC"). Copies of our SEC filings are available on our Investor Relations website, www.nxp.com/investor or from the SEC website, www.sec.gov.

Use of fair value measurements

In presenting the NXP Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that we consider to be reliable. Users are cautioned that these values are subject to changes over time and are only valid as of the period end date. When a readily determinable market value does not exist, we estimate fair values using valuation models which we believe are appropriate for their purpose. These require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases independent valuations are obtained to support management's determination of fair values.

Basis of presentation

The accompanying financial information included in this document is based on International Financial Reporting Standards ("IFRS") as adopted by the European Union, unless otherwise indicated.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets.

Statutory financial statements

These Group financial statements and the Company financial statements of NXP Semiconductors N.V. contain the statutory financial statements of the Company prepared in accordance with Dutch law.

Contents

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

Financial Highlights

$ in millions, unless otherwise stated	**2019**	2018
Revenue	**8,877**	9,407
Operating income	**957**	3,162
as a % of revenue	**10.8%**	33.6%
Net income	**541**	2,646
- per common share in $:		
* basic	**1.82**	7.97
* diluted	**1.78**	7.87
Earnings before interest, tax, depreciation and amortization (EBITDA) [1)]	**3,430**	5,499
as a % of revenue	**38.6%**	58.5%
Cash flows before financing activities	**136**	3,847
Shareholders' equity	**11,444**	12,205
Employees at end of period	**29,400**	30,000

[1)] EBITDA is defined as operating income plus the results relating to equity accounted investees, excluding depreciation, amortization and impairment charges.

History and development of the company

Company Overview

NXP Semiconductors N.V. is a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2019, we generated revenue of $8,877 million, compared to $9,407 million for the year ended December 31, 2018.

We provide leading solutions that leverage our combined portfolio of intellectual property, deep application knowledge, process technology and manufacturing expertise in the domains of cryptography-security, high-speed interface, radio frequency (RF), mixed-signal analog-digital (mixed A/D), power management, digital signal processing and embedded system design.

Our product solutions are used in a wide range of end-market applications including: automotive, industrial & Internet of Things (IoT), mobile, and communication infrastructure. We engage with leading global original equipment manufacturers (OEM) and sell products in all major geographic regions.

Our legal name is NXP Semiconductors N.V. and our commercial name is “NXP” or “NXP Semiconductors.”

We were incorporated in the Netherlands in 2006 as a Dutch public company with limited liability (naamloze vennootschap).

On August 5, 2010, we made an initial public offering of 34 million shares of our common stock and listed our common stock on Nasdaq.

We are a holding company (the “Holding Company”) whose only material assets are the direct ownership of 100% of the shares of NXP B.V., a Dutch private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid).

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. Our registered agent in the United States is NXP USA, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 9338214.

Business Combinations

On December 6, 2019, NXP acquired Marvell Technology Group Ltd.'s ("Marvell") Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets, for total consideration of $1.7 billion. The financial results from the acquisition date through December 31, 2019, are included in NXP’s Consolidated Statement of Operations, as discussed herein. NXP accounted for the acquisition under the acquisition method of accounting in accordance with IFRS 3 *Business Combinations*.

On October 27, 2016, NXP entered into a purchase agreement (the “Purchase Agreement”) with Qualcomm River Holdings B.V. (“Buyer”), a wholly-owned, indirect subsidiary of QUALCOMM Incorporated (“Qualcomm”). Pursuant to the Purchase Agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for $110 per share in cash, for estimated total cash consideration of $38 billion. On February 20, 2018, NXP entered into an amendment (the “Purchase Agreement Amendment”) to the Purchase Agreement with Buyer. Pursuant to the Purchase Agreement Amendment, Buyer agreed to revise the terms of its tender offer to acquire all of the issued and outstanding common shares of NXP and increase the offer price from $110 per share to $127.50 per share, for estimated total cash consideration of $44 billion. On April 19, 2018, NXP and Buyer further amended the Purchase Agreement to extend the date that either Buyer or NXP would have the right to terminate the Purchase Agreement to July 25, 2018, subject to the terms of the Purchase Agreement.

On July 26, 2018, NXP received notice from Qualcomm that it had terminated, effective immediately, the Purchase Agreement, as amended, between NXP and Buyer following the inability to obtain the required approval for the transaction from the State Administration for Market Regulation (SAMR) of the People’s Republic of China prior to the end date stipulated by the parties under the Purchase Agreement. On July 26, 2018, NXP received $2 billion termination compensation per the terms of the Purchase Agreement.

Other Significant Transactions

On August 16, 2019, NXP reached a definitive agreement with Shenzhen Goodix Technology Co., Ltd. from China, under which it will acquire all assets related to our Voice and Audio Solutions (VAS) activities for an amount of $165 million. These assets have met the held for sale criteria as of December 31, 2019.

On July 10, 2018, NXP completed the sale of its 40% equity interest of Suzhou ASEN Semiconductors Co., Ltd. to J&R Holding Limited, receiving $127 million in cash proceeds.

In June 2018, NXP completed the sale of 24% of its equity interest in WeEn to Tianjin Ruixin Semiconductor Industry Investment Centre LLP, receiving $32 million in cash proceeds. At December 31, 2018, due to the intended sale of the remaining interest in WeEn, NXP transferred the remaining holding to other current assets. On March 27, 2019, we sold our remaining equity interest in WeEn, receiving net cash proceeds of $37 million.

Business overview

Semiconductors Market Overview

Semiconductors perform a broad variety of functions within electronic products and systems, including processing data, sensing, storing information and converting or controlling electronic signals. Semiconductors vary significantly depending upon the specific function or application of the end product in which the semiconductor is used and the customer who is deploying it. Semiconductors also vary on a number of technical characteristics including the degree of integration, level of customization, programmability and the process technology utilized to manufacture the semiconductor. Advances in semiconductor technology have increased the functionality and performance of semiconductors, improving their features and power consumption characteristics while reducing their size and cost. These advances have resulted in growth of semiconductors and electronic content across a diverse array of products. The semiconductor market totaled $412 billion in 2019.

Reporting segments

Prior to January 1, 2019, High Performance Mixed Signal (HPMS) was our sole reportable segment. Corporate and Other represented the remaining portion to reconcile to the Consolidated Financial Statements.

Effective January 1, 2019, NXP removed the reference to HPMS in its organizational structure in acknowledgement of the one reportable segment representing the entity as a whole and reflects the way in which our chief operating decision maker executes operating decisions, allocates resources, and manages the growth and profitability of the Company.

End-market Exposure

Our product groups are focused on four primary end-markets that we believe are characterized by long-term, attractive growth opportunities and where we enjoy sustained, competitive differentiation through our technology leadership. The four end-markets are Automotive, Industrial & IoT, Mobile, and Communication Infrastructure & Others.

	Automotive	Industrial & IoT	Mobile	Comm Infra & Others
Key Applications	ADAS/Radar Connected Infotainment Vehicle Networks Electrification Secure Car Access eCockpit Body Comfort & Convenience Powertrain	Factory and Building Automation Smart Home and Building Control Home Entertainment Power and Energy Medical Smart Retail Smart Appliances	Smartphones Wearables Tablets Mobile Accessories	Wireless basestations Enterprise data center network & security Wired and wireless service provider infrastructure Banking cards, eGovernment, Transit cards RFID tagging
Growth Drivers	Vehicle electrification and automation Government requirements & consumer demands for increased safety, reliability, comfort and efficiency Increase need of security across all applications	Shift from mechanical to electronic equipment Increasing processing and connectivity Increasing use of low-power nodes Energy efficiency Predictive maintenance Automation Machine Learning	Mobile Wallet/Mobile Transit Custom Interface/Power solutions	5G development/Massive MiMo and mmwave Increasing demand for bandwidth, cloud computing IoT

Automotive

Growth in automotive semiconductor sales relies on global vehicle sales and production trends and the increase in semiconductor content per vehicle, which is being driven by the proliferation of electronic features throughout the vehicle.

Two mega-trends will drive the semiconductor content increase in the future: Electrification and autonomy. The path to full autonomy is driving the increase of driver assistance systems in the car already today. In the same way, tight emissions regulations are accelerating the penetration of electrification.

Semiconductor content per vehicle continues to increase due to government regulation of safety and emissions, standardization of higher-end options across a greater number of vehicle classes as well as consumer demand for greater fuel efficiency, advanced safety, multimedia applications and connectivity. Automotive safety features are evolving from passive safety systems to active safety systems with Advanced Driving Assisted Systems (ADAS) such as radar and vision systems. Semiconductor content is also increasing in engine management and fuel economy applications, like Battery Management Systems (BMS). Comfort and convenience systems and user interface applications, such as a digital cockpit with multiple large interactive screens, are also areas with high semiconductor content increases. In addition, the use of networking in automotive applications continues to increase as various subsystems communicate within the automobile and with external devices and networks. Smart car access and automotive Near-Field Communication (NFC) are gaining ground in automotive as well, enabling the connection of vehicles and car keys to portable devices and the infrastructure. Data integrity and security hardware features for safeguarding memory, communication and system data are also increasing in importance.

Due to the high degree of regulatory scrutiny and safety requirements, the automotive semiconductor market is characterized by stringent qualification processes, zero defect quality processes, functionally safe design architecture, high reliability, extensive design-in timeframes and long product life cycles which results in significant barriers to entry.

Industrial & IoT

The world is becoming smarter, more connected and more data driven, and the Industrial & IoT market sits at the center of this global digital transformation. The Industrial & IoT market is highly fragmented with a diverse collection of products and applications such as factory automation, power and energy, medical electronics, smart retail, smart home, smart appliances and home entertainment.

Growth in the Industrial market is driven by the replacement of traditional mechanical equipment by smart and connected electronic equipment using various sensors, processors, connectivity and security chipsets that align well with NXP's ability to provide a complete range of processing, connectivity and secure solutions. In IoT, growth is driven by the increasing use of high-performance edge and media devices (e.g. home entertainment, connected home assistants, home control and security) and low power IoT nodes (e.g. smart home, hearables, health trackers) where NXP scalable solutions across the entire embedded processing spectrum are ideally suited.

The increase in productivity with real-time insights and efficient processes for factory automation, the enhancement in consumer convenience, security and comfort for smart homes, the reduction of resource consumption and better energy efficiency for smart appliances, the increase in performance of rich media content in smart consumer devices and the need for better health prevention and monitoring solutions (wearables, smart patches and smart drug delivery devices) to help ensure the future health of millions of people are some of the key use-cases driving growth in Industrial & IoT.

Finally, with the growing number of connected devices, latency, privacy and bandwidth become critical limiting factors and Edge computing solves this by bringing the intelligence closer to the source. Security and tamper-detection capabilities are also becoming essential features of these Industrial & IoT solutions.

Mobile

Mobile includes applications such as smartphones, feature phones, tablets, wearables and mobile accessories. NXP has a strong focus on mobile wallet and specialty custom analog solutions. The demand for faster speeds, improved battery life, fast charging, mobile wallet, mobile transit and authentication is driving increased semiconductor content for NXP. The growth in this market is mainly driven by the increasing attach rate of these features across devices, vendors and regions, from flagship smartphones down to feature phones, from developed countries to emerging regions. The introduction of new technologies and new use-cases around secured connectivity, high-speed interfaces and charging creates additional opportunities for NXP.

Communication Infrastructure & Others

Growth in the network communication market is driven by strong demand for digital content, ubiquitous access, security, increased enterprise adoption of advanced video communications and the trend towards an increasingly global and mobile workforce. These factors have driven greater adoption of both mobile and fixed Internet services and smart devices, cloud computing environments, Internet Protocol television and online gaming. With the trend toward increasingly media-rich applications such as video sharing platforms, social networks, high definition (HD) movie downloads, video conferencing, wireless connectivity and enterprise access, Internet traffic is increasing continuously. The growth in data traffic is resulting in service providers, enterprises and consumers demanding an increase in the amount of wireless infrastructure, networking and electronic equipment. Providers of wireless infrastructure, networking and storage equipment are introducing new technologies and products with enhanced performance and functionality while reducing design and manufacturing costs. As more and more data is being exchanged and consumed by billions of connected devices, 5G, the new mobile communication technology, enables very fast data transfer, low latency and reliability. 5G can support services that require immediate and uninterrupted connectivity. More bandwidth and higher frequencies are needed requiring more compute power. More base stations are needed and massive MIMO - which provides better throughput and better spectrum efficiency - will greatly expand the number of antenna's needed to maximize coverage in combination with small cells densification.

In secure identification solutions, the demand for applications requiring the highest security and reliability shifts towards solutions with a contactless RF interface driven by the increasing adoption of contactless ePassports, eID credentials, transportation and payment cards. Radio-Frequency IDentification (RFID) can be used to identify and authenticate objects and is designed to fulfill the requirements of a wide range of applications across numerous vertical markets. RFID technology is entering new markets, such as interactive gaming and toys, and various applications to track goods through the supply chain and keep track of inventory. In addition, there is an increasing demand for authentication and anti-counterfeit solutions to protect manufacturers and consumers.

Products

We offer customers a broad portfolio of semiconductor products including microcontrollers, application processors, communication processors, connectivity chipsets, analog and interface devices, RF power amplifiers, security controllers and sensors. A key element of our strategy is to offer highly integrated and secure solutions that are increasingly sought by our customers to simplify their development efforts and shorten their time to market. We believe we have the broadest ARM processor portfolio in the industry from microcontrollers to crossover processors, from application processors to communication processors.

Microcontrollers

We have been a provider of MCU solutions for more than 40 years. MCUs integrate all the major components of a computing system onto a single semiconductor device. Typically, this includes a programmable processor core, memory, interface circuitry and other components. MCUs provide the digital logic, or intelligence, for electronic applications, controlling electronic equipment or analyzing sensor inputs. We are a trusted, long-term supplier of MCUs to many of our customers, especially in the automotive, smartcards and industrial markets. Our MCU product portfolio ranges from 8-bit products to higher performance 16-bit and 32-bit products with on-board flash memory. Our portfolio is highly scalable, and is coupled with our extensive software and design tools. This enables our customers to design-in and deploy our MCU families, leveraging a consistent software development environment. Due to the scalability of our portfolio we are able to help future-proof our customer's products as their systems evolve, becoming more complex or requiring greater processing capabilities over time. For automotive applications, our microcontrollers deliver the required reliability, security and functional safety to address current and future automotive challenges. In an increasingly connected and networked society, where security is playing a more important role, our MCU families are equipped with varying security features (such as remote authentication, system/data integrity, secure communication and anomaly detection) to address different type of security risks. We also recently introduced our new i.MX RT crossover processors that are built using applications processors chassis, delivering a high level of integration, high speed peripherals, enhanced security, and engines for enhanced user experience (for example, 2D/3D graphics), but powered by a low-power MCU core running a real-time operating system like Amazon Free RTOS or Zephyr RTOS. The i.MX RT series offers the high performing Arm Cortex-M core, real-time functionality, and MCU usability at an affordable price.

Application Processors

Application processors consist of a computing core with embedded memory and special-purpose hardware and software for secure multimedia applications such as graphics and video. Our products focus on consumer devices, industrial applications and automotive applications, like driver information systems, ADAS and vehicle networking that require processing and multimedia capabilities. We provide highly integrated ARM-based i.MX application processors with integrated audio, video and graphics capability that are optimized for low-power and high-performance applications. Our i.MX family of processors are designed in conjunction with a broad suite of additional products including power management solutions, audio codecs, touch sensors and accelerometers to provide full systems solutions across a wide range of operating systems and applications. Our i.MX 8 family of applications processors is a feature and performance scalable multi-core platform that includes single, dual and quad-core families based on the Arm Cortex architecture for advanced graphics, imaging, machine vision, audio, voice, video, and safety-critical applications. Together, these products provide a family of applications processors featuring software, power and pin compatibility across single, dual and quad core implementations. Software support includes Linux and Android implementations. Our S32x Automotive Processing Platform offers scalability across products and multiple application domains based on Arm Cortex-A, Cortex-R, and Cortex-M cores with Automotive Safety Integrity Level (ASIL-D) capabilities.

Communication Processors

Communication processors combine a computing core, caches and other memories, with high-speed networking and input/output interfaces, such as Ethernet and PCI Express. Our portfolio includes 64-bit Arm-based Layerscape processors with up to 16 CPUs and Ethernet ports running at up to 100Gbps. Software support includes Linux and commercial real-time operating systems. Within enterprise and data-center communications infrastructure, our processors are used in switches, routers, SD-WAN access devices, Wi-Fi access points, and network security systems. Within service-provider communications infrastructure, our processors are used in cellular base stations, fixed wireless access Customer Premises Equipment (CPE), residential gateways, broadband aggregation systems, and core networking equipment. Although designed for use in communications infrastructure, these processors also find widespread use in other types of equipment, including industrial automation for control, edge computing nodes, cloud computing servers for offloading networking functions, and automobiles for communications and some ADAS functions. We also offer Layerscape Access processors, which implement baseband functions, principally for wireless systems such as 5G fixed wireless access, using programmable vector signal processors.

Wireless Connectivity

We offer a broad portfolio of connectivity solutions, including Near Field Communications (NFC), Ultra-wideband (UWB), Bluetooth low-energy (BLE), Zigbee as well as Wi-Fi and Wi-Fi/Bluetooth integrated SoCs. These products are integrated into a wide variety of end devices, such as mobile phones, wearables, enterprise access points, home gateways, voice assistants, multimedia devices, gaming, printers, automotive infotainment and smart industrial devices.

Analog and Interface Products

We have a very broad portfolio of Analog and Interface products that are used in many markets, particularly automotive, industrial/IoT and mobile. In automotive we are the market leader in most of the applications, with integrated 77Ghz Radar solution for ADAS, battery management products for Electrification, audio processing solutions and amplifiers for car entertainment, Controller Area Network (CAN), Local Interconnect Network (LIN), FlexRay and Ethernet solutions for in-vehicle networking and two-way secure products for secure car access. In Industrial/IoT and Mobile, we are a major supplier in interface, power and high-performance analog products. Our product portfolios includes I2C/I^{3}C, General Purpose Input/Output (GPIO), LED controllers, real-time clocks, signal and load switches, signal integrity products, wired charging solutions, fast charging solutions, DC-DC, AC-DC converters and high-performance RF amplifiers. We have also successfully engaged with leading OEMs to drive custom and semi-custom products which in turn allow us to refine and accelerate our innovation and product roadmaps.

Radio Frequency Devices

NXP is the market leader in High-Performance Radio Frequency (HPRF) power amplifiers. We have an extensive portfolio of LDMOS, GaN and GaAs RF transistors. NXP’s solutions range from sub-6GHz to 40GHz and from milliwatts to kilowatts. For base stations, NXP offers a full range of solutions addressing 5G RF power amplification needs from MIMO to massive MIMO based active antenna systems for cellular and millimeter Wave (mmWave) spectrum bands. We are engaged with the majority of the largest customers in mobile base stations and in several other application areas. In low and medium Power Amplification, NXPs low noise amplifier (LNA) portfolio offers solutions to meet future design needs in a wide range of applications. Two technologies serve the LNA portfolio, each with distinct advantages for their applications. Wireless infrastructure applications and many general wireless applications are served with III-V technology LNAs. Advanced SiGe technology is utilized in LNAs designed for wireless communication, cellular, consumer, automotive and industrial applications.

Security Controllers

NXP is the market leader in security controller ICs. Our security controller ICs are embedded in smart cards (ePassports, electronic ID credentials, payment cards, transportation cards), as well as in consumer electronic and smart devices, for example in smartphones, tablets and wearables. These security controller ICs are suited for applications demanding the highest security and reliability. Nearly all of our security products consist of multi-functional solutions comprised of passive RF connectivity devices facilitating information transfer from the user document to reader infrastructure; secure, tamper-proof microcontroller devices in which information is securely encrypted ("secure element"); and secure real-time operating system software products to facilitate the encryption-decryption of data, and the interaction with the reader infrastructure systems. Our solutions are developed to provide extreme levels of security of user information, undergoing stringent and continued global governmental and banking certification processes, and to deliver high level of device performance enabling significant throughput and productivity to our customers.

Sensors

Sensors serve as a primary interface in embedded systems for advanced human interface and contextual awareness that mimic the human "5 senses" interaction with the external environment. We provide several categories of semiconductor-based environmental and inertial sensors for the Automotive market, including pressure, inertial, magnetic and gyroscopic sensors that provide orientation detection, gesture recognition, tilt to scroll functionality and position detection.

Manufacturing

We manufacture integrated circuits and discrete semiconductors through a combination of wholly owned manufacturing facilities, a manufacturing facility operated jointly with another semiconductor company and third-party foundries and assembly and test subcontractors. We manage our manufacturing assets together through one centralized organization to ensure we realize scale benefits in asset utilization, purchasing volumes and overhead leverage across businesses.

In the future, we expect to outsource an increased part of our internal demand for wafer foundry and packaging services to third-party manufacturing sources in order to increase our flexibility to accommodate increased demand.

The manufacturing of a semiconductor involves several phases of production, which can be broadly divided into "front-end" and "back-end" processes. Front-end processes take place at highly complex wafer manufacturing facilities (called fabrication plants or "wafer fabs"), and involve the imprinting of substrate silicon wafers with the precise circuitry required for semiconductors to function. The front-end production cycle requires high levels of precision and involves as many as 300 process steps. Back-end processes involve the assembly, test and packaging of semiconductors in a form suitable for distribution. In contrast to the highly complex front-end process, back-end processing is generally less complicated, and as a result we tend to determine the location of our back-end facilities based more on cost factors than on technical considerations.

We primarily focus our internal and joint venture wafer manufacturing operations on running proprietary specialty process technologies that enable us to differentiate our products on key performance features, and we generally outsource wafer manufacturing in process technologies that are available at third-party wafer foundries when it is economical to do so. In addition, we increasingly focus our in-house manufacturing on our competitive 8-inch wafer facilities, which predominantly run manufacturing processes in the 140 nanometer, 180 nanometer and 250 nanometer process nodes. This focus increases our return on invested capital and reduces capital expenditures.

Our front-end manufacturing facilities use a broad range of production processes and proprietary design methods, including complementary metal oxide semiconductor (CMOS), bipolar, bipolar CMOS (BiCMOS) and double-diffused metal on silicon oxide semiconductor (DMOS) technologies. Our wafer fabs produce semiconductors with line widths ranging from 90 nanometers to 3 microns for integrated circuits and 0.5 microns to greater than 4 microns for discretes. This broad technology portfolio enables us to meet increasing demand from customers for system solutions, which require a variety of technologies.

Our back-end manufacturing facilities test and package many different types of products using a wide variety of processes. To optimize flexibility, we use shared technology platforms for our back-end assembly operations. Most of our assembly and test activities are maintained in-house.

The following table shows selected key information with respect to our major front-end and back-end facilities:

Site	Ownership	Wafer sized used	Line widths used (vm)	Technology/Products
			(Microns)	
Front-end				
Singapore (SSMC) [1)]	61.2%	8”	0.14-0.25	CMOS
Nijmegen, the Netherlands	100%	8”	0.14-0.80	CMOS, BiCMOS, LDMOS
Austin (Oak Hill), United States	100%	8”	0.25	CMOS, BiCMOS, Sensors, LDMOS, HDTMOS, PowerCMOS
Chandler, United States	100%	8”	0.25-0.50	CMOS, eNVM, PowerCMOS
Austin (Ed Bluestein), United States	100%	8”	0.09-0.18	CMOS, eNVM, PowerCMOS, Advanced CMOS, SoC
Back-end				
Kaohsiung, Taiwan	100%	—	—	NFC, Automotive Car-access, Micro-controllers
Bangkok, Thailand	100%	—	—	Automotive In-Vehicle Networking and Sensors, Banking and e-Passport modules, Standard Logic
Kuala Lumpur, Malaysia	100%	—	—	Micro-processors, Micro-controllers, Power Management, Analog and Mixed Signal, RF devices
Tianjin, China	100%	—	—	Micro-controllers, Analog and Sensors

(1) Joint venture with TSMC; we are entitled to 60% of the joint venture’s annual capacity.

We use a large number of raw materials in our front- and back-end manufacturing processes, including silicon wafers, chemicals, gases, lead frames, substrates, molding compounds and various types of precious and other metals. Our most important raw materials are the raw, or substrate, silicon wafers we use to make our semiconductors. We purchase these wafers, which must meet exacting specifications, from a limited number of suppliers in the geographic region in which our fabrication facilities are located. At our wholly owned fabrication plants, we use raw wafers ranging from 6 inches to 8 inches in size. Our SSMC wafer fab facility, which produces 8 inch wafers, is jointly owned by TSMC and ourselves. Emerging fabrication technologies employ larger wafer sizes and, accordingly, we expect that our production requirements will in the future shift towards larger substrate wafers.

We typically source our other raw materials in a similar fashion as our wafers, although our portfolio of suppliers is more diverse. Some of our suppliers provide us with materials on a just-in-time basis, which permits us to reduce our procurement costs and the negative cash flow consequences of maintaining inventories, but exposes us to potential supply chain interruptions. We purchase most of our raw materials on the basis of fixed price contracts, but generally do not commit ourselves to long-term purchase obligations, which permits us to renegotiate prices periodically.

Sales, Marketing and Customers

We market our products and solutions worldwide to a variety of OEMs, Original Design Manufacturers (ODMs), contract manufacturers and distributors. We generate demand for our products by delivering product solutions to our customers, and supporting their system design-in activities by providing application architecture expertise and local field application engineering support.

Our sales and marketing teams are organized into five regions, which are EMEA (Europe, the Middle East and Africa), the Americas, Japan, South Korea and Greater China (including Asia Pacific). These sales regions are responsible for managing customer relationships and creating demand for our solutions through the full ecosystem development, including our distributors and at our large number of mass market customers.

Our sales and marketing strategy focuses on key defined verticals in Automotive, Mobile, Industrial and IoT and Communication Infrastructure, deepening our relationship with our top OEMs and electronic manufacturing service customers, expanding our reach to our mass market customers, startups and our distribution partners and becoming their preferred supplier, which we believe assists us in reducing sales volatility in challenging markets. We have long-standing customer relationships with most of our customers. Our 10 largest OEM end customers, some of whom are supplied by distributors, in alphabetical order, are Apple, Bosch, Continental, Denso, Delphi, Ericsson, Huawei, LG, Samsung and ZTE. We also have a strong position with our distribution partners, including our three largest, Arrow, Avnet and Nexty.

Our revenue is primarily the sum of our direct sales to OEMs plus our distributors' resale of NXP products. Avnet accounted for 14% of our revenue in 2019 and 14% in 2018. Arrow accounted for less than 10% of our revenue in 2019 and 10% in 2018. No other distributor accounted for greater than 10% of our revenue. With 11% of total revenue in both 2019 and 2018, Continental was the only OEM to which we had direct sales that accounted for more than 10% of revenue in 2019 and 2018.

Research and Development

We believe that our future success depends on our ability to both improve our existing products and to develop new products for both existing and new markets. We direct our research and development efforts largely to the development of new semiconductor solutions where we see significant opportunities for growth. We target applications that require stringent overall system and subsystem performance. As new and challenging applications proliferate, we believe that many of these applications will benefit from our solutions. We have assembled a global team of highly skilled semiconductor and embedded software design engineers with expertise in RF, analog, power management, interface, security and digital processing. As of December 31, 2019, we had 8,808 employees in research and development.

To outpace market growth we invest in research and development to extend or create leading market positions, with an emphasis on fast growing sizable market segments, such as ADAS, in-vehicle networks and power management, as well as Edge computing to support the successful deployment in the IoT with our cross-over processing technology, but also in emerging markets, such as massive MIMO in RF Power and mmWave for 5G. In addition, we invest a few percent of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company growth in the future.

We annually perform a fundamental review of our business portfolio and our related new product and technology development opportunities in order to decide on changes in the allocation of our research and development resources. For products targeting established markets, we evaluate our research and development expenditures based on clear business need and risk assessments. For break-through technologies and new market opportunities, we look at the strategic fit and synergies with the rest of our portfolio and the size of the potential addressable market. Overall, we allocate our research and development to maintain a healthy mix of emerging growth and mature businesses.

Intellectual Property

The creation and use of intellectual property is a key aspect of our strategy to differentiate ourselves in the marketplace. We seek to protect our proprietary technologies by obtaining patents, trademarks, domain names, retaining trade secrets and defending, enforcing and utilizing our intellectual property rights, where appropriate. We believe this strategy allows us to preserve the advantages of our products and technologies, and helps us to improve the return on our investment in research and development. We have a broad portfolio of close to 10,000 patent families (each patent family includes all patents and patent applications originating from the same invention). To protect confidential technical information and software, we rely on copyright and trade secret law and enter into confidentiality agreements as applicable. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through all available legal means to the extent that we determine the benefits of such actions to outweigh the costs and risks involved.

We own a number of trademarks that are used in the conduct of our business. Where we consider it desirable, we develop names for our new products and secure trademark protection. Our trademarks allow us to further distinguish our company and our products and are important in our relationships with customers, suppliers, partners and end-users.

While our patents, trademarks, trade secrets and other intellectual property rights constitute valuable assets, we do not view any individual right or asset as material to our operations as a whole. We believe it is the combination of our proprietary technology, patents, know-how and other intellectual property rights and assets that creates an advantage for our business.

In addition to obtaining our own patents and other intellectual property rights, we have entered into licensing agreements and other arrangements authorizing us to use intellectual property rights, confidential technical information, software and other technology owned by third parties. We also engage, in certain instances, in licensing and selling of certain of our technology, patents and other intellectual property rights.

Competition

We compete with many different semiconductor companies, including multinational companies with integrated research and development, manufacturing, sales and marketing organizations across a broad spectrum of product lines, “fabless” semiconductor companies, and companies that are focused on a single application market segment or standard product. Most of these competitors compete with us with respect to some, but not all, of our businesses.

Our key competitors in alphabetical order include Analog Devices, Inc, Infineon Technologies AG, Maxim Integrated Products Inc., Microchip Technology Inc., Nordic Semiconductor ASA, Power Integrations Inc, Qualcomm, Inc, Renesas Electronics Corp, Silicon Laboratories, STMicroelectronics NV and Texas Instruments Incorporated.

The basis on which we compete varies across end markets and geographic regions. This includes competing on the basis of our ability to timely develop new products and the underlying intellectual property and on meeting customer requirements in terms of cost, product features, quality, warranty and availability. In addition, our system solutions businesses require in-depth knowledge of a given application market in order to develop robust system solutions and qualified customer support resources.

Environmental Regulation

In each jurisdiction in which we operate, we are subject to many environmental, health and safety laws and regulations that govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain of our operations.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated.

Soil and groundwater contamination has been identified at our properties in Nijmegen, the Netherlands and near Phoenix, Arizona, United States. The remediation processes at these locations are expected to continue for many years.

As of December 31, 2019, we have recorded $90 million for environmental remediation costs, which are primarily included in other non-current liabilities in the accompanying consolidated balance sheet. This amount represents the undiscounted future cash flows of our estimated share of costs incurred in environmental cleanup sites without considering recovery of costs from any other party or insurer, since in most cases potentially responsible parties other than us may exist and be held responsible.

Management commentary

Introduction

The consolidated financial statements including notes thereon of NXP Semiconductors N.V. (‘the Company’ or ‘NXP’) that are included in this Annual Report are prepared on a basis in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

For the IFRS accounting principles, we refer to Note 2 *Significant accounting policies and new accounting standards to be adopted after 2019* of the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets.

Reconciliation from IFRS to U.S. GAAP

Differences IFRS versus U.S. GAAP

The main differences between the IFRS and U.S. GAAP operating income relate to the following:

- IFRS requires capitalization of development costs, if the relevant conditions are met, and subsequent amortization over the expected useful life. Under U.S. GAAP development costs are immediately recognized as an expense;
- Unlike U.S. GAAP, IFRS does not allow the application of the straight-line attribution method for awards with graded vesting in allocating share-based payment expenses but requires the application of the graded vesting attribution method;
- Under IFRS the recognition date of restructuring charges is sometimes different compared to U.S. GAAP;
- All other differences between IFRS and U.S. GAAP are of a minor importance and have no material impact.

Reconciliation of operating income from IFRS to U.S. GAAP

$ in millions	**2019**	2018
Operating income as per the consolidated statements of operations on an IFRS basis	**957**	3,162
Adjustments to reconcile to U.S. GAAP:		
- Reversal of capitalized product development costs	**(697)**	(770)
- Reversal of amortization of product development assets	**314**	235
- Reversal of impairment of product development assets	**56**	29
- Reversal of IPR&D amortization	**—**	2
- Additional amortization of intangible assets	**2**	1
- Reversal of IFRS adjustments for share-based compensation	**(11)**	—
- Reversal of IFRS adjustment for restructuring	**15**	40
- Reversal of additional step-up from partial acquisitions of subsidiaries of NXP	**—**	1
- No deferral under IFRS for past service costs from plan amendments	**9**	10
- Lease accounting	**(4)**	—
Operating income as per the consolidated statement of operations on a U.S. GAAP basis	**641**	2,710

Performance of the Group

Operating Results

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the information is presented on a U.S. GAAP basis, with, when applicable, a reconciling item to the IFRS basis.

Revenue and Operating income

The following table presents the composition of revenue and operating income for the years ended December 31, 2019 and December 31, 2018.

$ in millions	2019			2018		
	U.S. GAAP	**IFRS Difference**	**Total**	U.S. GAAP	IFRS Difference	Total
Revenue	**8,877**	—	**8,877**	9,407	—	9,407
% nominal growth	**(5.6)%**		**(5.6)%**	1.6%		1.6%
Gross profit	**4,618**	**(5)**	**4,613**	4,851	(11)	4,840
% of Revenue	**52.0 %**		**52.0 %**	51.6%		51.5%
Research and development	**(1,643)**	**(1,042)**	**(2,685)**	(1,700)	(872)	(2,572)
Selling, general and administrative (SG&A)	**(924)**	**(72)**	**(996)**	(993)	(114)	(1,107)
Amortization of acquisition-related intangible assets	**(1,435)**	**1,435**	—	(1,449)	1,449	—
Operating Expenses	**(4,002)**	**321**	**(3,681)**	(4,142)	463	(3,679)
% of Revenue	**45.1 %**		**41.5 %**	44.0%		39.1%
Other income	**27**	—	**27**	2,043	—	2,043
Other expense	**(2)**	—	**(2)**	(42)	—	(42)
Operating income (loss)	**641**	**316**	**957**	2,710	452	3,162
% of Revenue	**7.2 %**		**10.8 %**	28.8%		33.6%

Revenue

Revenue for the year-ended December 31, 2019 was $8,877 million compared to $9,407 million for the year-ended December 31, 2018, a decrease of $530 million or 5.6%. As of January 1, 2019, income and expenses derived from manufacturing service arrangements ("MSA") and transitional service arrangements ("TSA") that are put into place when we divest a business or activity, are included in other income (expense). In 2018, revenue related to these divested activities was $136 million The remaining decrease is essentially related to lower sales in our Automotive and in our Industrial & IOT end markets, which were in particular impacted by the trade tensions between the United States and China.

Revenue by end-market was as follows:

($ in millions, unless otherwise stated)	2019	2018	Increase / Decrease	%
Automotive	4,212	4,507	(295)	(6.5)%
Industrial & IoT	1,599	1,813	(214)	(11.8)%
Mobile	1,191	1,164	27	2.3 %
Communication Infrastructure & Other	1,875	1,787	88	4.9 %
Manufacturing Service Agreements	—	136	(136)	NM
Revenue	8,877	9,407	(530)	(5.6)%

Revenue by sales channel was as follows:

($ in millions, unless otherwise stated)	2019	2018	Increase / Decrease	%
Distributors	4,409	4,891	(482)	(9.9)%
OEM/EMS	4,352	4,229	123	2.9 %
Other	116	287	(171)	(59.6)%
Revenue	8,877	9,407	(530)	(5.6)%

Revenue by geographic region, which is based on the customer's shipped-to location (except for intellectual property license revenue which is attributable to the Netherlands) was as follows:

($ in millions, unless otherwise stated)	2019	2018	Amount	%
Greater China (including Asia Pacific)	4,934	5,287	(353)	(6.7)%
EMEA (Europe, the Middle East and Africa)	1,760	1,882	(122)	(6.5)%
Americas	1,076	1,146	(70)	(6.1)%
Japan	780	735	45	6.1 %
South Korea	327	357	(30)	(8.4)%
Revenue	8,877	9,407	(530)	(5.6)%

The decrease in revenue in the Automotive end market of $295 million is the result of a decline in volumes in all of the related product groups. The weakness was primarily driven by Greater China (including Asia Pacific), through lower demand from both our distributors and OEM customers as a result of lower vehicle production and lower vehicle sales, but weakness was also seen in EMEA and the Americas.

The decrease in revenue in the Industrial & IoT end market of $214 million was essentially associated with our Microcontrollers product group with a decrease in distributor sales, primarily in Greater China (including Asia Pacific).

The net increase in revenue of $27 million in the Mobile end market was mostly driven by the strong adoption of our secure mobile wallet solutions with key OEMs, offset by declines in our semi-custom mobile analog interface products through our distribution channel and both within the Greater China (including Asia Pacific) region.

The increase of $88 million in the Communication Infrastructure & Other end market was related to robust growth in RF products in Greater China (including Asia Pacific) due to the adoption of the company's massive-MIMO ("mMIMO") solutions for the cellular basestation market, as mobile carriers began to increase network densification efforts ahead of future 5G cellular deployments but partly offset by a reduction in the company's secure bank card and e-government product groups in Greater China (including Asia Pacific) as well as in Europe.

Gross profit

Gross profit for the year-ended December 31, 2019 was $4,618 million, or 52.0% of revenue, compared to $4,851 million, or 51.6% of revenue, for the year-ended December 31, 2018. The decrease of $233million was primarily driven by lower revenue resulting from lower demand. The gross margin percentage increased from 51.6% to 52.0%, due to a slightly more favorable end-market and customer mix and also due to the benefit of certain manufacturing cost controls.

Operating Expenses

The following table below presents the composition of operating expenses by line item in the statement of operations.

($ in millions, unless otherwise stated)	2019	% of revenue	2018	% of revenue	% change
Research and development	**2,685**	**30.2%**	2,572	27.3%	4.4 %
a. Amortization of acquisition related intangible assets	**1,364**	**15.4%**	1,363	14.5%	0.1 %
b. Other R&D	**1,321**	**14.9%**	1,209	12.9%	9.3 %
Selling, general and administrative	**996**	**11.2%**	1,107	11.8%	(10.0)%
a. Amortization of acquisition related intangible assets	**72**	**0.8%**	86	0.9%	(16.3)%
b. Other SG&A	**924**	**10.4%**	1,021	10.9%	(9.5)%
Operating expenses	**3,681**	**41.5%**	3,679	39.1%	0.1 %

Operating expenses for the year-ended December 31, 2019 totaled $3,681 million, or 41.5% of revenue, compared to $3,679 million, or 39.1% of revenue, for the year-ended December 31, 2018.

Research and development (R&D) costs primarily consist of engineer salaries and wages (including share based compensation and other variable compensation), engineering related costs (including outside services, fixed-asset, IP and other licenses related costs), shared service center costs and other pre-production related expenses.

Amortization of acquisition-related intangible assets with regard to R&D and SG&A slightly decreased by $13 million, or 0.9%, when compared to 2018 since certain intangibles became fully amortized during 2019.

Other R&D costs for the year-ended December 31, 2019 increased by $112 million, or 9.3%, when compared to 2018. The change is the combined effect of lower salaries due to lower variable compensation costs and lower costs associated with the Qualcomm transaction, offset by higher restructuring costs and shared based compensation expenses and a lower capitalization of product development costs.

Selling, general and administrative (SG&A) costs primarily consist of personnel salaries and wages (including share based compensation and other variable compensation), communication and IT related costs, fixed-asset related costs and sales and marketing costs (including travel expenses).

Other SG&A costs for the year-ended December 31, 2019 decreased by $97 million, or 9.5%, when compared to last year. The reduction mainly stems from : lower salaries, including lower variable compensation and lower costs associated with the Qualcomm transaction, reductions in information technology expenditures as well as in professional services; partially offset by higher shared based compensation expenses driven by the equity reboot grant to executives in 2018.

When comparing to U.S. GAAP, the $321 million lower 2019 operating expenses (2018: $463 million) under IFRS primarily relate to (i) the net effect of capitalizing development costs of $327 million (2018: $506 million) and (ii) the higher IFRS restructuring charges for an amount of $15 million (2018: higher restructuring charges of $40 million) due to the stricter IFRS recognition criteria.

Other Income (Expense)

As of January 1, 2019, income and expenses derived from manufacturing service arrangements ("MSA") and transitional service arrangements ("TSA") that are put into place when we divest a business or activity, are included in other income (expense). These arrangements are short-term in nature and are expected to decrease as the divested business or activity becomes more established.

The following table presents the split of other income (expense) for the years ended December 31, 2019 and 2018:

($ in millions)	**2019**	2018
Income from MSA and TSA arrangements	**62**	—
Expenses from MSA and TSA arrangements	**(62)**	—
Result from MSA and TSA arrangements	**—**	—
Other, net	**25**	2,001
Total	**25**	2,001

Other income (expense) reflects income of $25 million for 2019, compared to $2,001 million of income in 2018. Included in 2019 is $20 million relating to the sale of assets, whereas the 2018 amount included the $2 billion termination compensation received from Qualcomm.

Restructuring charges

Total restructuring and restructuring related costs amounted to $42 million in 2019, compared to $45 million in 2018. The 2019 and 2018 restructuring charges relate primarily to employee severance costs.

Financial Income (Expense)

($ in millions)	**For the years ended December 31,**	
	2019	2018
Interest income	**57**	48
Interest expense	**(376)**	(273)
Total interest expense, net	**(319)**	(225)
Foreign exchange rate results	**(15)**	(14)
Extinguishment of debt	**(11)**	(26)
Miscellaneous financing costs/income and other, net	**(10)**	(70)
Total other financial income (expense)	**(355)**	(335)

Financial income (expense) was an expense of $355 million in 2019, compared to an expense of $335 million in 2018. The change in financial income (expense) is primarily attributable to an increase in interest expenses, net of $94 million, as a result of higher debt levels throughout 2019, partially offset by lower debt extinguishment costs in 2019 versus 2018 of $15 million and the absence of the one time charge ($60 million) on certain financial instruments for compensation related to an adjustment event required by the termination of the Qualcomm transaction in 2018. The 2019 adoption of the new lease accounting standard resulted in an interest expense of $6 million.

For information on the use of financial instruments and risk management we refer to Note 21 *Long-term debt* and Note 34 *Financial risk management and concentration of risk*. Legal requirements with regard to future obligations are disclosed in Note 28 *Purchase commitments*.

Income taxes

We recorded an income tax expense of $62 million in 2019, which reflects an effective tax rate of 10.4% compared to an income tax expense of $240 million in 2018, which reflects an effective tax rate of 8.5%.

	2019		2018	
	million	**%**	million	%
Income before taxes	**602**		2,827	
Income tax expense (benefit)	**62**		240	
Income after tax	**540**		2,587	
Statutory income tax in the Netherlands	**150**	**25.0 %**	707	25.0 %
Rate differential local statutory rates versus statutory rate of the Netherlands	**8**	**1.3 %**	6	0.2 %
Loss carry forwards for which deferred tax assets were not recognized in the year of loss	**15**	**2.5 %**	8	0.3 %
Changes previous year's tax effect	**9**	**1.5 %**	(85)	(3.0)%
Non-taxable income	**(3)**	**(0.5)%**	(3)	(0.1)%
Non-tax-deductible expenses	**41**	**6.8 %**	71	2.5 %
The U.S. Tax Cuts and Jobs Act	**—**	**— %**	(3)	(0.1)%
Other taxes and tax rate and legislation changes	**11**	**1.8 %**	(42)	(1.5)%
Other permanent differences	**12**	**2.1 %**	(65)	(2.3)%
Withholding and other taxes	**5**	**0.8 %**	(11)	(0.4)%
Unrecognized Tax benefits	**—**	**— %**	(3)	(0.1)%
Tax incentives and other	**(186)**	**(30.9)%**	(340)	(12.0)%
Effective tax rate	**62**	**10.4 %**	240	8.5 %

The effective tax rate reflects the impact of tax incentives, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, adjustments of prior years' income taxes, tax rate and legislation changes and non-deductible expenses. The impact of these items results in offsetting factors that attribute to the change in the effective tax rate between the two periods, with the significant drivers outlined below:

- The Company benefits from certain tax incentives, which reduce the effective tax rate in a relative location. The dollar amount of the incentive in any given year is commensurate with the taxable income in that same period. For 2019, the Netherlands tax incentives was lower than 2018, mainly due to the fact that NXP had received a break-up fee from Qualcomm of $2,000 million in 2018 which drove a higher income before tax in 2018.

- The adjustments to prior years' income taxes was higher in 2018 as a result of the agreement NXP reached with the Dutch tax authorities relative to the application of the Dutch innovation box regime to the taxable income attributable to the Netherlands. This agreement is effective from January 1, 2017. As such, the Company was able to refine its estimate of the Dutch tax liability, recognizing an additional income tax benefit of $67 million in 2018.

- The tax rate and legislation changes in 2019 respectively 2018 is mainly driven by the changes in the enacted Dutch corporate income tax rates applicable for future years.

- The higher other differences in 2018 relate primarily to a tax benefit on the liquidation of a former investment of $45 million.

On a go-forward basis, cash payments for corporate income taxes that are relative to our on-going operations are expected at $45 – $50 million per quarter during 2020. Our future cash payments for income taxes will also be impacted by non-recurring events, resulting in additional payments of $125 million in total, which will be paid in 2020.

Results Relating to Equity-accounted Investees

Results relating to equity-accounted investees amounted to a gain of $1 million in 2019.

In 2018, results relating to equity-accounted investees amounted to a gain of $59 million, which includes a net gain realized of $51 million resulting from the sale of ASEN in July 2018.

Non-controlling Interests

Non-controlling interests are related to the third-party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of $29 million for the year-ended December 31, 2019, compared to a profit of $49 million for the year-ended December 31, 2018.

Financial Condition, Liquidity and Capital Resources

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate strong positive operating cash flows. As of December 31, 2019, our cash balance was $1,045 million, a decrease of $1,744 million compared to December 31, 2018 ($2,789 million). Taking into account the available undrawn amount of the Unsecured Revolving Credit Facility (the "RCF Agreement") of $1,500 million, we had access to $2,545 million of liquidity as of December 31, 2019.

We currently use cash to fund operations, meet working capital requirements, for capital expenditures and for potential common stock repurchases, dividends and strategic investments. Based on past performance and current expectations, we believe that our current available sources of funds (including cash and cash equivalents, RCF Agreement, plus anticipated cash generated from operations) will be adequate to finance our operations, working capital requirements, capital expenditures and potential dividends for at least the next year. Our capital expenditures were $526 million in 2019, compared to $611 million in 2018.

The common stock repurchase activity was as follows:

($ in millions, unless otherwise stated)	**2019**	2018
Shares repurchased	**15,865,718**	54,376,181
Cost of shares repurchased	**1,443**	5,006
Average price per share	**$90.94**	$92.07

Effective July 26, 2018, the board of directors of NXP, as authorized by its annual general meeting of shareholders (the "AGM"), authorized the repurchase of $5 billion of the Company's stock period of 18 months. In October 2018, the board of directors of NXP authorized the additional repurchase of shares up to a maximum of 20% (approximately 69 million shares) of the number of shares issued. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of approximately $5 billion, of which a number of 17,300,143 shares had been cancelled. Effective June 17, 2019, the board of directors of NXP, as authorized by its annual general meeting of shareholders (the "AGM"), renewed and revised this authorization for a period of 18 months to repurchase ordinary shares up to the statutory limit. During the fiscal year-ended December 31, 2019 NXP repurchased 15.9 million shares, for a total of approximately $1.4 billion, of which a number of 13.2 million shares had been cancelled. Under Dutch tax law, the repurchase of a company's shares by an entity domiciled in the Netherlands results in a taxable event. The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within shareholders' equity.

On November 27, 2019, the Company, as authorized by the June 2019 AGM, canceled approximately 4% (representing 13,183,081 shares) of the issued number of NXP shares. As a result, the number of issued NXP shares as per November 27, 2019 is 315,519,638 shares.

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the Company intends to pay a regular quarterly cash dividend. Accordingly, interim dividends of $0.25 per ordinary share were paid on March 15, 2019 and June 13, 2019, and dividends of $0.375 per ordinary share were paid on October 4, 2019 and January 6, 2020.

($ in millions, unless otherwise stated)	**2019**	2018
Dividend per share	**1.25**	0.5
Amount	**351**	147

Our total debt amounted to $7,365 million as of December 31, 2019, an increase of $11 million compared to December 31, 2018 ($7,354 million). On December 2, 2019, NXP retired the $1.15 billion outstanding principal amount of the 1.0% Cash Convertible Senior Notes at maturity.

At December 31, 2019, our cash balance was $1,045 million, of which $188 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. There was no dividend declared in 2019 (in 2018, a dividend of $139 million has been paid by SSMC).

From time to time, we engage in discussions with third parties regarding potential acquisitions of, or investments in, businesses, technologies and product lines. Any such transaction could require significant use of our cash and cash equivalents, or require us to arrange for new debt and equity financing to fund the transaction. Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness. Our business may not generate sufficient cash flow from operations, or we may not have enough capacity under the RCF Agreement, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the RCF Agreement, the unsecured notes or to fund our other liquidity needs, including working capital and capital expenditure requirements. In any such case, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

Cash flow from operating activities

For the year ended December 31, 2019, our operating activities provided $3,116 million in cash. This was primarily the result of net income of $541 million, and non-cash items; primarily depreciation, amortization and impairment of $2,472 million. The decrease in cash flows from operating activities from 2018 to 2019 is mainly driven by the one-off termination fee of $2 billion related to Qualcomm (see also above *About NXP - business combinations*).

For the year ended December 31, 2018 our operating activities provided $5,139 million in cash. This was primarily the result of net income of $2,646 million, and non-cash items; primarily depreciation, amortization and impairment of $2,255 million.

Cash flow from investing activities

For the year ended December 31, 2019, net cash used for investing activities amounted to $2,981 million and principally consisted of purchases of interests in businesses (net of cash) of $ 1,698 million; relating to the acquisition of the Wifi assets of Marvell, capital expenditures of $526 million, capital expenditures on development assets for $697 million and $102 million for the purchase of identified intangible assets; partly offset by proceeds of $37 million from the sale of businesses (net of cash).

For the year ended December 31, 2018, net cash used for investing activities amounted to $1,292 million and principally consisted of capital expenditures of $611 million, capital expenditures on development assets for $770 million and $50 million for the purchase of identified intangible assets; partly offset by proceeds of $159 million from the sale of businesses (net of cash).

Cash Flow from Financing Activities

Net cash used for financing activities was $1,878 million for the year-ended December 31, 2019 compared to $4,597 million for the year-ended December 31, 2018. The cash flows related to financing transactions in 2019 and 2018 are primarily related to the financing activities described below under the captions *2019 Financing Activities and 2018 Financing Activities*.

In addition to the financing activities described below, net cash used for financing activities by year included:

	Year ended December 31,	
	2019	2018
Dividends paid to non-controlling interests	—	(54)
Dividends paid to common stockholders	**(319)**	(74)
Cash proceeds from exercise of stock options	**84**	39
Purchase of treasury shares	**(1,443)**	(5,006)
Cash paid for terminated acquisition adjustment event	—	(60)
Cash paid on behalf of shareholders for tax on repurchased shares	**(128)**	(142)
Payments of lease liabilities	**(48)**	—

2019 Financing Activities

2024 Revolving Credit Facility

On June 11, 2019, NXP B.V. together with NXP Funding LLC, entered into a $1.5 billion unsecured revolving credit facility agreement, replacing the $600 million secured revolving credit facility, entered into on December 7, 2015.

2020 Senior Notes

On June 11, 2019, NXP B.V. together with NXP Funding LLC, commenced a cash tender offer for any and all of their $600 million outstanding aggregate principal amount of the 4.125% Senior Notes due 2020 ("4.125% 2020 Notes"). An amount of $553 million aggregate principal amount of the 4.125% 2020 Notes were tendered in this offer and retired on June 18, 2019. The remaining $47 million were redeemed under the terms of the indenture governing these notes on July 3, 2019.

2026 and 2029 Senior Unsecured Notes

On June 18, 2019, NXP B.V., together with NXP USA Inc. and NXP Funding LLC, issued $750 million of 3.875% Senior Unsecured Notes due 2026 and $1 billion of 4.3% Senior Unsecured Notes due 2029. NXP used a portion of the net proceeds of the offering of these notes to repay in full, the 2020 Senior Notes, as described above. The remaining proceeds were used to refinance the $1,150 million aggregate principal amount of Cash Convertible Notes due 2019 issued by NXP Semiconductors N.V. on December 1, 2014 upon the maturity of these notes on December 1, 2019.

2019 Cash Convertible Senior Notes

On December 2, 2019, NXP repaid the Cash Convertible Notes upon their maturity through a combination of available cash and payments made by the counterparties under privately negotiated convertible note hedge transactions (the "Cash Convertible Notes Hedges"), as further described in Note 21 *Long-term debt* of the notes to consolidated financial statements in this report.

2018 Financing Activities

2024, 2026 and 2028 Senior Unsecured Notes

On December 6, 2018, NXP B.V., together with NXP Funding LLC, issued $1 billion of 4.875% Senior Unsecured Notes due March 1, 2024, $500 million of 5.35% Senior Unsecured Notes due March 1, 2026 and $500 million of 5.55% Senior Unsecured Notes due 2028. NXP used a portion of the net proceeds of the offering of these notes to repay in full the Bridge Loan, as described below. The remaining proceeds will be used for general corporate purposes, which may include the repurchase of additional shares of NXP's common stock.

2019 Bridge Loan

On September 19, 2018, NXP B.V., together with NXP Funding LLC, entered into a $1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of $1 billion of term loans (the "Bridge Loan") was borrowed. The Bridge Loan was to mature on September 18, 2019 and the interest at a LIBOR rate plus an applicable margin of 1.5 percent. NXP used the net proceeds of the Bridge Loan for general corporate purposes as well as to finance parts of the announced equity buy-back program. On December 6, 2018, the Bridge Loan was repaid in full, as described above.

2018 Senior Notes

On March 8, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 3.75% Senior Notes due 2018 (the “2018 Notes”) $750 million of the outstanding aggregate principal amount of the 2018 Notes, which represented all of the outstanding aggregate principal amount of the 2018 Notes. The repayment occurred in April 2018 using available surplus cash.

2023 Senior Notes

On March 2, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 5.75% Senior Notes due 2023 (the “2023 Notes”) $500 million of the outstanding aggregate principal amount of the 2023 Notes, which represented all of the outstanding aggregate principal amount of the 2023 Notes. The repayment occurred in April 2018 using available surplus cash.

Debt position

Short-term Debt

As of December 31, 2019, there was no short-term debt outstanding. As of December 31, 2018, our short-term debt amounted to $1,107 million.

Long-term debt

We refer to Note 21 *Long-term debt* for the details and 2019 changes in our long-term debt.

We may from time to time continue to seek to retire or purchase our outstanding debt through cash purchases and/ or exchanges, in open market purchases, privately negotiated transactions or otherwise.

2019 Cash Convertible Senior Notes

We repaid the Cash Convertible Notes upon their maturity on December 1, 2019 through a combination of available cash and payments made by the counterparties under privately negotiated convertible note hedge transactions (the “Cash Convertible Notes Hedges”), as further described in Note 21 of the notes to consolidated financial statements in this report.

For a detailed description of the Warrants underlying the Cash Convertible Notes Hedge, refer to Note 21 of the notes to consolidated financial statements included in this report.

Employees

As of December 31, 2019 we had 29,400 full-time equivalent employees compared to 30,000 at December 31, 2018. The average 2019 full-time equivalent employees is 29,700; which is calculated by the sum of 29,400 and 30,000 divided by two.

The following table indicates the % of full–time equivalent employees per geographic area:

	% as of December 31,	
	2019	2018
Europe and Africa	**20%**	20%
Americas	**20%**	20%
Greater China	**25%**	25%
Asia Pacific	**35%**	35%
Total	**100%**	100%

We have not experienced any material strikes or labor disputes in the past. A number of our employees are members of a labor union. In various countries, local law requires us to inform and consult with employee representatives on matters relating to labor conditions. We consider our employee relations to be good.

Subsequent events

On February 3, 2020, NXP completed the sale of the Company's Voice and Audio Solutions (VAS) assets, pursuant to the definitive agreement dated August 16, 2019, with Shenzhen Goodix Technology Co., Ltd. ("Goodix") from China, for a net cash amount of $161 million inclusive of final working capital adjustments.

On March 1, 2020 NXP provided an update to its first quarter 2020 revenue guidance due to potential impacts from the novel coronavirus (“COVID 19”). “Subsequent to our earnings call on February 3, 2020, we now believe that our expectations for total revenue in the first quarter of 2020 will be reduced due to the impact of the coronavirus. The estimated business impact is based on business trends over the last several weeks post the Lunar New Year holiday. What we have seen is lower than expected sell-through and order push outs in both our distribution channel and with direct customers. While we have not seen any material order cancellations, we currently expect the impact to revenue in the first quarter to be in the range of $50 million to $150 million. At the lower end of this range, the $50 million impact is what we’ve actually seen so far, with the weakness most pronounced in the weeks after the Lunar New Year holiday, however, we have now seen more normal order levels in the last two weeks. The $150 million upper range is estimated on a scenario where we would see a return of weakness in the coming weeks, like what we saw right after Lunar New Year. We need to stress that these assumptions are based on less than perfect data, as the situation continues to be highly fluid.”

On March 5, 2020 NXP announced that its Board of Directors has unanimously nominated Kurt Sievers, to be appointed as President and Chief Executive Officer. Mr. Sievers will succeed Richard “Rick” Clemmer, who has successfully led NXP since 2009. The Board of Directors will propose the appointment of Mr. Sievers as executive director and Chief Executive Officer at the company’s Annual General Meeting of Shareholders scheduled for May 27, 2020. To ensure a seamless transition, Mr. Clemmer will remain a strategic advisor to NXP.

On March 5, 2020, the Board of Directors of NXP Semiconductors N.V. approved the payment of an interim dividend for the first quarter of 2020 of $0.375 per ordinary share. The interim dividend will be paid on April 6, 2020 to shareholders of record as of March 16, 2020.

Eindhoven, March 16, 2020
Board of Directors

NXP's Leadership

Board of Directors

Set forth below are the names and ages, as of December 31, 2019 and positions of the persons who serve as members of our board of directors.

Name	Age	Position	Meeting attendance 1)
Richard L. Clemmer	68	Executive director and chief executive officer	100%
Sir Peter Bonfield	75	Non-Executive Director and Chairman and Member of the Board's Nominating and Governance Committee and of the Board's Compensation Committee	100%
Kenneth A. Goldman	70	Non-Executive Director and Member of the Board's Nominating and Governance Committee	100%
Josef Kaeser	62	Non-Executive Director and Member of the Board's Nominating and Governance Committee	77%
Lena Olving	63	Non-Executive Director and Member of the Board's Compensation Committee	100%
Peter Smitham	77	Non-Executive Director, and Chair of the Board's Compensation Committee	82%
Julie Southern	60	Non-Executive Director and Chair of the Board's Audit Committee	93%
Jasmin Staiblin	49	Non-Executive Director and Member of the Board's Audit Committee	100%
Gregory L. Summe	63	Non-Executive Director and Chair of the Board's Nominating and Governance Committee	100%
Karl-Henrik Sundström	59	Non-Executive Director and Member of the Board's Audit Committee and the Board's Compensation Committee	100%

1) Attendance is reflected for the 5 Board meetings/calls held in 2019. For those directors that are member of the audit committee, the nominating & compensation committee (until September 1, 2019), the compensation committee (as of September 1, 2019) and the nominating and governance committee (as of September 1, 2019) attendance also reflects the 9 audit committee meetings/calls, the 4 nominating & compensation committee meetings/calls, the 2 compensation committee meetings / calls and the 2 nominating and governance committee meetings / calls.

- **Richard L. Clemmer (1951, American)**. Richard L. Clemmer became executive director and chief executive officer of NXP on January 1, 2009. Prior to that, he was a senior advisor to KKR & Co., Inc., a private equity firm, a position he held from May 2007 to December 2008. Mr. Clemmer previously served as President and Chief Executive Officer of Agere Systems Inc., an integrated circuits components company that was acquired in 2007 by LSI Logic Corporation, from October 2005 to April 2007. Mr. Clemmer is a member of the board of directors and Chairman of Privafy, Inc., a security SaaS company, and he is a member of the board of directors of NCR Corporation and of HP, Inc.

- **Sir Peter Bonfield CBE FREng (1944, British).** Sir Peter was appointed a non-executive director and as the chairman of our board of directors in August 2010. Prior to that, Sir Peter was the chairman of the supervisory board of NXP B.V. from September 29, 2006. Sir Peter served as chief executive officer and chairman of the executive committee for British Telecom plc. from 1996 to 2002 and prior to that was chairman and chief executive officer of ICL plc. (now Fujitsu Services Holdings Ltd.). Sir Peter also worked in the semiconductor industry during his tenure as a divisional director at Texas Instruments Incorporated, for whom he held a variety of senior management positions around the world. In addition, Sir Peter has served as a director of twelve large technology companies.

Sir Peter currently holds a non-executive directorship at Taiwan Semiconductor Manufacturing Company Limited, is Chair of Council and Senior Pro-Chancellor at Loughborough University, Board Director at East West Institute USA and Board Mentor at CMi in London. He is Advisor to Longreach LLP in Hong Kong, Alix Partners UK LLP in London and is a Fellow of The Royal Academy of Engineering. Sir Peter is named Outstanding Director for 2019 by the Financial Times.

- **Kenneth A. Goldman (1949, American).** Mr. Goldman was appointed a non-executive director of our board of directors effective August 6, 2010. Mr. Goldman is former chief financial officer of Yahoo!, Inc. Prior to October 2012, Mr. Goldman served as senior vice president, finance and administration, and chief financial officer of Fortinet, Inc, a provider of unified threat management solutions, from September 2007 to September 2012. From November 2006 to August 2007, Mr. Goldman served as executive vice president and chief financial officer of Dexterra, Inc. From August 2000 until March 2006, Mr. Goldman served as senior vice president, finance and administration, and chief financial officer of Siebel Systems, Inc., and from December 1999 to December 2003, Mr. Goldman served on the Financial Accounting Standards Board's primary advisory group. Mr. Goldman currently serves on the board of directors of TriNet Group, Inc., GoPro, Inc., RingCentral, Inc., Zuora, Inc., and several private companies, including serving as President of Hillspire, LLC. Mr. Goldman also is a member of the Sustainability Accounting Standards Board (SASB) Foundation, and in 2015 was appointed to a three-year term on the Standards Advisory Group, which advises the PCAOB. Mr. Goldman was a member of board of trustees of Cornell University from 2005 to 2013 and was designated as Emeritus Trustee. He was formerly a member of the Treasury Advisory Committee on the Auditing Profession, a public committee that made recommendations in September 2008 to encourage a more sustainable auditing profession. Mr. Goldman holds a B.S. in Electrical Engineering from Cornell University and an M.B.A. from the Harvard Business School.

- **Josef Kaeser (1957, German).** Mr. Kaeser was appointed a non-executive director of our board of directors effective September 1, 2010. Mr. Kaeser is the president and chief executive officer of Siemens AG since August 2013. Before this, from May 2006 to August 2013, he was member of the managing board and chief financial officer of Siemens AG and prior to this Mr. Kaeser served as chief strategy officer for Siemens AG from 2004 to 2006 and as the chief financial officer for the mobile communications group from 2001 to 2004. Mr. Kaeser has additionally held various other positions within the Siemens group since he joined Siemens in 1980. Mr. Kaeser also serves on the board of directors of Siemens Ltd. (India), Daimler AG, and Allianz Deutschland AG.

- **Lena Olving (1956, Swedish).** Mrs. Olving was appointed a non-executive director of our board of directors effective June 17, 2019. Mrs. Olving served as President and CEO of Mycronic AB (listed on NASDAQ OMX Stockholm), a Swedish high-tech equipment company serving the electronics industry. Before that, Mrs. Olving worked at Saab AB, a listed Defense and Security company, as Deputy CEO and COO. Her earlier career also includes various managerial positions within Volvo Car Corporation, in total 25 years, of which 5 years in Asia Pacific and 7 years in the Executive Management Team. Ms. Olving is currently a board member of the following listed companies: Assa Abloy AB, Investment AB Latour, and Munters Group AB. Mrs. Olving is also Chairman of Academic Work Holding AB, Chairman of the Board at the Royal Swedish Opera, and member of ScandiNova System AB and of Stena Metall AB. She is elected as a fellow of IVA the Royal Swedish Academy of Engineering Sciences. She holds a Master of Science in Mechanical Engineering from Chalmers in Gothenburg, Sweden. In January 2018, Mrs. Olving was presented H.M. The King's Medal of the 12th size with blue ribbon for outstanding efforts within the Swedish business sector. In October 2019 she was awarded IVA's Gold Medal for pioneering and outstanding leadership within the tech sector.

- **Peter Smitham (1942, British).** Mr. Smitham was appointed a non-executive director of our board of directors effective December 7, 2015. Mr. Smitham retired from his position as a partner of the private equity firm Permira on December 31, 2009, but until August 1, 2015, he was a member of Permira Advisers LLP, which he joined in 1985, the year the London office was founded. Mr. Smitham was the managing partner of the London office from 1994 until 1998 and led Permira's European business from 1996 until 2000. He has worked on numerous transactions focusing on technology, including Memec Group Holdings Limited, The Roxboro Group, Solartron Group, and Technology plc. Until its merger with NXP, Mr. Smitham was a director of Freescale; he joined the Freescale board in June 2007 and has been a member of the Compensation and Leadership Committee and the Nominating and Corporate Governance Committee of the Freescale board. He has a degree in Geography from Swansea University, Wales, and attended the Senior Executive Program at Stanford Business School.

- **Julie Southern (1958, British).** Mrs. Southern was appointed a non-executive director of our board of directors in October 2013. Mrs. Southern was with Virgin Atlantic Limited (UK) from 2000 to May 2013. From 2010 to 2013 Mrs. Southern was chief commercial officer and from 2000 to 2010 she was chief financial officer of Virgin Atlantic.

Prior to joining Virgin Atlantic, she was group finance director at Porsche Cars Great Britain and finance and operations director at W H Smith - H J Chapman & Co Ltd. Prior to that, she was a chartered accountant at Price Waterhouse Coopers. Mrs. Southern currently holds non-executive directorships at Rentokil-Initial plc, Ocado Group plc and easyJet plc, and is Chair of the respective Audit Committees. Mrs. Southern is also a member of the Remuneration Committees at ocado and easyJet.

- **Jasmin Staiblin (1970, German).** Mrs. Staiblin was appointed a non-executive director of our board of directors effective June 17, 2019. Mrs. Staiblin served between 2013 and 2018 as CEO of Alpiq, a leading Swiss energy services provider and power producer in Europe. She successfully led the company through a major transformation in a fundamentally changing energy market. She began her career in 1997 at the ABB Group, the Swedish-Swiss global technology company, starting in ABB's group research center. From 1999 to 2005 she served in various global functions and as a member of the management team for ABB's power technologies division. She held the position of chief executive officer of ABB Switzerland from 2006 to 2012. Mrs. Staiblin is a board member of Georg Fischer AG, Schaffhausen, Rolls-Royce plc, London and Zurich Insurance Group Ltd. Mrs. Staiblin studied physics and electrical engineering at the Karlsruhe Institute of Technology, Germany and the Royal Institute of Technology in Stockholm, Sweden. She completed her studies with a degree in physics and has a Master of Science in electrical engineering.

- **Gregory L. Summe (1956, American).** Gregory L. Summe was appointed a non-executive director of NXP in 2015 Mr. Summe is the Managing Partner of Glen Capital Partners, a Boston based hedge fund, which he founded in 2014. Mr. Summe was the managing director and vice chairman of Global Buyout at The Carlyle Group, a leading global private equity firm, from 2009 to 2014. Before joining Carlyle, he was the chairman and chief executive officer of PerkinElmer, Inc., a global leader in Health Sciences, a company he led from 1998 to May 2009. He also served as a senior advisor to Goldman Sachs Capital Partners, from 2008 to 2009. He was a director of Freescale Semiconductor from 2010 until its merger with NXP in 2015 and served as Chairman of the Freescale board from 2014 - 2015. Prior to PerkinElmer, Mr. Summe was with AlliedSignal, now Honeywell International, serving as the president of General Aviation Avionics, president of the Aerospace Engines Group and president of the Automotive Products Group. Before joining AlliedSignal, he was the general manager of Commercial Motors at General Electric and was a partner with the consulting firm of McKinsey & Company, Inc. Mr. Summe holds B.S. and M.S. degrees in electrical engineering from the University of Kentucky and the University of Cincinnati, and an M.B.A. with distinction from the Wharton School at the University of Pennsylvania. He is in the Engineering Hall of Distinction at the University of Kentucky. Mr. Summe also serves on the board of directors of the State Street Corporation, and two private companies, Ohana Biosciences, and Pella Corporation.

- **Karl-Henrik Sundström (1960, Swedish).** Mr. Sundström was appointed a non-executive director of our board of directors effective June 17, 2019. Mr. Sundström was appointed CEO of Stora Enso in August 2014. He joined Stora Enso in August 2012 as CFO and member of the group leadership team. In June 2013, he took on the role as EVP for division Paper and Wood Products. Before joining Stora Enso, Mr. Sundström held the role as CFO of NXP Semiconductors N.V. (2008-2012). Before that, he held several managerial positions in Ericsson, including CFO. He is member of the board of Mölnlycke and chairman of the tax delegation for Swedish Business and Commerce and member of the board of the Marcus Wallenberg Foundation. Mr. Sundström participated in an advanced management program at Harvard Business School in 1997 and holds a degree in business administration, finance, and accounting from the Uppsala University, Sweden.

Information on the remuneration of our board of directors is disclosed in Note 32 *Information on remuneration board of directors* of the consolidated financial statements.

Information about our Executive Officers

Set forth below are the names and ages as of December 31, 2019 and positions of the executive officers who together with our chief executive officer, Mr. Clemmer, constitute our management team.

Name	Age	Position
Richard L. Clemmer	68	Executive director and chief executive officer
Kurt Sievers	50	CEO-elect and President
Peter Kelly	62	Executive vice president and chief financial officer
Steve Owen	59	Executive vice president sales & marketing
David Reed	61	Executive vice president technology and operations
Keith Shull	68	Executive vice president and chief human resources officer
Jennifer Wuamett	54	Executive vice president and general counsel

There are no family relationships among our executive officers or between any executive officer and any of our directors.

- **Kurt Sievers (1969, German).** Mr. Sievers is currently president and member of the management team, overseeing all of the company's business lines. He is nominated by the board of directors for appointment as executive director in connection with his appointment as Chief Executive Officer. In addition, he is Managing Director at NXP Semiconductors Germany GmbH. Mr. Sievers joined NXP in 1995, and rapidly moved through a series of Marketing & Sales, Product Definition & Development, Strategy and General Management leadership positions across a broad number of market segments. He has been a member of the executive management team since 2009, where he has been instrumental in the definition and implementation of the NXP High-Performance Mixed Signal strategy. In 2015, Mr. Sievers was influential in the merger of NXP and Freescale Semiconductor. Mr. Sievers serves on the Board of the German National Electrical and Electronics Industry Association (ZVEI) and chairs the Advisory Board of the international trade-fair Electronica. He also serves as a board member of PENTA and AENEAS, the clusters for application and technology research in Europe on nano-electronics. In his role as managing director for NXP Germany, Sievers serves as a member of the Asia-Pacific-Committee of German Business (APA) and as a member of the Board at the German Asia-Pacific Business Association (OAV), acting as the spokesperson for the Republic of Korea. Mr. Sievers earned a master's degree in physics and information technology from Augsburg University, Germany.

- **Peter Kelly (1957, American).** Mr. Kelly is executive vice president, chief financial officer and a member of the management team. He joined NXP in March, 2011 and serves as NXP's chief financial officer. Mr. Kelly has over 30 years of applicable experience in the global technology industry and has extensive financial expertise having worked in financial management positions in several other companies, including as CFO of UGI Corp. and Agere Systems Inc. Mr. Kelly also serves on the board and is Chair of the Audit Committee of Plexus, Corp.

- **Steve Owen (1960, Dutch).** Mr. Owen is executive vice president, global sales & marketing and member of the management team. He has extensive experience in developing business internationally and served in various marketing and sales leadership positions at NXP and Philips since 1998.

- **David Reed (1958, American).** Mr. Reed is executive vice president of Technology and Operations at NXP. He joined NXP in 2015, having served as general manager at Freescale until the merger with NXP. He has 30 years of extensive international experience with global execution of fabs, assembly/test, packaging, R&D, foundries and joint ventures for Analog, Automotive, Logic and Wireless customers. He joined Freescale Semiconductor in 2012 as Senior Vice President, Manufacturing Operations. Previously he was vice president and general manager at GLOBALFOUNDRIES. He began his career at Texas Instruments in 1984 where he held multiple overseas and leadership assignments.

- **Keith Shull (1951, American).** Mr. Shull is executive vice president and chief human resources officer for NXP. He joined NXP in 2015 and has over 35 years of experience, having led global HR organizations in a range of industries worldwide, including Arrow Electronics, Visteon and Walter Energy.

- **Jennifer Wuamett (1965, American).** Mrs. Wuamett is executive vice president, general counsel, secretary of our board of directors and member of the management team, and has served in this role since September 2018. Previously, Mrs. Wuamett served as Senior Vice President and Deputy General Counsel at NXP. Prior to that, she was Freescale's Senior Vice President, General Counsel and Secretary and has served in various positions at Freescale and Motorola.

Corporate Governance

Introduction

We are the parent company of the NXP group. We are a holding company and our only material asset is our direct ownership of 100% of the share capital of NXP B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*).

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006. On May 21, 2010, we converted into a Dutch public company with limited liability (*naamloze vennootschap*) and changed our name to NXP Semiconductors N.V. In August 2010, we listed our common shares on the Nasdaq Global Select Market ("Nasdaq").

We are subject to various corporate governance requirements and best practice codes, the most relevant being those in the Netherlands and the United States. The current Dutch Corporate Governance Code (the "DCGC"), dated December 8, 2016, replaced the former 2008 code and applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere. The code is based on a "comply or explain" principle. Accordingly, companies are required to disclose in their annual reports filed in the Netherlands whether or not they are complying with the various rules of the Dutch corporate governance code and if they do not comply with those provisions, to give the reasons therefore. The code contains principles and best practice provisions for managing boards, supervisory boards (which also apply to the non-executive members of one-tier boards), shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

Our long-term strategy is to maximize value for our shareholders and other stakeholders and create a strong cash flow generation by driving relative market share leadership with profitable growth at 1.5 times the market and exceeding customer expectations. We are committed to innovating for a better tomorrow for our customers, employees, communities, and society as a whole. Our purpose and goal is to provide Secure Connections for a Smarter World, a mission inspired by our customer-focused passion to win. In order to do so, we place five key elements high on our culture agenda: (i) raising the bar, (ii) engaging curiosity, (iii) taking initiative, (iv) working together and (v) developing deep core competence. These values define uniquely who we are, and what we aspire to, as an organization. They are the guiding principles that we believe will help us and our employees succeed. They inform the decisions we make and the actions we take - individually and collectively - every day in order to drive market success. The Board strives for a culture focused on long-term value creation and believes that these values enable us to reach that goal.

The Board, as well as the management team and the NXP Ethics Committee, promote openness and engagement through a SpeakUp grievance mechanism. Furthermore we maintain a Code of Conduct in order to promote a culture of good governance, excellence and consistency that applies to all of our directors, officers and employees and complies with the requirements of the Sarbanes-Oxley Act of 2002, and the rules thereunder, as well as applicable Nasdaq listing standards. A copy of the Code of Conduct is available on our Investor Relations website at *http://investors.nxp.com* under the "Corporate Governance" section. We will post any amendments to, or waivers from, our Code of Conduct (to the extent applicable to any director or any of our executive officers) to this website.

The Code of Conduct outlines our general commitment to be a responsible social partner and the way in which we attempt to interact with our stakeholders, including shareholders, suppliers, customers, employees and the market. The Code of Conduct expresses our commitment to an economically, socially and ethically sustainable way of working. It covers our policy on a diverse array of subjects, including corporate gifts, child labor, International Labor Organization conventions, working hours, sexual harassment, free-market competition, bribery and the integrity of financial reporting.

The Code of Conduct is built around the campaign "Know Right, Do Right" and consists of a framework of a variety of controls, a strict non-retaliation policy, a training program for employees, the SpeakUp telephone line where people can report potential issues in a confidential manner, a confidential investigation process, risk assessments, background checks and audits. Any reports related to the Code of Conduct are brought to the attention of our Ethics

Committee to ensure that all reports are properly investigated and addressed. Each quarter the Ethics Committee communicates to the Audit Committee all reports and investigations.

In this report, we address our overall corporate governance structure and state to what extent we apply the provisions of the Dutch corporate governance code. This report also includes the information which the Company is required to disclose pursuant to the governmental decree on corporate governance. The board of directors, which is responsible for the corporate governance structure of the Company, is of the opinion that the principles and best practice provisions of the Dutch corporate governance code that are addressed to the board of directors, interpreted and implemented in line with the best practices followed by the Company, are being applied. Deviations from best practice provisions of the code, will be explained in this report. Substantial changes in the Company's corporate governance structure and in the Company's compliance with the Dutch corporate governance code will be submitted to the general meeting of shareholders for discussion under a separate agenda item.

How our Board Governs and is Governed

The Company has a one-tier board structure, consisting of one or more executive directors and (independent) non-executive directors. The Board currently consists of ten directors, each of whom is either an executive director or a non-executive director pursuant to applicable Dutch law. The number of executive and non-executive directors is determined by the Board .

Under our Articles of Association and Dutch corporate law, the directors are collectively responsible for the management, general and financial affairs and policy and strategy of our Company. Our executive director is responsible for the day-to-day management of the Company and for the preparation and execution of Board resolutions, to the extent these tasks are not delegated to a committee of the Board. Our Chief Executive Officer or all directors acting jointly may represent the Company with third parties.

Consistent with established Dutch law and our Articles of Association, the executive director and non-executive directors are appointed by the shareholders at a general meeting of shareholders from a binding nomination proposed by the Board.

The binding nominations by the Board are made in accordance with Section 14.4 of the Articles of Association. The shareholders at an annual general meeting may at all times overrule the binding nature of such a nomination by a resolution adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital. If the nomination is not overruled, the nominated member of the Board shall be appointed. In case the nomination is overruled, the Board may then make a new nomination. If a nomination has not been made or has not been made in due time, this shall be stated in the notice and the general meeting of shareholders shall be free to appoint a member of the Board at its discretion. The latter resolution of the general meeting of shareholders must also be adopted by at least two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital.

Our directors are appointed for one year and will be, if nominated by the Board, re-electable each year at a general meeting of shareholders. Our directors may be suspended or dismissed at any time by the shareholders at an annual general meeting of shareholders. A resolution to suspend or dismiss a director will have to be adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital unless the proposal to suspend or dismiss a director is made by the Board, in which case resolutions shall be adopted by a simple majority of votes cast. An executive director can also be suspended by the Board.

If appointed, each director's term begins at the annual general meeting at which he or she is appointed and, unless such director resigns or is suspended or dismissed at an earlier date, his or her term of office lapses immediately after the next annual general meeting held after his or her appointment.

The Board and the Nominating and Governance Committee have carefully considered the experience, structure, culture, diversity, operation, interactions, collaboration and performance of the current Board; the talents, expertise and contributions of individual directors; the growth and creation of shareholder and other stakeholder value under the Board's leadership; the continued evolution of the Company; the Board's critical role in continuing to develop and lead the strategic direction of the Company; the continued change and consolidation in the semiconductor industry; anticipated future challenges and opportunities facing the Company; and the Board's ongoing commitment to ensuring the long-term sustainability of the Company to the benefit of shareholders and other stakeholders.

Rules Governing the Board

The Board has adopted written Rules Governing the Board (the "Rules of Procedure") governing its performance, its decision making, its composition, the tasks and working procedures of the committees and other matters relating to the Board, the Chief Executive Officer, the non-executive directors and the committees established by the Board. In accordance with our Rules of Procedure, resolutions of our Board will be adopted by a simple majority of votes cast in a meeting at which at least the majority of its members is present or represented. Each director has the right to cast one vote. In a tie vote, the proposal will be rejected.

In addition to the Rules of Procedure, the Board has adopted charters of its committees, to which the plenary Board, while retaining overall responsibility, has assigned certain tasks: the Audit Committee, the Nominating and Governance Committee, and the Compensation Committee. Each committee reports to the plenary Board. The Rules of Procedure and the committee charters were amended during 2019, and are posted on our Investor Relations website at *http://investors.nxp.com* under the "Corporate Governance" section. Copies of our corporate governance materials are also available to shareholders who request them. Requests must be in writing and sent to: NXP Semiconductors N.V., High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands, Attention: Secretary.

The Board is assisted by the Secretary. The Secretary sees to it that correct procedures are followed and that the Board acts in accordance with its statutory obligations and its obligations under the Articles of Association. Furthermore, the Secretary assists the Chairman of the Board (the "Chairman") in the functioning of Board business (information, agenda, evaluation, introductory program). The Secretary, in this capacity, is appointed and dismissed by the Board. Shareholders or other interested parties who wish to communicate with the Board, including the Chairman and the non-executive directors individually or as a group, may send correspondence in care of the Secretary at NXP's principal offices at High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands. Our Secretary will receive all communications sent to this address, and will provide all substantive communications to the Chairman, excluding simple administrative requests that are appropriately addressed by the Secretary.

Our non-executive directors oversee the general affairs of the Company and supervise and provide general advice to the executive director. Furthermore, the non-executive directors perform such acts that are delegated to them pursuant to our Articles of Association or by our board regulations. One of the non-executive directors has been appointed Chairman and another non-executive director has been appointed Vice-Chairman of the Board.

Each director owes a duty to us to properly perform the duties assigned to him or her and to act in the corporate interest of our Company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees, customers and suppliers.

Board Leadership and Role in Risk Oversight

Our Chairman works closely with our Chief Executive Officer to set the agenda for Board meetings and to facilitate information flow between the Board and management. Sir Peter Bonfield currently serves as the Chairman. The Chairman presides at the Board meetings, as well as regularly scheduled executive sessions of the non-executive directors.

Our independent directors regularly meet in executive session without executive directors or management present. Additionally, the Board and each committee have the power to hire, at the expense of the Company, independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

The Board has demonstrated expertise in developing strategies that have created a unique and sustainable global platform that serves the interests of shareholders and other stakeholders and possesses a deep understanding of the management team and the bench strength and culture within the Company. The Board also has a strong understanding of the challenges and opportunities facing the Company around the world, as well as the semiconductor industry in which we operate. This understanding has enabled the Board to guide the Company and our executive team in navigating ongoing, complex, and unpredictable developments that continue to have significant impacts on the semiconductor industry generally and us in particular.

The Board believes that its current structure continues to provide robust and highly effective oversight based on, among other factors:

- All nine non-executive directors are independent; the sole board member not being independent is the executive director (the CEO);
- Robust Corporate Governance principles, which are reviewed annually;
- A Chairman with deep experience in and knowledge of our business and industry with a demonstrated unique and successful strategic vision. Our Chairman continues to be actively focused on his role of providing the overall strategic leadership for the Company, consistent with Dutch law and the Company's organizational documents - a role that the Board believes remains critically important as our industry continues to experience significant change and disruption at a rapid rate;
- The Audit, Compensation, and Nominating and Governance Committees all are composed entirely of independent directors (as defined in the applicable Nasdaq listing standards and within the meaning of the DCGC);
- Approval of any appointment of members to the Audit, Compensation, and Nominating and Governance Committees must include at least a majority of the independent directors;
- All Board committees operate pursuant to written charters and conduct annual self-assessments;
- The independent directors of the Board and its committees receive extensive information and input from multiple layers of management and external advisors, engage in detailed discussion and analysis regarding matters brought before them (including in executive session) and consistently and actively engage in the development and approval of significant corporate strategies;
- The Board and its committees have unrestricted access to management;
- The Board and its committees can retain, at Company expense, any advisors they deem necessary with respect to any matter brought before them; and
- In 2019, the Board held four executive sessions of non-management members, and its committees collectively held 12 executive sessions.

Meetings of NXP's Board

The Board met five times in 2019. In addition to these meetings, directors attended meetings of individual Board committees of which they were members. Each of the directors attended at least 75% of the aggregate of the Board meetings and meetings of committees of which they were a member during the periods for which they served in 2019. NXP does not have a formal policy regarding Board members' attendance at annual general meetings, but all our Board members are invited to attend the Annual General Meeting. The Chairman and the Chief Executive Officer attended last year's annual general meeting in person.

The Rules of Procedure require the independent directors to meet in executive session from time to time, and at least twice annually, without any members of management present. During 2019, the independent directors of the Board met in executive session four times.

NXP's Board Committees

Effective September 1, 2019, the Board split the Nominating and Compensation Committee into two separate committees: the Compensation Committee and the Nominating and Governance Committee.

The standing committees of the Board are the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. Each committee operates under a written charter, a current copy of which, along with our Articles of Association and the Rules of Procedure, is available on our Investor Relations website at *http://investors.nxp.com* under the "Corporate Governance" section.

The Board determined that it was desirable that a new Nominating and Governance Committee be formed to, among other things, determine Board member selection criteria and appointment procedures, Board evaluation procedures and certain other corporate governance activities. The Board determined that this would allow the Compensation Committee to focus on the important talent management activities of the organization, such as managing CEO and executive succession, evaluating organizational effectiveness and reviewing leadership development practices. The Board believes that having separate committees to oversee these practices allows the proper support to these crucial activities.

Information about each of the standing committees is provided on the following pages provides an additional discussion of committee responsibilities in relation to risk oversight

AUDIT COMMITTEE

Members **Ms. Southern (Chair)** Ms. Staiblin Mr. Sundström	**KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:** • The integrity of the Company's financial statements and its accounting and financial reporting processes • The effectiveness of the Company's internal control over financial reporting • Compliance with applicable legal and regulatory requirements • The qualifications, independence and performance of the independent registered public accounting firm for U.S. public reporting purposes and the Company's external auditor for purposes of Dutch law • The Internal Audit group • The Company's processes and procedures related to risk assessment and risk management • Related party transactions
Number of meetings during 2019:	9

COMPENSATION COMMITTEE (until September 1, 2019 Nominating and Compensation Committee)

Members **Mr. Smitham (Chair)** Sir Peter Bonfield Ms. Olving Mr. Sundström	**KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:** • CEO and senior management compensation, including the corporate goals and objectives relevant to such compensation and evaluating performance in light of those goals and objectives • Board and committee compensation • Relationship between the Company's compensation policies and practices and risk management • Compensation and benefits-related disclosures • Equity compensation plans in which executives participate
Number of meetings during 2019:	**6**

NOMINATING AND GOVERNANCE COMMITTEE (as of September 1, 2019)

Members **Mr. Summe (Chair)** Sir Peter Bonfield Mr. Goldman Mr. Kaeser	**KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:** • Corporate governance matters • Nomination or re-nomination of director candidates • The annual self-evaluation of the Board and its committees
Number of meetings during 2019:	**2**

Setting and Overseeing Strategy

The Board actively determines the Company's strategy and continues to focus on those strategies designed to ensure the continued durability and sustainability of the Company, while creating long-term value for our shareholders, and serving the interests of our other stakeholders. The Board and its committees regularly and extensively reviewed during their meetings throughout 2019 the Company's strategy, the Company's primary risks as well as the design and operation of the internal control systems to ensure it supports the long-term growth and sustainability of the Company and reflects, among other considerations, market challenges and opportunities, and the interests of shareholders and other stakeholders. This has substantially impacted the long-term value creation strategy as referred to in practice 1.1.1 of the Dutch Corporate Governance Code ("DCGC"). In addition to quarterly updates on the business performance and detailed presentations by the various business managers, the Board as part of its annual meeting schedule, spent a full-day in November to review and discuss the mid- to long-term strategy of the Company.

The Board is committed to maintaining a dialogue with shareholders to ensure that they understand our differentiated strategy and business model and have an opportunity to discuss and engage on a broad range of topics, including our strategy. The Board will also review the implementation of our strategy at our annual general meeting of shareholders, giving attendees the opportunity to discuss our annual Dutch board report and the accompanying financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). We also regularly discuss our strategy in shareholder engagement sessions.

Risk Oversight

Our management is directly responsible for executing the Company’s risk management processes. Our Board is responsible for overseeing these risk management processes. In exercising its oversight, the Board and, as appropriate, the relevant Board committees, assesses the material risks facing the Company and evaluate management’s plans for managing material risk exposures.

Our Board performs this oversight function through periodic reports from management and Board committees. While our Board generally has ultimate oversight responsibility of the Company’s risk management processes, it has delegated to its committees the responsibility to oversee risk management processes associated with their respective areas of responsibility and expertise. For example, the Audit Committee has oversight responsibility for the Company’s internal audit function, compliance with the Code of Conduct, internal controls and financial reporting practices, litigation, and compliance processes. The Company conducts a formal annual risk assessment to identify, analyze and report on enterprise risks. The results of this risk assessment are reported to and discussed with the Audit Committee. The Compensation Committee has oversight responsibility for the Company’s executive talent management and succession planning and risks related to the Company’s compensation policies and practices, as described in more detail in the Compensation Practices and Risk section of the Compensation Discussion and Analysis. The Nominating and Governance Committee has oversight responsibility for the Company’s compliance with its corporate governance principles and leadership succession planning. The Board receives regular reports from each committee chair regarding the committee’s considerations and actions. The Board also receives regular updates from management on the Company’s business operations, financial results and strategy and, as appropriate, discusses and provides feedback with respect to risks related to these topics. Annually, the Board holds strategic planning sessions with senior management to discuss strategies, key challenges, and risks and opportunities for our business.

NXP, similar to other semiconductor companies, operates in a complex and rapidly changing environment that involves many risks. In addition to general market, research and development, and economic risks, the Company faces potential risks related to its industry; information technology and cybersecurity; data privacy; financial controls and reporting; legal, regulatory and compliance; finances and taxation; global operations; environment and social responsibility; and product portfolio and commercialization, among others. As a company committed to operating ethically and with integrity, we proactively seek to manage and, where possible, mitigate risks to help ensure compliance with applicable rules and regulations, maintain integrity and continuity in our operations and business and protect our assets. Risk management is an enterprise-wide objective subject to oversight by the Board and its committees.

It is the responsibility of management and employees to implement and administer risk-management processes to identify material risks to our business. In addition, management must assess, manage and monitor those risks, all while maintaining flexibility in how we operate. To further embed risk management and compliance into our culture, we implement relevant policies and procedures and train employees on the specifics of such policies and procedures. All of our committees have regular access to management and the Board and committees also schedule sessions without members of management present.

The Board, in turn, directly or through its committees, oversees management’s implementation of risk management. We have approved a robust Code of Conduct and other related policies, and the Board and its committees rigorously review with management actual and potential significant risks at least on a quarterly basis.

Board Education

Individual members of the Board participate in director educational seminars, conferences and other director education programs presented by external and internal resources, on matters that relate to, among other topics, compensation, governance, board process, risk oversight, business, industry, audit and accounting, credit and financial, regulatory and other current issues. The Company organized in August 2019 a two-day Induction Program for newly elected directors. A number of directors that were elected in previous years also participated in the Induction Program. Various management members gave in-depth presentations on the Company's strategy, including presentations on the finance organization and reporting, legal, intellectual property, corporate governance, human resources, internal audit and sales and marketing.

How Our Directors Are Selected and Evaluated

Consideration of Director Nominees

For purposes of identifying individuals qualified to become members of the Board, the Nominating and Governance Committee considers the following general criteria, among others, in nominating director candidates. These criteria reflect the traits, abilities and experience that the Board looks for in determining candidates for election:

- Directors shall have relevant expertise and experience and be able to offer advice and guidance to the CEO based on that expertise and experience;

- Directors shall have the ability to exercise sound business judgment;

- Directors shall represent diverse viewpoints; the personal backgrounds and qualifications of the directors, considered as a group, should provide the Company with a significant composite mix of experience, knowledge and abilities; and

- Unless otherwise approved by the Board, directors shall not be a member of the board of directors or an officer or employee of a competitor (or an affiliate of a competitor) of the Company.

In addition to the criteria set forth above, and any others the Nominating and Governance Committee or the Board may consider, a majority of the Board's members must be "independent," as that term may be defined from time to time by the applicable Nasdaq listing standards, the Rules of Procedure, as well as practice 2.1.8 of the DCGC, including that an independent director must be free of any relationships which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

As needed, the Nominating and Governance Committee may identify new potential director nominees by, among other means, requesting current directors and executive officers and external advisors to notify it if they become aware of persons meeting the criteria described above who would be suitable candidates for service on the Board. The committee also may, as needed, engage one or more firms that specialize in identifying director candidates.

As appropriate, the Nominating and Governance Committee will review publicly available information regarding a potential candidate, request information from the candidate, review the candidate's experience and qualifications, including in light of any other candidates the committee might be considering, and conduct, together with other members of the Board, one or more interviews with the candidate. Committee members or their designees also may contact one or more references provided by the candidate or may contact other members of the business community or persons who may have first-hand knowledge of the candidate's talents and experience.

Diversity

The Board is committed to supporting, valuing and leveraging diversity in its composition, among other qualities that the Board believes serve the best interests of the Company and its stakeholders. In view thereof, the Board is committed to the gender balance as prescribed by Dutch law (defined in article 2:397 of the Dutch Civil Code), which means that at least 30% of the seats on our Board are to be taken by men and at least 30% of the seats by women. As part of the Company's policy to appoint a well-balanced mix of women and men to its Board, while taking into account the overall profile and selection criteria for appointments of suitable candidates to the Board, after the appointment by shareholders at the general meeting of shareholders of June 17, 2019 of Mses. Olving and Staiblin, as nominated by the board, 30% of the seats of the Board are now taken by women.

Board Refreshment

The Board, with the support of the Nominating and Governance Committee, maintains an orderly, robust process for Board refreshment and succession that is aimed at maintaining an appropriate balance with respect to the expertise, experience and diversity on the Board. The Board and its Nominating and Governance Committee regularly evaluates the Board composition with respect to, among other matters, director independence, skills, experience, expertise, diversity and other factors to ensure the Board remains well-qualified to provide effective oversight of the Company and management. The Board and the Nominating and Governance Committee regularly consider the Company's strategy, performance, operations, relevant industry and market conditions, and current and anticipated needs in terms of particular areas of experience and expertise (e.g., risk oversight, industry, science), among many other factors, to inform these refreshment practices.

The Board continues its orderly Board succession and refreshment process, refreshing five director seats since 2015.

The Board also remains focused on committee composition and refreshment. In August 2018, the Board refreshed the chairs of the then two Board committees (the Audit Committee and the Nominating and Compensation Committee) and, following the installment of the Nominating and Governance Committee in September 2019, the Board refreshed the composition of all three committees.

Director Independence

NXP's Board has determined that all non-executive directors are independent directors under the applicable Nasdaq listing standards, the Rules of Procedure (as defined below), as well as practice 2.1.8 of the DCGC. The executive director, Mr. Clemmer, has been appointed as our Chief Executive Officer, and is not an independent director under the above standards.

Certain Relationships and Related Transactions

Under the Rules of Procedure, a conflict needs to be reported to the Board and the Board shall resolve on the consequences, if any. In case of a conflict of interest, the director concerned is not allowed to participate in discussions or vote on such matter. If all directors have a conflict of interest, the resolution concerned will be adopted by shareholders at the general meeting of shareholders.

Other than the compensation items described in the Group Financial Statements Note 32, no decisions to enter into material transactions in which there are conflicts with directors have occurred during the financial year 2019.

How Our Directors Are Compensated

The Compensation Committee has responsibility for reviewing and considering any revisions to compensation for non-executive directors. The Board reviews the Compensation Committee's recommendations and makes the final determination regarding compensation for non-executive directors.

Refer to Note 32 of the group financial statements for Directors and remuneration detail.

General Meeting of Shareholders: Procedures, Admission and Voting Rights

Introduction

General meetings of shareholders will be held in the Netherlands in the municipalities of Amsterdam, Eindhoven, Haarlemmermeer, The Hague, Rotterdam or Utrecht. A general meeting of shareholders shall be held at least once per year within the period Dutch law requires us to convene a general meeting of shareholders, which is currently once per year, no later than six months after the end of our financial year. Our board of directors may decide whether electronic voting at the general meeting of shareholders is allowed and may subject electronic voting to certain conditions.

The agenda for the annual general meeting of shareholders shall contain, inter alia, items placed on the agenda in accordance with Dutch law and our articles of association, the consideration of the annual report, the adoption of our annual accounts, the proposal to pay a dividend (if applicable), proposals relating to the composition of the board of directors, including the filling of any vacancies in the board of directors, the proposals placed on the agenda by the board of directors, including, but not limited to, a proposal to grant discharge to the directors for their management during the financial year, together with proposals made by shareholders in accordance with provisions of Dutch law and our articles of association.

Public notice of a general meeting of shareholders or an extraordinary meeting of shareholders shall be given by the board of directors, upon a term of at least such number of days prior to the day of the meeting as required by law and in accordance with the regulations of the NASDAQ stock exchange. This term is currently 15 days. The record date for each general meeting of shareholders is twenty-eight days prior to the date of the meeting. Any matter, the consideration of which has been requested by one or more shareholders, representing solely or jointly at least such part of the issued share capital as required by Dutch law, which is, set since July 1, 2013 at three percent of our issued and outstanding share capital, will be placed in the notice convening the annual general meeting of shareholders or the extraordinary meeting of shareholders, but only if we received the request to consider such matter no later than on the 60th day prior to the day of the meeting.

In accordance with the Dutch corporate governance code, a shareholder may exercise the right to request the inclusion of an item on the agenda only after he consulted the board of directors about this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in our strategy, for example through the dismissal of one or more of our directors, the board of directors will be given the opportunity to stipulate a reasonable period in which to respond (the "response time"). The period between the day the board of directors is informed by one or more shareholders of their intention and the day of the general meeting in which the proposal can be discussed may not exceed 180 days.

The Dutch corporate governance code further provides that the board of directors must use the response time for further deliberation and constructive consultation. The response time may be invoked only once for any given general meeting and may not apply to an item in respect of which the response time has been previously invoked. The response time also applies to requests of shareholders to convene an extraordinary general meeting.

Extraordinary general meetings of shareholders shall be held as frequently as they are called by the board of directors, or whenever one or more shareholders representing at least ten percent of our issued capital so request the board of directors in writing.

Without prejudice to the relevant provisions of law dealing with reduction of share capital and amendments to the articles of association, the public notice convening the meeting shall either mention the business on the agenda or state that the agenda is open to inspection by the shareholders at our offices.

Notices convening a general meeting of shareholders will contain instructions for shareholders that wish attend the general meeting of shareholders or to give a proxy to have their shares voted at the general meeting of shareholders.

Directors are authorized to attend general meetings of shareholders. They have an advisory vote. The general meeting of shareholders shall be presided over by the chairman of our board of directors. In the absence of the chairman, one of the other non-executive directors, and in the absence of other non-executive directors any executive director shall preside over the meeting.

Each share of common stock will confer the right to cast one vote at the general meeting of shareholders. Each shareholder may cast as many votes as he holds shares. Blank votes and invalid votes shall be regarded as not having been cast. Resolutions proposed to the general meeting of shareholders by the board of directors shall be adopted by a simple majority of votes cast, unless another majority of votes or a quorum is required by virtue of Dutch law or our articles of association. All other resolutions shall be adopted by a two thirds majority of the votes cast, provided such majority represents at least half of the issued share capital. In addition, we have authorized two series of preferred stock, each share of preferred stock confers the right to cast one vote as well.

Meetings of holders of shares of a particular class or classes shall be held as frequently and whenever such meeting is required by virtue of any statutory regulation or any regulation in our articles of association. Such meeting may be convened by the board of directors or one or more holders of shares of the relevant class, who jointly represent at least one-tenth of the capital issued and outstanding in the shares of the class concerned.

Shareholder Vote on Certain Reorganizations

Under Dutch law, the approval of our general meeting of shareholders is required for any significant change in the identity or nature of our company or business, including in the case of (i) a transfer of all or substantially all of our business to a third party, (ii) the entry into or termination by us or one of our subsidiaries of a significant long-term cooperation with another entity or (iii) the acquisition or divestment by us or one of our subsidiaries of a participating interest in the capital of a company having a value of at least one-third of the amount of our assets, as stated in our consolidated balance sheet in our latest adopted annual accounts.

Response Measures

Dutch law permits us to adopt protective measures against hostile takeovers and shareholder activism. Although we have not and do not envisage adopting any specific response measures, our board of directors may be designated by the general meeting of shareholders to issue shares and grant rights to subscribe for shares in the form of preferred stock, up to the amount of our authorized share capital.

Preferred stock can be issued in case of (the threat of) an undesired acquisition of the majority of our shares by one party or several parties acting in concert, in case of (the threat of) an undesired concentration of NXP shares with one party or several parties acting in concert and/or to prevent any undesired disruption of independent management of NXP. This protective measure, when adopted by the general meeting of shareholders, is temporary in nature and would enable NXP to judge any (hostile) situation on its merits and/or to explore alternatives. As at 31 December 2019, no preferred stock was issued.

Our preferred stock forms a separate class of shares that have both a liquidation and dividend preference over our common stock and accrue cash dividends at a fixed rate.

Audit of the financial reporting and the position of the external auditor

The annual financial statements are prepared by the board of directors upon the advice of its audit committee and taking into account the report of the external auditor. The accounts are signed by all directors and are published together with the final opinion of the external auditor. The board of directors is responsible for the quality and completeness of such publicly disclosed financial reports. The annual financial statements are presented for discussion and adoption to the annual general meeting of shareholders, to be convened subsequently. NXP, under U.S. securities regulations, separately files its annual U.S. GAAP report on Form 10K.

Going concern

In accordance with the Dutch Corporate Governance Code, our management hereby states that to the best of its knowledge and belief, based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis, and the Annual Report discloses all material risks and uncertainties that are relevant regarding the expectation as to the continuity of the Company for the twelve month period after the date of issue of this Annual Report, as required per IFRS for the going concern assessment.

Internal controls and disclosure policies

Annually, our management, with the participation of our chief executive officer and chief financial officer, conducts an evaluation pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) of the effectiveness of the design and operation of our disclosure controls and procedures. In addition, specific IFRS matters, including a review of the financial statements are subject to a process of internal review.

As part of these procedures, a disclosure committee (the ‘committee’) has been appointed by the board of directors to oversee the Company’s disclosure activities and to assist the board of directors in fulfilling its responsibilities in this respect. The committee’s purpose is to ensure that the Company implements and maintains internal procedures for the timely collection, evaluation and disclosure, as appropriate, of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which the Company is subject. Such procedures are designed to capture information that is relevant to an assessment of the need to disclose developments and risks that pertain to the Company’s various businesses, and their effectiveness for this purpose will be reviewed periodically.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) of the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance, not absolute assurance, regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 based on the criteria established in "Internal Control - Integrated Framework” issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment our management concluded that our internal control over financial reporting was effective as at December 31, 2019.

It should be noted that any control system, regardless of how well it is designed and operated, can provide only reasonable, not absolute, assurance that its objectives will be met. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Auditor information

In accordance with the procedures laid down in the NXP Policy on auditor independence (the “auditor policy”) and as mandatory required by Dutch law, the external auditor of the Company is appointed by the general meeting of shareholders. The audit committee and the board of directors will recommend an auditor to appoint to the general meeting of shareholders. Under the auditor policy, once every three years the board of directors and the audit committee conduct a thorough assessment of the functioning of the external auditor. The main conclusions of this assessment shall be communicated to the general meeting of shareholders for the purposes of assessing the nomination for the appointment of the external auditor. Pursuant to the auditor policy our shareholders in the general meeting of shareholders of June 17, 2019, upon the proposal of the board of directors, have appointed KPMG Accountants N.V. (“KPMG”) as external auditor for a period of one year, which appointment expires in 2020.

As announced on November 19, 2019, the board of directors as advised by its audit committee determined not to recommend that KPMG stand for re-appointment as the Company’s independent registered public accounting firm. On the same date, the Board as advised by its audit committee determined to recommend that Ernst & Young Accountants LLP (“EY”) stand for appointment as the Company’s independent registered public accounting firm for the Company’s fiscal years ending December 31, 2020 through December 31, 2022 at the 2020 AGM under the requirement under Dutch law and as set forth in the Articles, subject to the completion of EY’s standard client acceptance procedures.

The external auditor shall attend the annual general meeting of shareholders. Questions may be put to him at the meeting about his report. The audit committee of the board of directors shall report on their dealings with the external auditor to the board of directors on an annual basis, particularly with regard to the auditor’s independence. The board of directors shall take this into account when deciding upon its nomination for the appointment of an external auditor.

The external auditor attends, in principle, all meetings of the audit committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings, as well as the report of the external auditor with respect to the audit of the annual accounts. In its audit report on the annual accounts to the board of directors, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in the Netherlands and the United States.

Audit committee pre-approval policies

The Audit Committee has adopted rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year in respect of a particular engagement (specific pre-approval). The pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each service it is pre-approving. Unless covered by the pre-approved services, each proposed service requires specific pre-approval during the year. Any pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. During 2019, there were no services provided to the Company by the external auditors which were not pre-approved by the Audit Committee.

In 2019, the external auditor attended all formal meetings of the Audit Committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings. In its audit report on the annual accounts to the Board, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in The Netherlands and the United States.

Compliance with the Dutch corporate governance code

We are required to state in our annual report whether we comply or will comply with the Principles and best practice provisions of the Dutch corporate governance code and, if we don’t comply, to explain the reasons for this. The text that follows sets out certain statements that the Dutch corporate governance code invites us to make to our shareholders that are not included elsewhere in this annual report as well as areas of non-compliance.

- Best practice provision 3.1.2 state that stock options granted to members of our board shall, in any event, not be exercised in the first three years after the date of granting and shares granted to board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. Under our equity incentive schemes, part of the stock options granted to our chief executive officer since November 2010 are exercisable one year after the date of grant, and members of our board who received restrictive shares and performance shares since November 2010 are not required to retain these shares for at least five years. Although a deviation from the Corporate Governance Code, we hold the view that the combination of equity incentives - with the applicable strict vesting - granted to our chief executive officer, in relation to his obligation - laid down in the NXP Executive Equity Ownership Policy, as amended, to maintain at least 20% of the number of NXP shares delivered upon the vesting of any performance stock units granted as of October 2013, will enhance the goal of promoting long-term investments in the Company. The same is true for the equity grants made to other members of our board, which also have very strict vesting criteria with the purpose of creating long-term commitment to the Company.
- Best practice provision 3.1.2, section iii of the Dutch corporate governance code states that information about the pay ratios within the company and its affiliated enterprise should form part of the remuneration report. In order to comply with the Dutch corporate governance code, using the data that have been published in this annual report - which will be different than the U.S. GAAP information that will be described in the Proxy Statement - NXP reports that the ratio of total remuneration of the Chief Executive Officer ($36,587,317) versus the average of total employee remuneration ($2.392M over 29,400 employees) is approximately 450:1.
- Best practice provision 3.2.3 states that the remuneration of a member of our board in the event of dismissal may not exceed one year's salary. Considering our chief executive officer being in his role since January 2009, as well as the announced CEO transition, our current chief executive shall be eligible for a severance payment until the end of his employment agreement, in October 2021.
- Pursuant to best practice provision 3.3.2, no equity grants should be made to our non-executive directors. Granting equity incentives to non-executive directors is in compliance with international business practice in our industry, and we consider the granting of equity incentives as an important means to attract individuals with the required skills and expertise to serve on our board of directors.
- Pursuant to best practice provision 4.3.3, a general meeting of shareholders should be empowered to cancel binding nominations of candidates for appointment to the board, and to dismiss members of the board by a simple majority of votes of those in attendance, although the company may require that such majority represents a minimum number of outstanding shares, which number may not exceed one third of the voting rights outstanding. If a majority of those in attendance vote in favor of the proposal, but this majority does not represent the minimum number of outstanding voting rights required, a second meeting may be convened and its vote will be binding, even without any minimum requirement. Our articles of association currently state that the general meeting of shareholders may at all times overrule a binding nomination by a resolution adopted by at least a two-thirds majority of the votes cast, if such majority represents more than half of the issued share capital. Although a deviation from provision 4.3.3 of the Dutch Corporate Governance Code, we hold the view that these provisions will enhance the continuity of the Company's management and policies.
- Best practice provision 4.3.2 provides that our shareholders should be given the possibility to grant a power of attorney or voting instruction to an independent third-party. We do not appoint an independent third party for these purposes; however our shareholders are free to grant a power of attorney to any third-party. As all our shares are traded on the Nasdaq stock exchange, we aim to align our voting procedures with the practice in the United States, to the extent possible.
- Best practice provision 4.2.2 states that the company shall formulate an outline policy on bilateral contacts with the shareholders and publish this policy on its website. We do not have such policy, however we are continually striving to improve relations with our shareholders. We elaborate on our financial results during (public) conference calls, which are broadly accessible. We publish informative annual and quarterly reports and press releases, and inform investors via our extensive website. We are strict in our compliance with applicable rules and regulations on fair and non-selective disclosure and

equal treatment of shareholders. Furthermore, we engage in bilateral communications with investors. These communications either take place at our initiative or at the initiative of individual investors. During these communications we are generally represented by our VP Investor Relations, on a number of occasions accompanied by one or more members of the management team. The subject matter of the bilateral communications ranges from single queries from investors to more elaborate discussions on the back of disclosures that we have made such as our annual and quarterly reports. Also here, we are strict in our compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

We have a structured self-assessment and monitoring process in place to assess and monitor compliance related to the achievement of business objectives and critical business processes. The Company's risk factors can be summarized as follows:

Risks related to our business

The semiconductor industry is highly cyclical.

Historically, the relationship between supply and demand in the semiconductor industry has caused a high degree of cyclicality in the semiconductor market. Semiconductor supply is partly driven by manufacturing capacity, which in the past has demonstrated alternating periods of substantial capacity additions and periods in which no or limited capacity was added. As a general matter, semiconductor companies are more likely to add capacity in periods when current or expected future demand is strong and margins are, or are expected to be, high. Investments in new capacity can result in overcapacity, which can lead to a reduction in prices and margins. In response, companies typically limit further capacity additions, eventually causing the market to be relatively undersupplied. In addition, demand for semiconductors varies, which can exacerbate the effect of supply fluctuations. As a result of this cyclicality, the semiconductor industry has in the past experienced significant downturns, such as in 1997/1998, 2001/2002 and in 2008/2009, often in connection with, or in anticipation of, maturing life cycles of semiconductor companies' products and declines in general economic conditions. These downturns have been characterized by diminishing demand for end-user products, high inventory levels, under-utilization of manufacturing capacity and accelerated erosion of average selling prices. The foregoing risks have historically had, and may continue to have, a material adverse effect on our business, financial condition and results of operations.

Significantly increased volatility and instability and unfavorable economic conditions may adversely affect our business.

In 2008 and 2009, Europe, the United States and international markets experienced increased volatility and instability. In 2015, volatility and instability in financial markets continued following renewed investor concerns related to the economic situation in parts of the world, a decline in the growth rate of the Chinese economy, increased hostilities in the Middle East, and other world events. These, or other events, could further adversely affect the economies of the European Union, the United States and those of other countries and may exacerbate the cyclicality of our business. Among other factors, we face risks attendant to unfavorable changes related to interest rates, rates of economic growth, fiscal, monetary and trade policies of governments, tax rates and policy and changes in demand for end-user products and changes in interest rates.

There is a significant risk that the global economy could fall into recession again. If economic conditions remain uncertain or deteriorate, our business, financial condition and results of operations could be materially adversely affected.

It is difficult for us, our customers and suppliers to forecast demand trends. We may be unable to accurately predict the extent or duration of cycles or their effect on our financial condition or result of operations and can give no assurance as to the timing, extent or duration of the current or future business cycles. A recurrent decline in demand or the failure of demand to return to prior levels could place pressure on our results of operations. The timing and extent of any changes to currently prevailing market conditions is uncertain and supply and demand may be unbalanced at any time.

The semiconductor industry is highly competitive. If we fail to introduce new technologies and products in a timely manner, this could adversely affect our business.

The semiconductor industry is highly competitive and characterized by constant and rapid technological change, short product lifecycles, significant price erosion and evolving standards. Accordingly, the success of our business depends to a significant extent on our ability to develop new technologies and products that are ultimately successful in the market. The costs related to the research and development necessary to develop new technologies and products are significant and any reduction of our research and development budget could harm our competitiveness. Meeting evolving industry requirements and introducing new products to the market in a timely manner and at prices that are acceptable to our customers are significant factors in determining our competitiveness and success. Commitments to develop new products must be made well in advance of any resulting sales, and technologies and standards may change during development, potentially rendering our products outdated or uncompetitive before their introduction. If we are unable to successfully develop new products, our revenue may decline substantially. Moreover, some of our competitors are well-established entities, are larger than us and have greater resources than we do. If these competitors increase the resources they devote to developing and marketing their products, we may not be able to compete effectively. Any consolidation among our competitors could enhance their product offerings and financial resources, further strengthening their competitive position. In addition, some of our competitors operate in narrow business areas relative to us, allowing them to concentrate their research and development efforts directly on products and services for those areas, which may give them a competitive advantage. As a result of these competitive pressures, we may face declining sales volumes or lower prevailing prices for our products, and we may not be able to reduce our total costs in line with this declining revenue. If any of these risks materialize, they could have a material adverse effect on our business, financial condition and results of operations.

In many of the market segments in which we compete, we depend on winning selection processes, and failure to be selected could adversely affect our business in those market segments.

One of our business strategies is to participate in and win competitive bid selection processes to develop products for use in our customers' equipment and products. These selection processes can be lengthy and require us to incur significant design and development expenditures, with no guarantee of winning a contract or generating revenue. Failure to win new design projects and delays in developing new products with anticipated technological advances or in commencing volume shipments of these products may have an adverse effect on our business. This risk is particularly pronounced in markets where there are only a few potential customers and in the automotive market, where, due to the longer design cycles involved, failure to win a design-in could prevent access to a customer for several years. Our failure to win a sufficient number of these bids could result in reduced revenue and hurt our competitive position in future selection processes because we may not be perceived as being a technology or industry leader, each of which could have a material adverse effect on our business, financial condition and results of operations.

The demand for our products depends to a significant degree on the demand for our customers' end products.

The vast majority of our revenue is derived from sales to manufacturers in the automotive, industrial & IoT, mobile, and communication infrastructure. Demand in these markets fluctuates significantly, driven by consumer spending, consumer preferences, the development of new technologies and prevailing economic conditions. In addition, the specific products in which our semiconductors are incorporated may not be successful, or may experience price erosion or other competitive factors that affect the price manufacturers are willing to pay us. Such customers have in the past, and may in the future, vary order levels significantly from period to period, request postponements to scheduled delivery dates, modify their orders or reduce lead times. This is particularly common during periods of low demand. This can make managing our business difficult, as it limits the predictability of future revenue. It can also affect the accuracy of our financial forecasts. Furthermore, developing industry trends, including customers' use of outsourcing and new and revised supply chain models, may affect our revenue, costs and working capital requirements. Additionally, a significant portion of our products is made to order.

If customers do not purchase products made specifically for them, we may not be able to resell such products to other customers or may not be able to require the customers who have ordered these products to pay a cancellation fee. The foregoing risks could have a material adverse effect on our business, financial condition and results of operations.

The semiconductor industry is characterized by continued price erosion, especially after a product has been on the market.

One of the results of the rapid innovation in the semiconductor industry is that pricing pressure, especially on products containing older technology, can be intense. Product life cycles are relatively short, and as a result, products tend to be replaced by more technologically advanced substitutes on a regular basis.

In turn, demand for older technology falls, causing the price at which such products can be sold to drop, in some cases precipitously. In order to continue profitably supplying these products, we must reduce our production costs in line with the lower revenue we can expect to generate per unit. Usually, this must be accomplished through improvements in process technology and production efficiencies. If we cannot advance our process technologies or improve our efficiencies to a degree sufficient to maintain required margins, we will no longer be able to make a profit from the sale of these products. Moreover, we may not be able to cease production of such products, either due to contractual obligations or for customer relationship reasons, and as a result may be required to bear a loss on such products. We cannot guarantee that competition in our core product markets will not lead to price erosion, lower revenue or lower margins in the future. Should reductions in our manufacturing costs fail to keep pace with reductions in market prices for the products we sell, this could have a material adverse effect on our business, financial condition and results of operations.

Goodwill and other identifiable intangible assets represent a significant portion of our total assets, and we may never realize the full value of our intangible assets.

Goodwill and other identifiable intangible assets are recorded at fair value on the date of an acquisition. As a result of our acquisition of Marvell's Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets in 2019, we recognized goodwill of $1.1 billion and intangible assets of $0.5 billion. As a result of our acquisition of Freescale in 2015, we recognized goodwill of $7.5 billion and intangible assets of $8.5 billion. We review our goodwill and other intangible assets balance for impairment upon any indication of a potential impairment, and in the case of goodwill, at a minimum of once a year. Impairment may result from, among other things, a sustained decrease in share price, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products and services we sell, challenges to the validity of certain registered intellectual property, reduced sales of certain products incorporating intellectual property and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge to results of operations. Depending on future circumstances, it is possible that we may never realize the full value of our intangible assets. Any future determination of impairment of goodwill or other identifiable intangible assets could have a material adverse effect on our financial position, results of operations and shareholders' equity.

As our business is global, we need to comply with laws and regulations in countries across the world and are exposed to international business risks that could adversely affect our business.

We operate globally, with manufacturing, assembly and testing facilities in several continents, and we market our products globally.

As a result, we are subject to environmental, labor and health and safety laws and regulations in each jurisdiction in which we operate. We are also required to obtain environmental permits and other authorizations or licenses from governmental authorities for certain of our operations. In the jurisdictions where we operate, we need to comply with differing standards and varying practices of regulatory, tax, judicial and administrative bodies.

In addition, the business environment is also subject to many economic and political uncertainties, including the following international business risks:

- negative economic developments in economies around the world and the instability of governments and international trade arrangements, such as the withdrawal of the United Kingdom from the European Union, the sovereign debt crisis in certain European countries and the increase of barriers to international trade, such as the recent imposition of tariffs on imports by the United States and China;
- social and political instability in a number of countries around the world, including continued hostilities and civil unrest in the Middle East. The instability may have a negative effect on our business, financial condition and operations via our customers and volatility in energy prices and the financial markets;
- potential terrorist attacks;

- epidemics and pandemics, such as the recent coronavirus outbreak, which may adversely affect our workforce, as well as our suppliers and customers;
- adverse changes in governmental policies, especially those affecting trade and investment;
- our customers or other groups of stakeholders might impose requirements that are more stringent than the laws in the countries in which we are active;
- volatility in foreign currency exchange rates, in particular with respect to the U.S. dollar, and transfer restrictions, in particular in China; and
- threats that our operations or property could be subject to nationalization and expropriation.

No assurance can be given that we have been or will be at all times in complete compliance with the laws and regulations to which we are subject or that we have obtained or will obtain the permits and other authorizations or licenses that we need. If we violate or fail to comply with laws, regulations, permits and other authorizations or licenses, we could be fined or otherwise sanctioned by regulators. Furthermore, if one or more of our customers are sanctioned by regulators for non-compliance with laws and regulations, we could experience a decrease in demand for our products. For example, import and export regulations, such as the U.S. Export Administration Regulations administered by the U.S. Department of Commerce, are complex, change frequently, have generally become more stringent over time and have intensified under the current U.S. administration. If our customers or suppliers fail to comply with these regulations, we may be required to suspend activities with these customers or suppliers, which could negatively impact our results of operations. Additionally, we may be required to incur significant expense to comply with, or to remedy violations of, these regulations. In this case, or if any of the international business risks were to materialize or become worse, they could have a material adverse effect on our business, financial condition and results of operations.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, further increasing legal and financial compliance costs. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure.

Interruptions in our information technology systems could adversely affect our business.

We rely on the efficient and uninterrupted operation of complex information technology applications, systems and networks to operate our business. The reliability and security of our information technology infrastructure and software, and our ability to expand and continually update technologies in response to our changing needs is critical to our business. Any significant interruption in our business applications, systems or networks, including but not limited to new system implementations, computer viruses, cyberattacks, security breaches, facility issues or energy blackouts could have a material adverse impact on our business, financial condition and results of operations.

Our computer systems and networks are subject to attempted security breaches and other cybersecurity incidents, which, if successful, could impact our business.

We have, from time to time, experienced cyber-attacks attempting to obtain access to our computer systems and networks. Such incidents, whether or not successful, could result in the misappropriation of our proprietary information and technology, the compromise of personal and confidential information of our employees, customers or suppliers or interrupt our business. For instance, in January 2020, we became aware of a compromise of certain of our systems. We are taking steps to identify the malicious activity and are implementing remedial measures to increase the security of our systems and networks to respond to evolving threats and new information. As of the date of this filing, we do not believe that this IT system compromise has resulted in a material adverse effect on our business or any material damage to us. However, the investigation is ongoing, and we are continuing to evaluate the amount and type of data compromised. There can be no assurance that this or any other breach or incident will not have a material impact on our operations and financial results in the future. In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of customers, suppliers, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of sensitive or confidential data including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting our security measures and we continue to increase the amount we allocate to implement, maintain and/or update security systems to protect data and infrastructure. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyber-attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

In addition, we may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings. The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased business and security costs or costs related to defending legal claims. Global privacy legislation, enforcement, and policy activity in this area are rapidly expanding and creating a complex regulatory compliance environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, even our inadvertent failure to comply with federal, state, or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others.

In difficult market conditions, our high fixed costs combined with low revenue may negatively affect our results of operations.

The semiconductor industry is characterized by high fixed costs and, notwithstanding our utilization of third-party manufacturing capacity, most of our production requirements are met by our own manufacturing facilities. In less favorable industry environments, like we faced in the second half in 2011, we are generally faced with a decline in the utilization rates of our manufacturing facilities due to decreases in demand for our products. During such periods, our fabrication plants could operate at lower loading level, while the fixed costs associated with the full capacity continue to be incurred, resulting in lower gross profit.

The semiconductor industry is capital intensive and if we are unable to invest the necessary capital to operate and grow our business, we may not remain competitive.

To remain competitive, we must constantly improve our facilities and process technologies and carry out extensive research and development, all of which requires investment of significant amounts of capital. This risk is magnified by the indebtedness we currently have, since we are required to use a portion of our cash flow to service that debt. If we are unable to generate sufficient cash flow or raise sufficient capital to meet both our debt service and capital investment requirements, or if we are unable to raise required capital on favorable terms when needed, this could have a material adverse effect on our business, financial condition and results of operations.

We rely to a significant extent on proprietary intellectual property. We may not be able to protect this intellectual property against improper use by our competitors or others.

Our success and future revenue growth depends, in part, on our ability to protect our proprietary technology, our products, our proprietary designs and fabrication processes, and other intellectual property against misappropriation by others. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our intellectual property. We may have difficulty obtaining patents and other intellectual property rights to protect our proprietary products, technology and intellectual property, and the patents and other intellectual property rights we receive may be insufficient to provide us with meaningful protection or commercial advantage. We may not obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, patents and other intellectual property rights may be or become unavailable or limited in scope. Even if new patents are issued, the claims allowed may not be sufficiently broad to effectively protect our proprietary technology, processes and other intellectual property. In addition, any of our existing patents, and any future patents issued to us may be challenged, invalidated or circumvented. The protection offered by intellectual property rights may be inadequate or weakened for reasons or circumstances that are out of our control. Further, our proprietary technology, designs and processes and other intellectual property may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. It is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our proprietary technologies, our products, designs, processes and other intellectual property despite our efforts to protect our intellectual property. While we hold a significant number of patents, there can be no assurances that additional patents will be issued or that any rights granted under our patents will provide meaningful protection against misappropriation of our intellectual property. Our competitors may also be able to develop similar technology independently or design around our patents. We may not have or pursue patents or pending applications in all the countries in which we operate corresponding to all of our primary patents and applications. Even if patents are granted, effective enforcement in some countries may not be available. In particular, intellectual property rights are difficult to enforce in countries where the application and enforcement of the laws governing such rights may not have reached the same level as compared to other jurisdictions where we operate. Consequently, operating in some countries may subject us to an increased risk that unauthorized parties may attempt to copy or otherwise use our intellectual property or the intellectual property of our suppliers or other parties with whom we engage. There is no assurance that we will be able to protect our intellectual property rights or have adequate legal recourse in the event that we seek legal or judicial enforcement of our intellectual property rights under the laws of such countries. Any inability on our part to adequately protect our intellectual property may have a material adverse effect on our business, financial condition and results of operations.

We may become party to intellectual property claims or litigation that could cause us to incur substantial costs, pay substantial damages or prohibit us from selling our products.

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other intellectual property rights of others. Further, we may become involved in costly litigation brought against us regarding patents, copyrights, trademarks, trade secrets or other intellectual property rights. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that we will be able to obtain any or all of the necessary licenses on satisfactory terms, if at all. In the event that we cannot obtain or take the view that we don't need a license, these parties may file lawsuits against us seeking damages (and potentially treble damages in the United States) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted. Such lawsuits, if successful, could result in an increase in the costs of selling certain of our products, our having to partially or completely redesign our products or stop the sale of some of our products and could cause damage to our reputation. Any litigation could require significant financial and management resources regardless of the merits or outcome, and we cannot assure you that we would prevail in any litigation or that our intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, could affect our ability to compete or have a material adverse effect on our business, financial condition and results of operations.

From time to time, we may rely on strategic partnerships, joint ventures and alliances for manufacturing and research and development. However, we often do not control these partnerships and joint ventures, and actions taken by any of our partners or the termination of these partnerships or joint ventures could adversely affect our business.

As part of our strategy, we have historically entered into a number of long-term strategic partnerships with other leading industry participants, and may do so again in the future. For example, we currently participate in a joint venture with Taiwan Semiconductor Manufacturing Company Limited ("TSMC") called Systems on Silicon Manufacturing Company Pte. Ltd. ("SSMC").

If any of our strategic partners in alliances we currently engage with or may engage with in the future were to encounter financial difficulties or change their business strategies, they may no longer be able or willing to participate in these groups or alliances, which could have a material adverse effect on our business, financial condition and results of operations. Under the terms of current or future alliances, we may have certain obligations, including funding obligations or take or pay obligations. For example, we have made certain commitments to SSMC, in which we have a 61.2% ownership share, whereby we are obligated to make cash payments to SSMC should we fail to utilize, and TSMC does not utilize, an agreed upon percentage of the total available capacity at SSMC's fabrication facilities if overall SSMC utilization levels drop below a fixed proportion of the total available capacity.

We may from time to time desire to exit certain product lines or businesses, or to restructure our operations, but may not be successful in doing so.

From time to time, we may decide to divest certain product lines and businesses or restructure our operations, including through the contribution of assets to joint ventures. We have, in recent years, exited several of our product lines and businesses, and we have closed several of our manufacturing and research facilities. We may continue to do so in the future. However, our ability to successfully exit product lines and businesses, or to close or consolidate operations, depends on a number of factors, many of which are outside of our control. For example, if we are seeking a buyer for a particular business line, none may be available, or we may not be successful in negotiating satisfactory terms with prospective buyers. In addition, we may face internal obstacles to our efforts. In particular, several of our operations and facilities are subject to collective bargaining agreements and social plans or require us to consult with our employee representatives, such as work councils, which may prevent or complicate our efforts to sell or restructure our businesses. In some cases, particularly with respect to our European operations, there may be laws or other legal impediments affecting our ability to carry out such sales or restructuring.

If we are unable to exit a product line or business in a timely manner, or to restructure our operations in a manner we deem to be advantageous, this could have a material adverse effect on our business, financial condition and results of operations. Even if a divestment is successful, we may face indemnity and other liability claims by the acquirer or other parties.

We may from time to time restructure parts of our organization. Any such restructuring may impact customer satisfaction and the costs of implementation may be difficult to predict.

Between 2008 and 2011, we executed a redesign program and, in 2013 we executed a restructuring initiative designed to improve operational efficiency and to competitively position the company for sustainable growth. In 2015, we began a restructuring initiative to prepare for and implement the integration of Freescale into our existing businesses. We plan to continue to restructure and make changes to parts of the processes in our organization. Furthermore, if the global economy remains volatile or if the global economy reenters a recession, our revenues could decline, and we may be forced to take additional cost savings steps that could result in additional charges and materially affect our business. The costs of implementing any restructurings, changes or cost savings steps may differ from our estimates and any negative impacts on our revenues or otherwise of such restructurings, changes or steps, such as situations in which customer satisfaction is negatively impacted, may be larger than originally estimated.

If we fail to extend or renegotiate our collective bargaining agreements and social plans with our labor unions as they expire from time to time, if regular or statutory consultation processes with employee representatives such as works councils fail or are delayed, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining agreements and social plans with our labor unions. We are also required to consult with our employee representatives, such as works councils, on items such as restructurings, acquisitions and divestitures. Although we believe that our relations with our employees, employee representatives and unions are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate these agreements as they expire from time to time or to conclude the consultation processes in a timely and favorable way. The impact of future negotiations and consultation processes with employee representatives could have a material impact on our financial results. Also, if we fail to extend or renegotiate our labor agreements and social plans, if significant disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business.

Our working capital needs are difficult to predict.

Our working capital needs are difficult to predict and may fluctuate. The comparatively long period between the time at which we commence development of a product and the time at which it may be delivered to a customer leads to high inventory and work-in-progress levels. The volatility of our customers' own businesses and the time required to manufacture products also makes it difficult to manage inventory levels and requires us to stockpile products across many different specifications.

Our business may be adversely affected by costs relating to product defects, and we could be faced with product liability and warranty claims.

We make highly complex electronic components and, accordingly, there is a risk that defects may occur in any of our products. Such defects can give rise to significant costs, including expenses relating to recalling products, replacing defective items, writing down defective inventory and loss of potential sales. In addition, the occurrence of such defects may give rise to product liability and warranty claims, including liability for damages caused by such defects. If we release defective products into the market, our reputation could suffer and we may lose sales opportunities and incur liability for damages. Moreover, since the cost of replacing defective semiconductor devices is often much higher than the value of the devices themselves, we may at times face damage claims from customers in excess of the amounts they pay us for our products, including consequential damages. We also face exposure to potential liability resulting from the fact that our customers typically integrate the semiconductors we sell into numerous consumer products, which are then sold into the marketplace. We are exposed to product liability claims if our semiconductors or the consumer products based on them malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our products caused the damage in question, and such claims could result in significant costs and expenses relating to attorneys' fees and damages. In addition, our customers may recall their products if they prove to be defective or make compensatory payments in accordance with industry or business practice or in order to maintain good customer relationships. If such a recall or payment is caused by a defect in one of our products, our customers may seek to recover all or a portion of their losses from us. If any of these risks materialize, our reputation would be harmed and there could be a material adverse effect on our business, financial condition and results of operations.

Our business has suffered, and could in the future suffer, from manufacturing problems.

We manufacture, in our own factories as well as with third parties, our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the production process can reduce yields or interrupt production, and, as a result of such problems, we may on occasion not be able to deliver products or do so in a timely or cost-effective or competitive manner. As the complexity of both our products and our fabrication processes has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become more demanding. As is common in the semiconductor industry, we have in the past experienced manufacturing difficulties that have given rise to delays in delivery and quality control problems. There can be no assurance that any such occurrence in the future would not materially harm our results of operations. Further, we may suffer disruptions in our manufacturing operations, either due to production difficulties such as those described above or as a result of external factors beyond our control. We may, in the future, experience manufacturing difficulties or permanent or temporary loss of manufacturing capacity due to the preceding or other risks. Any such event could have a material adverse effect on our business, financial condition and results of operations.

We rely on the timely supply of equipment and materials and could suffer if suppliers fail to meet their delivery obligations or raise prices. Certain equipment and materials needed in our manufacturing operations are only available from a limited number of suppliers.

Our manufacturing operations depend on deliveries of equipment and materials in a timely manner and, in some cases, on a just-in-time basis. From time to time, suppliers may extend lead times, limit the amounts supplied to us or increase prices due to capacity constraints or other factors. Supply disruptions may also occur due to shortages in critical materials, such as silicon wafers or specialized chemicals. Because the equipment that we purchase is complex, it is frequently difficult or impossible for us to substitute one piece of equipment for another or replace one type of material with another. A failure by our suppliers to deliver our requirements could result in disruptions to our manufacturing operations. Our business, financial condition and results of operations could be harmed if we are unable to obtain adequate supplies of quality equipment or materials in a timely manner or if there are significant increases in the costs of equipment or materials.

Failure of our third party suppliers to perform could adversely affect our ability to exploit growth opportunities.

We currently use outside suppliers for a portion of our manufacturing capacity. Outsourcing our production presents a number of risks. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs would have been. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly, negatively affecting our gross profit.

Loss of our key management and other personnel, or an inability to attract such management and other personnel, could affect our business.

We depend on our key management to run our business and on our senior engineers to develop new products and technologies. Our success will depend on the continued service of these individuals. Although we have several share based compensation plans in place, we cannot be sure that these plans will help us in our ability to retain key personnel, especially considering that the stock options under some of our plans become exercisable upon a change of control (in particular, when a third party, or third parties acting in concert, obtains, whether directly or indirectly, control of us). The loss of any of our key personnel, whether due to departures, death, ill health or otherwise, could have a material adverse effect on our business. The market for qualified employees, including skilled engineers and other individuals with the required technical expertise to succeed in our business, is highly competitive and the loss of qualified employees or an inability to attract, retain and motivate the additional highly skilled employees required for the operation and expansion of our business could hinder our ability to successfully conduct research activities or develop marketable products. The foregoing risks could have a material adverse effect on our business.

Disruptions in our relationships with any one of our key customers could adversely affect our business.

A substantial portion of our revenue is derived from our top customers, including our distributors. We cannot guarantee that we will be able to generate similar levels of revenue from our largest customers in the future. If one or more of these customers substantially reduce their purchases from us, this could have a material adverse effect on our business, financial condition and results of operations.

We receive subsidies and grants in certain countries, and a reduction in the amount of governmental funding available to us or demands for repayment could increase our costs and affect our results of operations.

As is the case with other large semiconductor companies, we receive subsidies and grants from governments in some countries. These programs are subject to periodic review by the relevant governments, and if any of these programs are curtailed or discontinued, this could have a material adverse effect on our business, financial condition and results of operations. As the availability of government funding is outside our control, we cannot guarantee that we will continue to benefit from government support or that sufficient alternative funding will be available if we lose such support. Moreover, if we terminate any activities or operations, including strategic alliances or joint ventures, we may face adverse actions from the local governmental agencies providing such subsidies to us. In particular, such government agencies could seek to recover such subsidies from us and they could cancel or reduce other subsidies we receive from them. This could have a material adverse effect on our business, financial condition and results of operations.

Legal proceedings covering a range of matters are pending in various jurisdictions. Due to the uncertainty inherent in litigation, it is difficult to predict the final outcome. An adverse outcome might affect our results of operations.

We and certain of our businesses are involved as plaintiffs or defendants in legal proceedings in various matters. For example, we are involved in legal proceedings claiming personal injuries to the children of former employees as a result of employees' alleged exposure to chemicals used in semiconductor manufacturing clean room environments operated by us or our former parent companies, Philips and Motorola. Furthermore, because we continue to utilize these clean rooms, we may become subject to future claims alleging personal injury that may lead to additional liability. A judgment against us or material defense cost could harm our business, financial condition and results of operations.

We are exposed to a variety of financial risks, including currency risk, interest rate risk, liquidity risk, commodity price risk, credit risk and other non-insured risks, which may have an adverse effect on our financial results.

We are a global company and, as a direct consequence, movements in the financial markets may impact our financial results. We are exposed to a variety of financial risks, including currency fluctuations, interest rate risk, liquidity risk, commodity price risk and credit risk and other non-insured risks. We have euro-denominated assets and liabilities and, since our reporting currency is the U.S. dollar, the impact of currency translation adjustments to such assets and liabilities may have a negative effect on our shareholders' equity. We continue to hold or convert a part of our cash in euros as a hedge for euro expenses and euro interest payments. We are exposed to fluctuations in exchange rates when we convert U.S. dollars to euro. We enter into diverse financial transactions with several counterparties to mitigate our currency risk. We only use derivative instruments for hedging purposes.

We are also a purchaser of certain base metals, precious metals, chemicals and energy used in the manufacturing process of our products, the prices of which can be volatile. Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform upon their agreed payment obligations. Credit risk is present within our trade receivables. Such exposure is reduced through ongoing credit evaluations of the financial conditions of our customers and by adjusting payment terms and credit limits when appropriate. We invest available cash and cash equivalents with various financial institutions and are in that respect exposed to credit risk with these counterparties. We actively manage concentration risk on a daily basis adhering to a treasury management policy. We seek to limit the financial institutions with which we enter into financial transactions, such as depositing cash, to those with a strong credit rating wherever possible. If we are unable to successfully manage these risks, they could have a material adverse effect on our business, financial condition and results of operations.

The impact of a negative performance of financial markets and demographic trends on our defined benefit pension liabilities and costs cannot be predicted.

We sponsor defined benefit pension plans in a number of countries and a significant number of our employees are covered by our defined benefit pension plans. As of December 31, 2019, we had recognized a net accrued benefit liability of $462 million, representing the unfunded benefit obligations of our defined pension plans. The funding status and the liabilities and costs of maintaining these defined benefit pension plans may be impacted by financial market developments. For example, the accounting for such plans requires determining discount rates, expected rates of compensation and expected returns on plan assets, and any changes in these variables can have a significant impact on the projected benefit obligations and net periodic pension costs. Negative performance of the financial markets could also have a material impact on funding requirements and net periodic pension costs. Our defined benefit pension plans may also be subject to demographic trends. Accordingly, our costs to meet pension liabilities going forward may be significantly higher than they are today, which could have a material adverse impact on our financial condition.

Future changes to Dutch, U.S. and other foreign tax laws could adversely affect us.

The European Commission, U.S. Congress and Treasury Department, the Organization for Economic Co-operation and Development, and other government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational corporations, particularly payments made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. As a result, the tax laws in the European Union, U.S. and other countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect us and our affiliates.

Recent examples include the Organization for Economic Co-operation and Development's initiatives to revise profit allocation and nexus rules to allocate more taxing rights to countries where companies have their markets and to establish a minimum tax rate on a global basis. These initiatives include recommendations and proposals that, if enacted in countries in which we and our affiliates do business, could adversely affect us and our affiliates.

We are exposed to a number of different tax uncertainties, which could have an impact on our results.

We are required to pay taxes in multiple jurisdictions. We determine the taxes we are required to pay based on our interpretation of the applicable tax laws and regulations in the jurisdictions in which we operate. We may be subject to unfavorable changes in the respective tax laws and regulations to which we are subject. Tax controls, audits, change in controls and changes in tax laws or regulations or the interpretation given to them may expose us to negative tax consequences, including interest payments and potentially penalties. We have issued transfer-pricing directives in the areas of goods, services and financing, which are in accordance with the Guidelines of the Organization of Economic Co-operation and Development (OECD). As transfer pricing has a cross border effect, the focus of local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country.

Transfer pricing uncertainties can also result from disputes with local tax authorities about transfer pricing of internal deliveries of goods and services or related to financing, acquisitions and divestments, the use of tax credits and permanent establishments, and tax losses carried forward. These uncertainties may have a significant impact on local tax results. We also have various tax assets resulting from acquisitions. Tax assets can also result from the generation of tax losses in certain legal entities. Tax authorities may challenge these tax assets. In addition, the value of the tax assets resulting from tax losses carried forward depends on having sufficient taxable profits in the future.

Additionally, in December of 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986 (the "Tax Cuts and Jobs Act") and, in 2018, the U.S. Treasury Department issued regulations to clarify certain provisions of the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act contains provisions affecting the tax treatment of both U.S. companies (such as certain of our subsidiaries) and non-U.S. companies that could materially affect us. The Tax Cuts and Jobs Act includes provisions that reduce the U.S. corporate tax rate, impose a base erosion minimum tax on income of a U.S. corporation determined without regard to certain otherwise deductible payments made to certain foreign affiliates, impose a global intangible low-income tax on foreign earnings made by U.S. corporations' foreign subsidiaries, and impose a one-time transition tax on certain historic earnings and profits of U.S.-owned foreign subsidiaries. The Tax Cuts and Jobs Act also includes provisions that provide a deduction for certain foreign-derived intangible income. The U.S. Treasury Department has issued temporary and proposed regulations providing guidance on the application of many of the provisions of the Tax Cuts and Jobs Act. However, there may continue to be a substantial delay before all such regulations are promulgated and/or finalized, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also possible that there will be technical corrections legislation proposed with respect to the Tax Cuts and Jobs Act, the effect of which cannot be predicted.

We may not be able to maintain a competitive worldwide effective corporate tax rate.

We cannot give any assurance as to what our effective tax rate will be in the future, because of, among other things, uncertainty regarding the tax policies of the jurisdictions where we operate. Our actual effective tax rate may vary from our expectation and that variance may be material. Additionally, the tax laws of the Netherlands, the U.S., and other jurisdictions could change in the future, and such changes could cause a material change in our effective tax rate.

There may from time to time exist deficiencies in our internal control systems that could adversely affect the accuracy and reliability of our periodic reporting.

We are required to establish and periodically assess the design and operating effectiveness of our internal control over financial reporting. Despite the compliance procedures that we have adopted to ensure internal control over financial controls, there may from time to time exist deficiencies in our internal control systems that could adversely affect the accuracy and reliability of our periodic reporting. Our periodic reporting is the basis of investors' and other market professionals' understanding of our businesses. Imperfections in our periodic reporting could create uncertainty regarding the reliability of our results of operations and financial results, which in turn could have a material adverse impact on our reputation or share price.

Environmental laws and regulations expose us to liability and compliance with these laws and regulations, and any such liability may adversely affect our business.

We are subject to many environmental, health and safety laws and regulations in each jurisdiction in which we operate, which govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain of our operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators.

As with other companies engaged in similar activities or that own or operate real property, we face inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose strict, and in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. While we do not expect that any contamination currently known to us will have a material adverse effect on our business, we cannot assure you that this is the case or that we will not discover new facts or conditions or that environmental laws or the enforcement of such laws will not change such that our liabilities would be increased significantly. In addition, we could also be held liable for consequences arising out of human exposure to hazardous substances or other environmental damage. In summary, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, or our liabilities arising from past or future releases of, or exposures to, regulated materials, will not have a material adverse effect on our business, financial conditions and results of operations.

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing the emission of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase at higher costs new equipment or raw materials with lower carbon footprints. Environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify product designs, or incur expenses. New materials that we are evaluating for use in our operations may become subject to regulation. These developments and further legislation that is likely to be enacted could affect our operations negatively. Changes in environmental regulations could increase our production and operational costs, which could adversely affect our results of operations and financial condition.

Certain natural disasters, such as flooding, large earthquakes, volcanic eruptions or nuclear or other disasters, may negatively impact our business. There is increasing concern that climate change is occurring and may cause a rising number of natural disasters.

Environmental and other disasters, such as flooding, large earthquakes, volcanic eruptions or nuclear or other disasters, or a combination thereof may negatively impact our business. If flooding, a large earthquake, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. Even if our manufacturing facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains and significant increases in the prices of raw materials used for our manufacturing process. For instance, the nuclear incident following the tsunami in Japan in 2011 impacted the supply chains of our customers and suppliers. Furthermore, any disaster affecting our customers (or their respective customers) may significantly negatively impact the demand for our products and our revenues.

The impact of any such natural disasters depends on the specific geographic circumstances but could be significant, as some of our factories are located in areas with known earthquake fault zones, flood or storm risks, including but not limited to Singapore, Taiwan, Malaysia or Thailand. There is increasing concern that climate change is occurring that may cause a rising number of natural disasters with potentially dramatic effects on human activity. We cannot predict the economic impact, if any, of natural disasters or climate change.

The price of our common stock historically has been volatile. The price of our common stock may fluctuate significantly.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price for our common stock has varied between a high of $129.50 on December 26, 2019 and a low of $71.56 on January 2, 2019 in the twelve-month period ending on December 31, 2019. The market price of our common stock is likely to continue to be volatile and subject to significant price and volume fluctuations for many reasons, including in response to the risks described in this section, changes in our dividend or share repurchase policies, or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors, peer companies or suppliers regarding their own performance, or announcements by our competitors of significant contracts, strategic partnerships, joint ventures, joint marketing relationships or capital commitments, the passage of legislation or other regulatory developments affecting us or our industry, as well as industry conditions and general financial, economic and political instability. In the past, following periods of market volatility, shareholders have instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

We may have fluctuations in the amount and frequency of our stock repurchases.

The amount, timing, and execution of our stock repurchases may fluctuate based on our priorities for the use of cash for other purposes—such as investing in our business, including operational spending, capital spending, and acquisitions, and returning cash to our stockholders as dividend payments—and because of changes in cash flows, tax laws, and the market price of our common stock.

Future sales of our shares of common stock could depress the market price of our outstanding shares of common stock.

The market price of our shares of common stock could decline as a result of sales of a large number of shares of our common stock in the market, or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

In the future, we may issue additional shares of common stock in connection with acquisitions and other investments. The amount of our common stock issued in connection with any such transaction could constitute a material portion of our then outstanding common stock.

There can be no assurance that we will continue to declare cash dividends.

Our board of directors has adopted a dividend policy pursuant to which we currently pay a cash dividend on our ordinary shares on a quarterly basis. The declaration and payment of any dividend is subject to the approval of our board and our dividend may be discontinued or reduced at any time. There can be no assurance that we will declare cash dividends in the future in any particular amounts, or at all.

Future dividends, if any, and their timing and amount, may be affected by, among other factors: management's views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; cash position and overall financial condition; and changes to our business model. The payment of cash dividends is restricted by applicable law, contractual restrictions and our corporate structure.

Our actual operating results may differ significantly from our guidance.

From time to time, we release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in such release and the factors described under "Forward-Looking Statements". Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles, reviews or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Our guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future the data is forecasted. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any failure to successfully implement our operating strategy, or the occurrence of any of the events or circumstances set forth in, or incorporated by reference into, this Annual Report could result in the actual operating results being different than the guidance, and such differences may be adverse and material.

Risks related to our corporate structure

United States civil liabilities may not be enforceable against us.

We are incorporated under the laws of the Netherlands and substantial portions of our assets are located outside of the United States. In addition, certain members of our board, our officers and certain experts named herein reside outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such other persons residing outside the United States, or to enforce outside the United States judgments obtained against such persons in U.S. courts in any action. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon the U.S. laws.

In the absence of an applicable treaty for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters to which the United States and the Netherlands are a party, a judgment obtained against the Company in the courts of the United States, whether or not predicated solely upon the U.S. federal securities laws, including a judgment predicated upon the civil liability provisions of the U.S. securities law or securities laws of any State or territory within the United States, will not be directly enforceable in the Netherlands.

In order to obtain a judgment which is enforceable in the Netherlands, the claim must be relitigated before a competent court of the Netherlands; the relevant Netherlands court has discretion to attach such weight to a judgment of the courts of the United States as it deems appropriate; based on case law, the courts of the Netherlands may be expected to recognize and grant permission for enforcement of a judgment of a court of competent jurisdiction in the United States without re-examination or relitigation of the substantive matters adjudicated thereby, provided that (i) the relevant court in the United States had jurisdiction in the matter in accordance with standards which are generally accepted internationally; (ii) the proceedings before that court complied with principles of proper procedure; (iii) recognition and/or enforcement of that judgment does not conflict with the public policy of the Netherlands; and (iv) recognition and/or enforcement of that judgment is not irreconcilable with a decision of a Dutch court rendered between the same parties or with an earlier decision of a foreign court rendered between the same parties in a dispute that is about the same subject matter and that is based on the same cause, provided that earlier decision can be recognized in the Netherlands.

Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce against us or members of our board of directors, officers or certain experts named herein who are residents of the Netherlands or countries other than the United States any judgments obtained in U.S. courts in civil and commercial matters.

In addition, there is doubt as to whether a Dutch court would impose civil liability on us, the members of our board of directors, our officers or certain experts named herein in an original action predicated solely upon the U.S. laws brought in a court of competent jurisdiction in the Netherlands against us or such members, officers or experts, respectively.

We are a Dutch public company with limited liability. The rights of our stockholders may be different from the rights of stockholders governed by the laws of U.S. jurisdictions.

We are a Dutch public company with limited liability *(naamloze vennootschap)*. Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of stockholders and the responsibilities of members of our board of directors may be different from the rights and obligations of stockholders in companies governed by the laws of U.S. jurisdictions. In the performance of its duties, our board of directors is required by Dutch law to consider the interests of our company, its stockholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a stockholder.

Risks related to our indebtedness

Our debt obligations expose us to risks that could adversely affect our financial condition, which could adversely affect our results of operations.

As of December 31, 2019, we had outstanding indebtedness with an aggregate principal amount of $7,400 million. Our substantial indebtedness could have a material adverse effect on our business by:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

- exposing us to the risk of increased interest rates in the event we have borrowings under our $1,500 million revolving credit facility agreement (the “RCF Agreement”) because loans under the RCF Agreement bear interest at a variable rate;

- making it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations of any our debt instruments, including restrictive covenants and borrowing conditions, could result in an event default under the indentures governing our notes and agreements governing other indebtedness;

- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

- limiting our ability to obtain additional financial for working capital, capital expenditures, restructurings, product development, research and development, debt service requirements, investments, acquisitions and general corporate or other purposes; and

- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

Despite our level of indebtedness, we may still incur significantly more debt, which could further exacerbate the risks described above and affect our ability to service and repay our debt.

If we do not comply with the covenants in our debt agreements or fail to generate sufficient cash to service and repay our debt, it could adversely affect our operating results and our financial condition.

The RCF Agreement and the indentures governing our unsecured notes or any other debt arrangements that we may have require us to comply with various covenants. If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross defaults under our other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon an event of default.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, competitive, legislative, regulatory and other factors beyond our control. Our business may not generate sufficient cash flow from operations, or future borrowings under the RCF Agreement or other sources may not be available to us in an amount sufficient to enable us to repay our indebtedness, or to fund our other liquidity needs, including our working capital and capital expenditure requirements, and we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, restructure or refinance our indebtedness or reduce or delay capital expenditures, strategic acquisitions, investments and alliances, any of which could have a material adverse effect on our business. We cannot guarantee that we will be able to obtain enough capital to service our debt and fund our planned capital expenditures and business plan. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The rating of our debt by major rating agencies may further improve or deteriorate, which could affect our additional borrowing capacity and financing costs.

The major debt rating agencies routinely evaluate our debt. These ratings are based on current information furnished to the ratings agencies by us and information obtained by the ratings agencies from other sources. An explanation of the significance of such rating may be obtained from such rating agency. There can be no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect our market value and/or increase our corporate borrowing costs.

Sustainability statements

Introduction

At NXP, we believe that a commitment to sustainability is a critical part of our mission to deliver innovative solutions that accelerate our customers' success and address stakeholder needs. We consider sustainability issues an integral part of our business oversight and are proactive towards developing products that support a sustainable future, drive transparency and accountability in our operations and supply chain, and that mitigate our impact on the environment.

We report

(https://www.nxp.com/company/our-company/about-nxp/corporate-responsibility:CORP_SOCIAL_RESP) on our progress in these efforts and include more details about the ways we are committed to sustainable practices and supporting our global community in our annual sustainability report.

<u>Greener products</u> - In the same way that we commit ourselves to delivering products that can improve life, we commit ourselves to minimizing our impact on the environment. Our chips can make systems smarter and contribute to energy savings in multiple ways. In many cases, our chips are designed to consume less power themselves than earlier chips. In other cases, our chips are tailored to minimize the energy consumption in the end-products they are embedded in. Below are some examples of how our products are minimizing the impact on the environment.

1. *Smart mobility*

   Battery management in electric cars is a core strength of NXP. The progressive growth of the numbers of electrical vehicles in the world demands for optimization of battery management. Our smart chips can make a difference in battery management, leading to significant power savings and extension of car battery lifetimes.

   Advanced Driver Assistance Systems (ADAS), ranging from simple features like cruise control, up to fully self-driving cars, have a huge impact on fuel consumption. The on-board systems are more capable than humans to smoothen the ride and save fuel. Speed limits are automatically respected, and car-to-car communication systems help avoid traffic congestion. NXP's experiments with multiple trucks showed spectacular fuel saving results.

   The application of ADAS technology is independent of the engine type of the vehicle: conventional ICE, hybrid or fully electric.

2. *Wireless communication infrastructure*

   Base-stations for wireless communication transmit huge amounts of data over long distances. The power amplifiers and antennas together typically consume kWatts of electric power per station. The upcoming superfast fifth generation mobile internet standard 5G is expected to further boost energy consumption, as many more base-stations will be required in a 5G network. NXP already delivers very energy efficient power amplifiers and beamforming antenna systems for 5G.

3. *Microcontrollers*

   Our Low-power i.MX microcontrollers offer the lowest power consumption in the industry; only 15 microWatt in deep sleep mode. Our Low-power Graphic Processing Units (GPU's) expand the battery lifetimes of consumer wearables.

   NXP's advanced application processors enable complex and fast computing "at the edge" (in the immediate vicinity) of IoT devices, like camera's, wearable devices, domestic appliances, industry equipment, contributing to energy saving as well as the safety and security of end-users.

Edge computing means that more and more devices can have complex data processing (e.g. artificial intelligence) done close to the device, making vulnerable and power consuming connection to the cloud unnecessary.

Artificial Intelligence (AI), running on our microcontrollers will make many electric appliances smarter and more energy efficient. Machine learning, sub-domain of AI, will make machines and industrial robots much more adaptive to use-patterns and circumstances, reducing waste and saving energy.

4. *Building control systems*

According to the International Energy Agency, 35% of final energy consumption is used in buildings; more than in transportation, and more than in the industry. Vast amounts of energy can be saved by the use of smart control systems for air-conditioning, heating, lighting and other interior climate provisions. By adapting the equipment's usage to human presence, activity, and preference settings, the energy consumption can be decreased significantly compared to the "always-on" setting often applied today. Also, Artificial Intelligence can make these systems self-learning, further minimizing energy usage fully autonomously. NXP develops the systems and components to further "smarten" buildings and homes.

<u>Product stewardship</u> - Our goal is to provide environmentally preferred products that not only meet both regulatory requirements and specific restrictions on hazardous substances and minerals but to also proactively restrict and phase out additional hazardous substances that are not in legal scope. We maintain a catalog of restricted substances and product compliance data that are made available to our customers upon request. We adhere to global restricted substance regulations, including the European regulation regarding the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH"), and the Restriction of Hazardous Substances ("RoHS") "Recast" Directive, as amended by Directive (EU) 2015/863. We regularly participate in industry-wide reviews and discussions to assist in leading the development of industry standards.

Our policy is to ethically source minerals from responsible suppliers to ensure our supply chain does not contribute to human rights abuses. Our products may contain 3TG (tin, tantalum, tungsten, and gold), which are necessary to the functionality or production of the products. We have implemented due diligence measures to conform to the Organization for Economic Co-operation and Development Due Diligence ("OECD") Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We have established strong management systems for 3TG supply chain due diligence, identified and assessed 3TG risks in our supply chain, designed and implemented strategies to respond to identified risks and we report on 3TG supply chain due diligence activities annually. In 2018, our suppliers identified 255 smelters or refiners that provide materials likely to be incorporated into the functionality of our products. All smelters identified were compliant with a third-party audit program (conformant). For three years in a row, 100% of the smelters within our supply chain are certified conflict free. We are extending the scope of our due diligence procedures to include additional minerals that may originate from conflict-affected or high-risk areas.

<u>Respect for human rights</u> - As part of our commitment to respect and protect human rights, we seek to uphold the highest standards in our labor practices. Our company policies adhere to applicable local labor laws, are consistent with both the United Nations Global Compact and the International Labor Organization ("ILO") core labor principles and conform to the NXP Auditable Standards (standards which are stricter than the Responsible Business Alliance Code of Conduct). We conduct annual risk assessments in our manufacturing sites to identify and mitigate labor and human rights risks that could arise. We also participate in third party internal audits to ensure policies and practices are aligned with local legislation and the NXP auditable standards. Our Human Rights Policy includes clear statements about our commitment to labor and human rights in which we do not tolerate harassment in the workplace, involuntary labor, child labor, payment of fees, withholding of personal documentation and excessive working hours. We also look to foster open communication and provide employees access to the NXP Global Speak Up hotline.

<u>Supply chain</u> - To ensure integrity throughout our supply chain, we require key, high-risk suppliers, as well as selected indirect suppliers, to undergo the NXP supplier audit process. We completed 17 supplier audits through the calendar year 2019. Our audit closure rate in calendar year 2019 was 85% for all related findings. Our top findings include Freely Chosen Employment, Emergency Preparedness and Working Hours. The highest risk of forced labor in our supply chain is where foreign labor is utilized. We remain vigilant to the risk of forced labor, child labor and threats to the freedom of association within our supply chain.

Protecting our environment and employees - We understand and acknowledge that climate change is contributed to by human activity, and will lead to a number of social, economic and environmental consequences if not properly dealt with. We continue to set sustainability goals, track our progress, and audit our management systems to reduce energy consumption, carbon emissions, waste and water usage throughout our global footprint. These efforts are both important to and are fully supported by senior management. We report our metrics based on the calendar year 2019.

All of our manufacturing facilities are certified to ISO 14001 Environmental Management System and Occupational Health and Safety Assessment Series ("OHSAS") 18001-certified. We reduce the amount of carbon emissions, energy and water consumption by setting targets, identifying emission reduction, energy and water conservation opportunities, auditing management systems, creating awareness among employees and reporting on progress for our operations. Our sustainability policy, details our commitment to environmental responsibility and a safe workplace.

Emissions - Carbon emissions are measured using three scopes: Scope 1 emissions are all direct emissions; Scope 2 emissions are indirect emissions from electricity purchased and consumed by NXP, and Scope 3 are all other indirect emissions. In calendar year 2019, our carbon emissions under Greenhouse Gas Protocol for Scope 1, Scope 2 and Scope 3 totaled ~1,288,000 tons CO2, which is a normalized 24% decrease since 2010.

Energy - To achieve our objective of reducing energy consumption, each manufacturing site is required to achieve annual energy saving goals. In calendar year 2019, our total grid electricity consumption was ~1,500-Gigawatt hour ("GWh"). Compared to calendar year 2010, the site-initiated energy conservation projects reduced the normalized energy consumption by 6.5%.

Water - Our progress in reducing water consumption has been driven by reducing water use through more efficient processes and recycling the water we use. In calendar year 2019, our water withdrawal was ~10,800,000 m3 and our percentage of water recycled was 39%. Compared to calendar year 2010, the site-initiated water conservation projects reduced the normalized water consumption by 13%.

Health and safety - All of our manufacturing sites have health and safety management systems certified to OHSAS 18001. We work hard to keep our employees safe and healthy. Our injury rate in calendar year 2019 is 0.12, a rate that is well below the semiconductor industry average.

Compliance with the Dutch Corporate Governance Code

In accordance with the governmental Decree of August 29, 2017, the Company fully complies with the Dutch Corporate Governance Code and applies all its principles and best practice provisions that are addressed to the board of directors, and where needed explaining it deviations from the Code in this report. The full text of the Dutch Corporate Governance Code can be found at the website of the Monitoring Commission Corporate Governance Code (www.commissiecorporategovernance.nl).

Audit Committee Report

Audit Committee

All members of the Audit Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Audit Committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), and currently (as of December 31, 2019) consists of Ms. Southern (Chair), Ms. Staiblin and Mr. Sundström, each of whom are independent for purposes of the Nasdaq listing standards, our Rules of Procedure and Rule 10A-3 of the Exchange Act. Between September 1 and November 19, the Audit Committee consisted of Ms. Southern (Chair), and Messrs. Goldman and Sundström, and before September 1, 2019, the Audit Committee consisted of Ms. Southern (Chair), and Messrs. Goldman, Kaeser and Summe.

Subject to the requirement under Dutch law that independent auditors be appointed by the shareholders at a general meeting of shareholders, the Audit Committee has ultimate authority and direct responsibility to appoint, compensate, retain, oversee, evaluate and, where appropriate, replace the independent auditors. In addition, the Audit Committee reviews the performance and independence of the independent auditors and also oversees internal audit activities, compliance with the Code of Conduct and legal matters, including intellectual property litigation.

Our Audit Committee reviews our annual audited financial statements and quarterly unaudited financial statements and certain other public disclosures prior to publication. The Audit Committee also meets periodically with senior management to discuss risk assessment and risk management policies.

The Board has determined that all Audit Committee members are able to read and understand fundamental financial statements in accordance with Nasdaq listing standards and that all three current members of the Audit Committee meet the SEC's definition of "audit committee financial expert" as that term is defined in Item 407(d) of Regulation S-K. As noted above, all Audit Committee members are independent for purposes of Nasdaq listing standards, our Rules of Procedure, and Rule 10A-3 of the Exchange Act. For a description of the education and experience of each of the members of the Board's Audit Committee please refer to the "Nominees for Director" section above.

The Audit Committee meets at least quarterly, and as often as it deems necessary to fulfill its responsibilities.

Number of meetings in 2019: 9.

This committee operates under a written charter adopted by our Board. The charter complies with SEC regulations and Nasdaq listing standards. The charter is reviewed and reassessed regularly to ensure continued compliance with these requirements. The charter is available for public viewing on our website at *http://investors.nxp.com*, under the "Corporate Governance" section.

The Audit Committee has reviewed and discussed the audited financial statements with NXP's management and its independent auditor, KPMG. The Audit Committee has also discussed with KPMG the matters required to be discussed by Auditing Standard No. 1301, "Communications with Audit Committees," issued by the Public Company Accounting Oversight Board ("PCAOB"). In addition, KPMG provided the Audit Committee with the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and the Audit Committee discussed with KPMG its independence from NXP and its management. The Audit Committee has also considered whether the provision of other non-audit services by KPMG to NXP is compatible with the auditors' independence and has concluded that it is.

Compensation Committee Report

Compensation Committee

Members of the Compensation Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Compensation Committee as of December 31, 2019 consists of Mr. Smitham (Chair), Sir Peter Bonfield, Ms. Olving and Mr. Sundström. Our Board has determined that all of the members of the Compensation Committee are independent for purposes of Nasdaq listing standards, our Rules of Procedure and Rule 10C-1 of the Exchange Act. Pursuant to its charter and the authority delegated to it by our Board, the Compensation Committee is responsible for overseeing our compensation and employee benefit plans and practices, including formulating, evaluating and approving the compensation of our executive officers, including the compensation of our Chief Executive Officer, and for overseeing all compensation programs involving the issuance of our equity securities. Refer to Note 32 of Group Financial Statements for Directors and Executives remuneration detail.

In addition to the detailed and according to Dutch law required disclosure of individual remuneration of members of the Board of Directors of NXP Semiconductors N.V. refer to Note 32 of Group Financial Statements, the Compensation Committee of the Board of Directors of NXP Semiconductors N.V., have reviewed and discussed the Compensation Discussion & Analysis (CD&A) with management of the Company. Detailed information of the 2019 executive compensation program for the five named Executive Officers of the Company (Messrs. Clemmer, Sievers, Kelly, Owen and Reed) will be described in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting.

The Compensation Committee meets as often as it deems necessary, but not less than four times a year.

Number of meetings in 2019 (including meetings of the Nominating and Compensation Committee prior to September 1, 2019): 6.

This committee operates under a written charter adopted by our Board. The charter complies with SEC regulations and Nasdaq listing standards. The charter is reviewed and reassessed regularly to ensure continued compliance with these requirements. The charter is available for public viewing on our website at *http://investors.nxp.com*, under the “Corporate Governance” section.

Nominating and Governance Committee Report

Nominating and Governance Committee

Members of the Nominating and Governance Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Nominating and Governance Committee as of December 31, 2019 consists of Mr. Summe (Chair), Sir Peter Bonfield, Mr. Kaeser and Mr. Goldman. Our Board has determined that all of the members of the Nominating and Governance Committee are independent for purposes of Nasdaq listing standards and our Rules of Procedure. Pursuant to its charter and the authority delegated to it by our Board, the Nominating and Governance Committee is responsible for determining selection criteria and appointment procedures for members of our Board, periodically assessing the scope and composition of our Board and evaluating the performance of its individual members.

In identifying and evaluating candidates, the Nominating and Governance Committee may take into account all of the factors it considers appropriate, which may include: (i) whether the candidate is independent in accordance with any applicable independence requirements of Nasdaq and our Rules of Procedure; (ii) the structure and membership of the Board; (iii) specific qualifications, expertise or experiences that would complement the existing Board members including education, financial expertise, and industry experience; (iv) a candidate’s personal traits such as mature judgment, diverse background, age, professional relationships, strength of character, level of integrity, ethical standards and other intangibles that would make the candidate a positive addition to the Board and its committees; and (v) special skills, expertise, and background that add to and complement the range of skills, expertise, and background of the existing members of the Board. When the committee considers diversity, it will consider diversity of experience, skills, viewpoints, race and gender, as it deems appropriate. While the committee has not established any specific minimum qualifications for director nominees, the committee believes that demonstrated leadership, as well as significant years of service, in an area of endeavor such as business, law, public service, related industry or academia is a desirable qualification for service as a director of NXP.

The Nominating and Governance Committee will consider timely written proposals for nomination from shareholders and will evaluate a shareholder’s prospective board nominee in the same manner that it evaluates other nominees, but only if it receives the request to consider such matter no later than on the 60th day prior to the day of the Annual General Meeting. The Nominating and Governance Committee may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees. A shareholder who wishes to recommend a prospective Board nominee for the committee’s consideration may write to us at NXP Semiconductors N.V., High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands, Attention: Secretary. For more information regarding shareholder proposals and nominations see “Future Shareholder Proposals and Nominations for the 2020 Annual General Meeting.”

The Nominating and Governance Committee meets as often as it deems necessary to fulfill its responsibilities, but not less than four times a year.

Since the Nominating and Governance Committee only started on September 1, 2019, only two meetings were held in 2019.

This committee operates under a written charter adopted by our Board. The charter complies with SEC regulations and Nasdaq listing standards. The charter is reviewed and reassessed regularly to ensure continued compliance with these requirements. The charter is available for public viewing on our website at *http://investors.nxp.com*, under the “Corporate Governance” section.

Audited financial statements

The consolidated financial statements of the Company for the year ended December 31, 2019 included in this Annual Report, as presented by the board of directors, have been audited by KPMG Accountants N.V., an independent registered public accounting firm.

The report of the independent registered public accounting firm appears at the end of this Annual Report under *Other information*. The board of directors has approved these financial statements.

March 16, 2020

Board of directors

Group Financial Statements

Consolidated statement of operations of NXP Semiconductors N.V.
for the years ended December 31,

$ in millions, unless otherwise stated

Note		2019	2018
5	Revenue	**8,877**	9,407
	Cost of revenue	**(4,264)**	(4,567)
	Gross profit	**4,613**	4,840
	Selling, general and administrative expenses:	**(996)**	(1,107)
	a. Amortization of acquisition related intangible assets	**(72)**	(86)
	b. Other SG&A	**(924)**	(1,021)
	Research and development expenses:	**(2,685)**	(2,572)
	a. Amortization of acquisition related intangible assets	**(1,364)**	(1,363)
	b. Other R&D	**(1,321)**	(1,209)
	Other income	**27**	2,043
	Other expense	**(2)**	(42)
5,6	**Operating income**	**957**	3,162
7	Financial income (expense):		
	- Extinguishment of debt	**(11)**	(26)
	- Other financial income	**57**	48
	- Other financial expense	**(401)**	(357)
	Income before income taxes	**602**	2,827
8	Income tax (expense) benefit	**(62)**	(240)
	Income after income taxes	**540**	2,587
9	Results relating to equity-accounted investees:		
	- Share of result of equity-accounted investees	**(2)**	7
	- Impairment and other	**3**	52
	Net income	**541**	2,646
	Attribution of net income:		
	Net income attributable to shareholders of NXP	**512**	2,597
10	Net income attributable to non-controlling interests	**29**	49
	Net income	**541**	2,646
11	**Earnings per share data:**		
	Net income (loss) per common share attributable to shareholders of NXP in $:		
	- Basic	**1.82**	7.97
	- Diluted	**1.78**	7.87
	Weighted average number of shares of common stock outstanding during the year (in thousands)		
	• Basic	**282,056**	325,781
	• Diluted	**287,484**	329,912

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income of NXP Semiconductors N.V.
for the years ended December 31,

$ in millions, unless otherwise stated

Note		2019	2018
Note	**Net income**	**541**	2,646
	Other comprehensive income items that will not be reclassified to profit or loss:		
	— Remeasurements defined benefits	**(46)**	21
	— Related income taxes	**14**	(6)
	Total of items that will not be reclassified to profit of loss	**(32)**	15
	Other comprehensive income items that are or may be reclassified to profit or loss :		
	— Currency translation adjustments (“CTA”)	**(15)**	(54)
	— Cash flow hedging	**(6)**	(10)
	— Cash flow hedging - income tax	**(2)**	—
	— Cash flow hedging reclassified to profit or loss	**13**	(1)
	— Unrealized gains/(losses) securities at fair value through other comprehensive income (“FVOCI”)	—	**3**
	Total of items that are or may be reclassified to profit of loss	**(10)**	(62)
	Other comprehensive income (loss)	**(42)**	(47)
	Total comprehensive income	**499**	2,599
	Attributable to:		
	Shareholders of NXP	**470**	2,550
10	Non-controlling interests	**29**	49
	Total comprehensive income	**499**	2,599

The accompanying notes are an integral part of these consolidated financial statements.

Group Financial Statements

Consolidated Balance Sheet of NXP Semiconductors N.V.

Assets

$ in millions, unless otherwise stated

		December 31,	
		2019	2018
Note	**Non-current assets**		
12,28	Property, plant and equipment	**2,672**	2,437
13	Goodwill	**9,986**	8,865
14	Intangible assets	**6,033**	6,583
9	Equity-accounted investees	**11**	13
8	Deferred tax assets	**308**	276
15	Other non-current assets	**202**	238
	Total non-current assets	**19,212**	18,412
	Current assets		
16	Inventories	**1,192**	1,279
17	Other current assets	**201**	209
4	Assets held for sale	**60**	—
18	Receivables	**762**	929
19	Cash and cash equivalents	**1,045**	2,789
	Total current assets	**3,260**	5,206
	Total assets	**22,472**	23,618

The accompanying notes are an integral part of these consolidated financial statements.

Equity and liabilities

Note		December 31, 2019	December 31, 2018
Note	**Equity**		
20	Shareholders' equity:		
	Share capital		
	Preferred stock, par value €0.20 per share:		
	Authorized: shares 645,754,500 (2018: 645,754,500)		
	Issued: none		
	Common stock, par value €0.20 per share:		
	Authorized: 430,503,000 shares (2018: 430,503,000)		
	Issued and fully paid: 315,519,638 shares (2018: 328,702,719 shares)	**64**	67
	Capital in excess of par value	**16,326**	16,587
	Treasury shares	**(3,037)**	(3,238)
	Accumulated deficit	**(889)**	(233)
	Other comprehensive income (loss)	**(1,020)**	(978)
	Total shareholders' equity	**11,444**	12,205
10	Non-controlling interests	**218**	189
	Total equity	**11,662**	12,394
	Non-current liabilities		
21	Long-term debt	**7,365**	6,247
23	Post-employment benefits	**459**	416
22	Long-term provisions	**128**	215
8	Deferred tax liabilities	**745**	863
24	Other non-current liabilities	**336**	126
	Total non-current liabilities	**9,033**	7,867
	Current liabilities		
25	Short-term debt	—	1,107
	Accounts payable	**944**	999
26	Accrued liabilities	**522**	809
22,29	Short-term provisions	**34**	40
23	Post-employment benefits	**12**	11
27	Other current liabilities	**265**	391
	Total current liabilities	**1,777**	3,357
	Total equity and liabilities	**22,472**	23,618

The accompanying notes are an integral part of these consolidated financial statements.

Group Financial Statements

Consolidated statement of cash flows of NXP Semiconductors N.V.
for the years ended December 31,

$ in millions, unless otherwise stated

	2019	2018
Cash flows from operating activities:		
Net income	**541**	2,646
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation, amortization and impairment	**2,472**	2,255
Share-based payments	**334**	315
(Gain) loss on sale of assets	**(20)**	—
Net interest expense	**320**	229
(Gain) loss on extinguishment of debt	**11**	26
Income tax expense/(benefit)	**62**	240
Results equity-accounted investees	**(1)**	(54)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables and other current assets	**113**	189
(Increase) decrease in inventories	**128**	(65)
Increase (decrease) in accounts payable and accrued liabilities	**(174)**	(293)
Decrease (increase) in other non-current assets	**43**	(22)
Increase (decrease) in provisions	**(108)**	12
Exchange differences included in financial result	**15**	14
Other items	**(3)**	12
Net cash generated by operations	**3,733**	5,504
Interest paid	**(305)**	(225)
Interest received	**56**	48
Income taxes paid	**(368)**	(188)
Net cash provided by operating activities	**3,116**	5,139
Cash flows from investing activities:		
Purchase of intangible assets	**(102)**	(50)
Capital expenditures on development assets	**(697)**	(770)
Capital expenditures on property, plant and equipment	**(526)**	(611)
Proceeds from disposals of property, plant and equipment	**23**	1
Purchase of other non-current assets	—	(12)
Proceeds from the sale of securities	**1**	14
Purchase of interests in businesses	**(1,698)**	(18)
Purchase of securities	**(19)**	(9)
Proceeds from (consideration related to) sale of interests in businesses	**37**	159
Proceeds from return of equity investment	—	4
Net cash (used for) provided by investing activities	**(2,981)**	(1,292)
Cash flows from financing activities:		
Repayments of short-term debt	—	(1,000)
Proceeds from issuance of short-term debt	—	1,000
Payment of cash convertible note	**(1,150)**	—
Proceeds from settlement of cash convertible note hedge	**144**	—
Payment of bond hedge derivative/conv. option	**(144)**	—
Repurchase of long-term debt	**(600)**	(1,273)
Principal payments on long-term debt	—	(1)
Proceeds from the issuance of long-term debt	**1,750**	1,997
Cash paid for debt issuance costs	**(24)**	(23)
Cash paid for terminated acquisition adjustment event	—	(60)
Payments of lease liabilities	**(48)**	—

Consolidated statement of cash flows of NXP Semiconductors N.V.
for the years ended December 31,

$ in millions, unless otherwise stated

	2019	2018
Dividends paid to non-controlling interests	—	(54)
Cash proceeds from the exercise of stock options	84	39
Purchase of treasury shares	(1,443)	(5,006)
Cash paid for deemed dividend tax	(128)	(142)
Dividends paid to common shareholders	(319)	(74)
Net cash provided by (used for) financing activities	(1,878)	(4,597)
Effect of changes in exchange rates on cash positions	(2)	(8)
Increase (decrease) in cash and cash equivalents	(1,744)	(758)
Cash and cash equivalents at beginning of period	2,789	3,547
Cash and cash equivalents as reported	1,045	2,789

For a number of reasons, principally the effects of currency translation differences and consolidation changes, certain items in the statement of cash flows do not correspond with the differences between the balance sheet amounts for the respective items.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity of NXP Semiconductors N.V. as of December 31,

$ in millions, unless otherwise stated						Other comprehensive income (loss)								
	Outstanding number of shares (in thousands)	Share capital	Capital in excess of par value	Treasury shares reserve	Accumulated deficit	Currency translation reserve	Net investment hedging reserve	Cash flow hedging reserve	Remeasurements defined benefits	Unrealized gains/losses FVOCI securities	Total other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2017	342,924	71	17,112	(342)	(1,054)	(315)	(513)	8	(108)	(3)	(931)	14,856	194	15,050
Net income					2,597							2,597	49	2,646
Other comprehensive income (loss):														
- Current period change						(54)		(11)	15	3	(47)	(47)		(47)
- Reclassification to income (loss)														
- Income tax on current period changes														
Total comprehensive income (loss)					2,597	(54)	—	(11)	15	3	(47)	2,550	49	2,599
Share-based compensation plans			310									310		310
Excess tax benefits from SBC plans			(27)									(27)		(27)
Dividends non-controlling interests													(54)	(54)
Dividends common stock					(147)							(147)		(147)
Transactions with owners of the Company recognized directly in equity:														
- Purchase of treasury shares	(37,076)			(3,353)								(3,353)		(3,353)
- Retirement treasury shares	(17,300)	(4)	(811)		(838)							(1,653)		(1,653)
- Shareholder tax on repurchased shares					(381)							(381)		(381)
- Re-issuance of treasury shares	4,242			457	(418)							39		39
Other			3		8							11		11
Balance as of December 31, 2018	**292,790**	**67**	**16,587**	**(3,238)**	**(233)**	**(369)**	**(513)**	**(3)**	**(93)**	**—**	**(978)**	**12,205**	**189**	**12,394**
Net income					**512**							**512**	**29**	**541**
Other comprehensive income (loss):														
- Current period change						**(15)**		**(6)**	**(32)**	**—**	**(53)**	**(53)**		**(53)**
- Reclassification to income (loss)								**13**			**13**	**13**		**13**
- Income tax on current period changes								**(2)**			**(2)**	**(2)**		**(2)**
Total comprehensive income (loss)					**512**	**(15)**	**—**	**5**	**(32)**	**—**	**(42)**	**470**	**29**	**499**
Share-based compensation plans			**339**								**—**	**339**		**339**
Excess tax benefits from SBC plans			**13**		**13**						**—**	**26**		**26**
Dividends non-controlling interests											**—**	**—**		**—**
Dividends common stock					**(351)**						**—**	**(351)**		**(351)**
Transactions with owners of the Company recognized directly in equity:											**—**	**—**		**—**
- Purchase of treasury shares	**(2,683)**			**(221)**							**—**	**(221)**		**(221)**
- Purchased and retired treasury shares	**(13,183)**	**(3)**	**(632)**		**(587)**						**—**	**(1,222)**		**(1,222)**
- Shareholder tax on repurchased shares					**95**						**—**	**95**		**95**
- Re-issuance of treasury shares	**4,513**			**422**	**(338)**						**—**	**84**		**84**
Business combinations			**19**								**—**	**19**		**19**
Balance as of December 31, 2019	**281,437**	**64**	**16,326**	**(3,037)**	**(889)**	**(384)**	**(513)**	**2**	**(125)**	**—**	**(1,020)**	**11,444**	**218**	**11,662**

Notes to the consolidated financial statements of NXP Semiconductors N.V.

All amounts in millions of $ unless otherwise stated

1. Company overview

NXP Semiconductors N.V. is a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2019, we generated revenue of $8,877 million, compared to $9,407 million for the year ended December 31, 2018.

We provide leading solutions that leverage our combined portfolio of intellectual property, deep application knowledge, process technology and manufacturing expertise in the domains of cryptography-security, high-speed interface, radio frequency (RF), mixed-signal analog-digital (mixed A/D), power management, digital signal processing and embedded system design.

Our product solutions are used in a wide range of end-market applications including: automotive, industrial & Internet of Things (IoT), mobile, and communication infrastructure. We engage with leading global original equipment manufacturers (OEM) and sell products in all major geographic regions.

Our legal name is NXP Semiconductors N.V. and our commercial name is “NXP” or “NXP Semiconductors.”

We were incorporated in the Netherlands in 2006 as a Dutch public company with limited liability (naamloze vennootschap).

On August 5, 2010, we made an initial public offering of 34 million shares of our common stock and listed our common stock on Nasdaq.

We are a holding company (the “Holding Company”) whose only material assets are the direct ownership of 100% of the shares of NXP B.V., a Dutch private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid). Unless otherwise required, all references herein to “we”, “our”, “us”, “NXP” and the “Company” are to NXP Semiconductors N.V. and its consolidated subsidiaries.

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. Our registered agent in the United States is NXP USA, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 9338214.

2. Significant accounting policies and new accounting standards to be adopted after 2019

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. NXP did not apply any European carve-outs from IFRS meaning that our financials fully comply with IFRS. The Company has not applied early any new IFRS requirements that are not yet effective in 2019. The financial statements were authorized for issue by the board of directors on March 16, 2020.

The statement of operations of the separate financial statements of NXP Semiconductors N.V. (refer to Company Financial Statements of this report) has been prepared in accordance with Section 402 Part 9 of Book 2 of the Netherlands Civil Code which allows a simplified statement of operations in the event that a comprehensive statement of operations is included in the consolidated group financial statements.

Reclassifications

Certain items previously reported have been reclassified to conform to the current period presentation.

Basis of measurement

Historical cost is used as the measurement basis unless otherwise indicated.

The significant accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the accounts of NXP Semiconductors N.V. (NXP N.V. or the Company) and all subsidiaries that are controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances and transactions have been eliminated in the consolidated financial statements. The non-controlling interests are disclosed separately in the consolidated statement of operations and statement of comprehensive income as part of profit allocation and in the consolidated balance sheet as a separate component of equity.

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized as at the acquisition date, which is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Fair value measurements

Fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for an identical asset or liability, we develop assumptions based on market observable data and, in the absence of such data, utilize internal information that we consider to be consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Priority is given to observable inputs. These two types of inputs form the basis for the following fair value hierarchy.

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and valuations based on models where the inputs or significant value drivers are observable, either directly or indirectly.
- Level 3: Significant inputs to the valuation model are unobservable.

Equity-accounted investees

Investments in companies in which the Company does not have the ability to directly or indirectly control the financial and operating decisions, but does possess the ability to exert significant influence, are accounted for using the equity method. Generally, in the absence of demonstrable proof of significant influence, it is presumed to exist if at least 20% of the voting stock is owned.

The Company's share of the net income of these equity accounted investees is included in results relating to equity-accounted investees in the consolidated statement of operations. The Company recognizes an impairment loss when the recoverable amount of the investment is less than its carrying amount.

When its share of losses exceeds the carrying amount of an investment accounted for by the equity method, the carrying amount of that investment is reduced to zero and recognition of further losses is discontinued unless the Company has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. Equity-accounted investees include loans from the Company to these investees.

Loss of control

Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. If the Company retains a non-controlling interest in the entity, such interest is measured at fair value at the date that control is lost. Subsequently, the non-controlling interest is accounted for as an equity-accounted investee or as a financial asset at fair value through other comprehensive income, depending on the level of influence retained by NXP. Any resulting gain or loss is recognized in profit or loss.

Foreign currencies

The Company uses the U.S. dollar as its reporting currency. The functional currency of the holding company is the U.S. dollar. For consolidation purposes, the financial statements of the entities within the Company with a functional currency other than the U.S. dollar, are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the applicable balance sheet dates. Income and expense items in the statements of operations, statements of comprehensive income and statements of cash flows are translated at monthly exchange rates in the periods involved.

The effects of translating the financial position and results of operations from functional currencies to reporting currency are recognized in other comprehensive income and presented as a separate component of accumulated other comprehensive income (loss) within shareholders' equity. If the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is recorded under non-controlling interests.

The following table sets out the exchange rates for U.S. dollars into euros applicable for translation of NXP's financial statements for the periods specified.

	$ per € 1			
	period end	**average**(1)	**high**	**low**
Year-ended December 31, 2019	1.1217	1.1210	1.0935	1.1476
Year-ended December 31, 2018	1.1451	1.1794	1.1352	1.2431

(1) The average of the noon-buying rate at the end of each fiscal month during the period presented.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations, except when the foreign exchange exposure is part of a qualifying cash flow or net investment hedge accounting relationship, in which case the related foreign exchange gains and losses are recognized directly in other comprehensive income to the extent that the hedge is effective and presented as a separate component of accumulated other comprehensive income (loss) within shareholders' equity. To the extent that the hedge is ineffective, such differences are recognized in the statement of operations. Currency gains and losses on intercompany loans that have the nature of a permanent investment are recognized as translation differences in other comprehensive income and are presented as a separate component of accumulated other comprehensive income (loss) within equity.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect amounts reported in the consolidated financial statements in order to conform to IFRS. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. If actual results differ significantly from management's estimates, there could be a material effect on reported amounts of revenue and expenses during the reporting period, the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements.

Estimates significantly impact goodwill and intangible assets acquired, impairments, liabilities from employee benefit plans, other provisions, recoverability of capitalized development costs, fair value of derivatives, useful lives of property, plant and equipment, tax and other contingencies. The fair values of acquired identifiable intangibles are based on an assessment of future discounted cash flows. Impairment analysis of goodwill is performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses are based on estimates of future cash flows.

Segment report

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"), U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the reportable segment information is presented on a U.S. GAAP basis, with a reconciling item to the IFRS basis.

Prior to January 1, 2019, High Performance Mixed Signal (HPMS) was our sole reportable segment. Corporate and Other represented the remaining portion to reconcile to the Consolidated Financial Statements.

Effective January 1, 2019, NXP removed the reference to HPMS in its organizational structure in acknowledgement of the one reportable segment representing the entity as a whole and reflects the way in which our chief operating decision maker executes operating decisions, allocates resources, and manages the growth and profitability of the Company.

NXP has multiple business lines that each contain different product groups. In accordance with the IFRS 8 *Operating Segments* aggregation criteria, it was assessed that the multiple business lines represent one operating segment since they have similar economic characteristics that start from the same base product, an integrated circuit, for which the underlying intellectual property, technology, manufacturing and sales resources are managed centrally, and shared across the business lines.

The strategy of the company is best understood by investors in the format of end-markets, which are essentially the way in how the world looks at the use of the semiconductor chips that we sell. As such, we disclose revenue by end-market (Automotive, Industrial and the Internet of Things, Mobile and Communications Infrastructure & Other). The end-market information is only constructed and reviewed at the level of revenue within the company and therefore do not represent operating nor reportable segments.

Earnings per share

Basic earnings per share attributable to shareholders is calculated by dividing net income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period.

To determine diluted share count, we apply the treasury stock method to determine the dilutive effect of outstanding stock option shares, RSUs, PSUs and Employee Stock Purchase Plan (“ESPP”) shares. Under the treasury stock method, the amount the employee must pay for exercising share-based awards and the amount of compensation cost for future service that the Company has not yet recognized are assumed to be used to repurchase shares.

Revenue recognition

The Company recognizes revenue under the core principle to depict the transfer of control to customers in an amount reflecting the consideration the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The vast majority of the Company’s revenue is derived from the sale of semiconductor products to distributors, Original Equipment Manufacturers (“OEMs”) and similar customers. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the consideration to which the Company expects to be entitled. Variable consideration is estimated and includes the impact of discounts, price protection, product returns and distributor incentive programs. The estimate of variable consideration is dependent on a variety of factors, including contractual terms, analysis of historical data, current economic conditions, industry demand and both the current and forecasted pricing environments. The process of evaluating these factors is highly subjective and requires significant estimates, including, but not limited to, forecasted demand, returns, pricing assumptions and inventory levels. The estimate of variable consideration is not constrained because the Company has extensive experience with these contracts.

Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company’s performance obligation is satisfied), which typically occurs at shipment. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, and whether risks and rewards of ownership having transferred to the customer. The Company expenses sales commissions when incurred because the amortization period would have been one year or less.

For sales to distributors, revenue is recognized upon transfer of control to the distributor. For some distributors, contractual arrangements are in place which allow these distributors to return products if certain conditions are met. These conditions generally relate to the time period during which a return is allowed and reflect customary conditions in the particular geographic market. Other return conditions relate to circumstances arising at the end of a product life cycle, when certain distributors are permitted to return products purchased during a pre-defined period after the Company has announced a product’s pending discontinuance. These return rights are a form of variable consideration and are estimated using the most likely method based on historical return rates in order to reduce revenues recognized. However, long notice periods associated with these announcements prevent significant amounts of product from being returned. For sales where return rights exist, the Company has determined, based on historical data, that only a very small percentage of the sales of this type to distributors is actually returned. Repurchase agreements with OEMs or distributors are not entered into by the Company.

Sales to most distributors are made under programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities. These programs may include credits granted to distributors, or allow distributors to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory. In determining the transaction price, the Company considers the price adjustments from these programs to be variable consideration that reduce the amount of revenue recognized. The Company's policy is to estimate such price adjustments using the most likely method based on rolling historical experience rates, as well as a prospective view of products and pricing in the distribution channel for distributors who participate in our volume rebate incentive program. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in pricing environments and inventory levels. The estimates are also adjusted when recent historical data does not represent anticipated future activity. Historically, actual price adjustments for these programs relative to those estimated have not materially differed.

Government grants

Government grants, other than those relating to purchases of assets and capitalized product development assets, are recognized as a reduction of expenditure as qualified expenditures are made.

Employee benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the statement of operations in the periods during which services are rendered by employees. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group employees participate in pension and other post-employment benefit plans in many countries. The costs of pension and other post-employment benefits and related assets and liabilities with respect to the Group employees participating in defined-benefit plans have been recognized in the financial statements based upon actuarial valuations.

Some of the Group's defined-benefit pension plans are funded with plan assets that have been segregated and restricted in a trust, foundation or insurance company to provide for the pension benefits to which the Group has committed itself.

The net pension liability or asset recognized in the balance sheet in respect of defined benefit pension plans is the present value of the projected defined benefit obligation less the fair value of plan assets at the period end date.

Most of our plans result in a pension provision (in case the plan is unfunded) or a net pension liability (for funded plans). The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

For the Group's major plans, the discount rate is derived from market yields on high quality corporate bonds. Plans in countries without a deep corporate bond market use a discount rate based on the local government bond rates.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in Other Comprehensive Income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans, including service costs net of employee contributions, are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

In certain countries, the Group also provides post-employment benefits other than pensions. The cost relating to such plans consists primarily of the present value of the benefits attributed on an equal basis to each year of service and interest cost on the accumulated post-employment benefit obligation, which is a discounted amount.

Share-based compensation

We recognize compensation expense for all share-based awards based on the grant-date estimated fair values, net of an estimated forfeiture rate. We use the Black-Scholes option pricing model to determine the estimated fair value for certain awards. Share-based compensation cost for restricted share units ("RSU"s) with time-based vesting is measured based on the closing fair market value of our common stock on the date of the grant, reduced by the present value of the estimated expected future dividends, and then multiplied by the number of RSUs granted. Share-based compensation cost for performance-based share units ("PSU"s) granted with performance or market conditions is measured using a Monte Carlo simulation model on the date of grant.

The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the service periods in our Consolidated Statements of Operations. For stock options and RSUs, the grant-date value, less estimated pre-vest forfeitures, is expensed based on a graded vesting schedule. PSUs are expensed using a graded vesting schedule. The vesting period for stock options is generally four years, for RSUs and PSUs it is generally three years.

Financial income and expense

Financial income and expense is comprised of interest income on cash and cash equivalent balances, the interest expense on borrowings, the accretion of the discount or premium on issued debt, the gain or loss on the disposal of financial assets, impairment losses on financial assets and gains or losses on hedging instruments recognized in the statement of operations.

Borrowing costs that are not directly attributable to the acquisition, construction or production of property, plant and equipment are recognized in the statement of operations using the effective interest method.

Income taxes

Income tax comprises current and deferred tax and are accounted for under the asset and liability method. Income tax is recognized in the statement of operations except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at the period end date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized, using the balance sheet liability method, for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is not recognized for temporary differences arising from the initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets, including assets arising from loss carry forwards, are recognized if it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit or a portion thereof will be realized. Deferred tax assets and liabilities are not discounted.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividends in the foreseeable future, and for undistributed earnings of equity-accounted investees to the extent that these withholding taxes are not expected to be refundable or deductible.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or realize the tax assets and settle the liabilities simultaneously.

Changes in tax rates are reflected in the period when the change has been enacted or substantively enacted by the period end date.

In determining the amount of current and deferred taxes, NXP takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Assets constructed by the Group include direct costs, overheads and interest charges incurred for qualifying assets during the construction period. Government investment grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the expected economic life of the asset. Depreciation of special tooling is also based on the straight-line method unless a depreciation method other than the straight-line method better represents the consumption pattern. The useful lives and residual values are evaluated every year to determine whether events and circumstances warrant a revision of the remaining useful lives or the residual values. Gains and losses on the sale of property, plant and equipment are included in the respective line items Other income and Other expense. Costs related to repair and maintenance activities are expensed in the period in which they are incurred.

Under the provisions of IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* the Group recognizes the net present value of an asset retirement obligation in the period in which it is incurred, while an equal amount is capitalized as part of the carrying amount of the related asset. The adjusted depreciable amount of the asset is depreciated over its useful life.

Leases

Policy applicable from 1 January 2019

At inception of a contract we assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Determining whether a contract is, or contains a lease, requires judgment. An arrangement is considered to be a lease when all of the following applies:

- It conveys the right to control the use of an identified asset throughout the period of use;
- NXP has the right to obtain substantially all of the economic benefits from the use of the asset; and
- NXP has the right to direct the use of the identified asset.

We recognize a right-of-use ("RoU") asset (i.e. an asset representing the right to use the underlying asset over the lease term) and a lease liability at the lease commencement date, which is the date that the lessor makes the asset available for use by NXP. The RoU asset is initially measured at cost, which comprises i) the amount of the initial measurement of the lease liability; ii) any lease payments made at or before the commencement date, less any lease incentive received; and iii) any initial direct costs incurred by NXP.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective NXP entity's incremental borrowing rate. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in the future lease payments arising from a change in an index as well as when NXP changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the RoU asset, or is recorded in profit or loss if the carrying amount of the RoU asset has been reduced to zero.

RoU assets are included within the same line item as that within which the corresponding underlying assets would be presented if they were owned while the corresponding lease liabilities are included within other (non-current) liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

RoU assets are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset while the related interest expense is included in financial expense.

Except for gas and chemical contracts, NXP did not make the election to treat the lease and non-lease components as a single component, and considers the non-lease components as a separate unit of account.

Lease contracts that have not yet commenced at the reporting date are disclosed as part of the purchase commitments - see Note 28 *Purchase commitments*.

Policy applicable before 1 January 2019

The Group leases various buildings, installations and equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the statement of operations on a straight-line basis over the term of the lease.

Leases in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the statement of operations over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the lease obligation for each period. The lease obligations are included in other current and other non-current liabilities. The property, plant and equipment acquired under finance leases are depreciated, using the straight-line method over the shorter of the useful life of the assets or the lease term.

Goodwill

The Company initially measures the amount of goodwill as the excess of the considerations transferred to acquire an entity over the fair value of the identifiable assets and liabilities assumed at the acquisition date. Goodwill is not amortized but tested for impairment annually in the fourth quarter or more frequently if events and circumstances indicate that goodwill may be impaired. Reflecting the way in which our chief operating decision maker executes operating decisions, allocates resources, manages the growth and profitability of the Company and our Board monitors goodwill, the cash flows at the entity level as a whole are considered substantially independent. Consequently, the entity as a whole is a cash generating unit for goodwill impairment testing. A goodwill impairment loss is recognized in the statement of operations whenever and to the extent the carrying amount of a cash generating unit exceeds the recoverable amount of that unit. The recoverable amount is the greater of an asset's net selling price (the amount that could be realized from the sale of an asset by means of an arms' length transaction, less costs of disposal) or its value in use (the present value of estimated future cash flows expected to be realized from the continuing use of an asset and from its disposal at the end of its useful life).The recoverable amount of the cash generating unit of the Company is determined on the basis of fair value. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. An impairment loss in respect of goodwill is not reversed.

Intangible assets

Intangible assets are amortized over their useful lives using the straight-line method. Amortization begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Remaining useful lives are evaluated every year to determine whether events and circumstances warrant a revision to the remaining period of amortization. There are currently no intangible assets with indefinite lives. Software and intangible development assets are generally amortized over a period of 3-14 years. Patents, trademarks and other intangible assets acquired from third parties are capitalized and amortized over their remaining useful lives.

Expenditures on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if development costs can be measured reliably, if the product or process is technically and commercially feasible, future economic benefits are probable, the Group has sufficient resources and the intention to complete development and to use or sell the asset. The development expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure and expenditure on research activities are recognized in the statement of operations as an expense as incurred. Capitalized development expenditure is stated at costs less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the statement of operations on a straight-line basis over the estimated useful lives of the intangible assets. Costs relating to the development and purchase of software for internal use are capitalized and subsequently amortized over the estimated useful life of the software.

Impairment or disposal of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset with the greater of its value in use and its fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value is measured based on externally acquired or available information. If the carrying amount of an asset is not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows.

The evaluation of intangible assets and property, plant and equipment for impairment is carried out at a Corporate level as the majority of our assets are used jointly or managed at Corporate level. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell.

An impairment loss related to intangible assets or property, plant and equipment is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of operations.

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Any impairment loss is charged to the statement of operations.

An impairment loss related to financial assets is reversed if in a subsequent period, the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized. Reversals of impairments are recognized in the statement of operations.

Inventories

Inventories are stated at the lower of cost and net realizable value, less advance payments on work in progress. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion and the normal capacity of production facilities. Abnormal amounts of idle facility expense and waste are not capitalized in inventory. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on purchases in the recent past and/ or expected future demand and market conditions. Net realizable value is the estimated selling price in the ordinary course of business, less estimated marketing, distribution and selling expenses.

Receivables

Receivables are held under the business model hold to collect. The cash flows exist solely of payments of principal and interest. As a result, receivables are carried at amortized cost, less impairment losses and net of rebates and other contingent discounts granted to distributors. A simplified approach is used to determine the lifetime expected credit loss of the receivables. When circumstances indicate a specific customer's ability to meet its financial obligation to us is impaired, we record an allowance against amounts due and value the receivable at the amount reasonably expected to be collected. Receivables are written off when they are deemed to be uncollectable because of bankruptcy or other forms of receivership of the debtors.

The allowance for doubtful trade accounts receivable takes into account objective evidence about credit-concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or region.

Derivative financial instruments including hedge accounting

The Company uses derivative financial instruments in the management of its foreign currency risks and the input costs of gold for a portion of our anticipated purchases within the next 12 months.

The Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate, and records these as assets or liabilities in the balance sheet. Changes in the fair values are immediately recognized in the statement of operations unless cash flow hedge accounting is applied.

Changes in the fair value of a derivative that is highly effective and designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item. The application of cash flow hedge accounting for foreign currency risks is limited to transactions that represent a substantial currency risk that could materially affect the financial position of the Company.

Foreign currency gains or losses arising from the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized directly in other comprehensive income, to the extent that the hedge is effective, and are presented as a separate component of accumulated other comprehensive income (loss) within shareholders' equity.

To the extent that a hedge is ineffective, the ineffective portion of the fair value change is recognized in the Consolidated Statements of Operations. When the hedged net investment is disposed of, the corresponding amount in the accumulated other comprehensive income is transferred to the statement of operations as part of the profit or loss on disposal.

On initial designation of the hedge relationship between the hedging instrument and hedged item, the Company documents this relationship, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk.

When cash flow hedge accounting is discontinued because it is not probable that a forecasted transaction will occur within a period of two months from the originally forecasted transaction date, the Company continues to carry the derivative on the consolidated balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. In situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the consolidated balance sheet, and recognizes any changes in its fair value in earnings.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with a maturity of three months or less at acquisition that are readily convertible into known amounts of cash. Cash and cash equivalents are stated at face value which approximates fair value.

Provisions and accruals

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions of a long-term nature are measured at present value when the amount and timing of related cash payments are fixed or reliably determinable using a pre-tax discount rate. Short-term provisions are stated at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The Group accrues for losses associated with environmental obligations when such losses are probable and reliably estimable. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities and virtually certain insurance recoveries, if any, are recorded separately. The carrying amount of liabilities is regularly reviewed and adjusted for new facts or changes in law or technology. Insurance recoveries are recognized when they have been received or when receipt is virtually certain.

Restructuring

The provision for restructuring relates to the estimated costs of initiated reorganizations that have been approved by the management team and which involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A provision is recognized for those costs only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Debt and other liabilities

Debt and other liabilities, excluding provisions, are initially recognized at fair value and subsequently measured at amortized cost. Debt issue costs are not expensed immediately but included in the amortized cost of the related debt through the use of the effective interest rate method.

Compound financial instruments issued by the Company comprise convertible debt financing. The liability component of the conversion option is initially recognized at fair value based on a Black-Scholes pricing model and recorded as a derivative liability. The fair value of the debt is initially determined by deducting the fair value of the derivative component from the initial proceeds from the compound financial instrument as a whole.

Debt that has been exchanged for other debt is initially measured at fair value. Any gain or loss resulting from the exchange is immediately recognized in the statement of operations on the line item "Financial income (expense)". The Company determines the fair value based on quoted prices for the instruments or quoted prices for similar instruments. In the rare cases that such observable inputs are not available the Company determines the fair value based on discounted projected cash flows.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

When NXP buys its own shares, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognized as a deduction from equity under treasury shares. Any gain or loss on the subsequent sale or reissuance of treasury shares is recognized directly in equity on the line item capital in excess of par value. Losses are also recognized in that line item in as far as gains from previous sales are included herein. Otherwise, losses are charged to retained earnings/accumulated deficit. When issued, shares are removed from treasury shares on a first in, first out ("FIFO") basis.

Cash flow statements

Cash flow statements have been prepared using the indirect method. Cash flows in foreign currencies have been translated into U.S. dollar using the weighted average rates of exchange for the periods involved.

Cash flows from derivative instruments are classified consistent with the classification of the hedged items.

Accounting standards adopted in 2019

IFRS 16 Leases

IFRS 16 *Leases* was issued by the IASB in January 2016. IFRS 16 sets out new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from 1 January 2019 and introduces significant changes to lessee accounting as it removes the distinction between operating and finance lease under IAS 17 *Leases*, and requires a lessee to recognize a right-of-use asset and a lease liability at the lease commencement date. IFRS 16 also requires to recognize a deprecation charge related to the right-of-use assets and an interest expense on the lease liabilities, as compared to the recognition of operating lease expense on a straight-line basis over the lease term under IAS 17. In addition, the cash flow statement presentation has been amended in order to segregate the payment of leases into a principal portion, presented within financing activities, and an interest component presented within operating activities.

NXP applied the new lease standard retrospectively with the cumulative effect of initially applying the standard recognized in the opening balance as of 1 January 2019 (generally referred to as the "modified retrospective method"). For short-term leases the Company continues to recognize a lease expense on a straight-line basis as permitted by IFRS 16. The Company elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs.

On January 1, 2019 NXP recognized lease liabilities for leases previously classified as operating leases for a total amount of $ 188 million. These lease liabilities were measured at the present value of the remaining fixed lease payments, discounted using the respective NXP entity's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate was 3.4%.

On January 1, 2019 NXP recognized RoU assets for leases previously classified as operating leases for a total amount of $ 188 million. This amount was determined as the total related lease liability ($ 188 million), plus related prepaid leases ($ 3 million) and minus related accrued lease costs ($ 3 million).

The $ 188 million of lease liabilities recognized on January 1, 2019 can be reconciled with the $ 156 million disclosed operating lease commitments at December 31, 2018 as follows :

$ in millions

Operating lease commitments as disclosed at December 31, 2018	**156**
Discounted using the incremental borrowing rate at January 1, 2019	(17)
Termination options reasonably certain not to be exercised	34
Renewal options reasonably certain to be exercised	15
Additional lease liabilities as a result of the adoption of IFRS 16 at January 1, 2019	**188**

Note 12 *Property, plant and equipment* contains the relevant disclosures with regard to property, plant and equipment leased by the company (right-of-use assets) and Note 24 *Other non-current liabilities* contains the relevant disclosures with regard to lease liabilities.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 *Uncertainty over Income Tax Treatments* was issued by the IASB in May 2017 and became effective on 1 January 2019. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The IFRIC 23 interpretation confirms NXP's already existing accounting policy and thus its adoption had no impact on our 2019 financial statements.

New accounting standards after 2019

The following standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after 1 January 2020 or later periods, and the Company has not early adopted them:

Definition of a Business: Amendments to IFRS 3

In October 2018 the IASB published Definition of a Business: Amendments to IFRS 3. The amendments aim to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments become effective on 1 January 2020 on a prospective basis, subject to EU endorsement.

Definition of Material: Amendments to IAS 1 and IAS 8

In October 2018 the IASB published Definition of Material: Amendments to IAS 1 and IAS 8. The amendments clarify the definition of material and its application. The Company expects that the amendments will not have any impact on NXP's consolidated financial statements. The amendments became effective on 1 January 2020.

3. Segments and geographical information

Our revenue is primarily the sum of our direct sales to OEMs plus our distributors' resale of NXP products. Avnet accounted for 14% of our revenue in 2019 and 14% in 2018. Arrow accounted for less than 10% of our revenue in 2019 and 10% in 2018. No other distributor accounted for greater than 10% of our revenue. With 11% of total revenue in both 2019 and 2018, Continental was the only OEM to which we had direct sales that accounted for more than 10% of revenue in 2019 and 2018.

As discussed in Note 2 *Significant accounting policies and new accounting standards to be adopted after 2019*, we changed our reporting segments to better align with our organizational structure and with the way our chief operating decision maker makes operating decisions, allocates resources, and manages the growth and profitability of the business.

Revenue attributed to geographic areas is based on the customer's shipped-to location (except for intellectual property license revenue which is attributable to the Netherlands). Long-lived assets include Property and equipment, net, which were based on the physical location of the assets as of the end of each year.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the information by reportable segment is presented on a U.S. GAAP basis, with a reconciling item to the IFRS basis.

Geographical information

	Revenue		Property, plant and equipment	
	2019	2018	**2019**	2018
China	**3,147**	3,430	**265**	287
Netherlands	**275**	349	**221**	214
United States	**840**	919	**845**	782
Singapore	**1,006**	1,220	**321**	298
Germany	**526**	531	**52**	55
Japan	**780**	735	**—**	—
South Korea	**327**	357	**—**	—
Malaysia	**120**	112	**337**	373
Other countries	**1,856**	1,754	**407**	427
Total	8,877	9,407	**2,448**	2,436
Adjustments to reconcile to IFRS	—	—	**224**	**1**
	8,877	9,407	**2,672**	2,437

Under the new 2019 lease accounting requirements, U.S. GAAP operating leases are not classified under *Property, plant and equipment*; explaining the 2019 reconciling item to IFRS.

4. Acquisitions, divestments and Assets held for sale

2019

On December 6, 2019, we completed the acquisition Marvell's Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets for total consideration of $1.7 billion. The acquisition complements NXP's processing, security and connectivity offerings in the Industrial & IoT, as well as in the Automotive and Communication Infrastructure markets.

The preliminary fair values of the assets acquired and liabilities assumed in the acquisition, by major class, were recognized as follows:

Property, plant and equipment	**2**
Inventory	**50**
Intangible assets	**514**
Deferred tax assets	**3**
Goodwill	**1,149**
Net assets acquired	**1,718**

Goodwill arising from the acquisition is attributed to the anticipated growth from new product sales, sales to new customers, the assembled workforce and synergies expected from the combination. Substantially all of the goodwill recognized is expected to be deductible for income tax purposes.

The identified intangible assets assumed were recognized as follows:

	Fair Value	Weighted Average Estimated Useful Life (in Years)
Customer relationships (included in customer-related)	**20**	**6**
Developed technology (included in technology-based)	**324**	**4.4**
In-process research and development [(1)]	**170**	**N/A**
Total identified intangible assets	**514**	

1) Acquired in-process research and development ("IPR&D") is an intangible asset not yet available for use until the completion or abandonment of the associated research and development effort. IPR&D will be amortized over an estimated useful life to be determined at the date the associated research and development effort is completed, or impaired when, and if, the project is abandoned. Acquired IPR&D is not amortized during the period that it is not yet available for use, but rather is subject to annual testing for impairment or when there are indicators for impairment.

Variations of the income approach were applied to estimate the fair values of the intangible assets acquired. Developed technology and IPR&D were valued using the multi-period excess earnings method which reflects the present values of the projected cash flows that are expected to be generated by the existing technology and IPR&D less charges representing the contribution of other assets to those cash flows. Customer relationships were valued using the distributor method which uses market-based data to support the selection of profitability related to the customer relationship function.

Acquisition-related transaction costs ($5 million) such as legal, accounting and other related expenses were recorded as a component of selling, general and administrative expense in our consolidated statement of operations.

Pro forma financial information (unaudited)

NXP applies for internal and external reporting purposes U.S. GAAP as its primary accounting standard. In addition, Marvell has never published IFRS financial statements and thus it was only practicable to prepare the below pro forma information under U.S. GAAP.

The following unaudited pro forma financial information presents combined consolidated results of operations for each of the years presented, as if Marvell's Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets had been acquired as of January 1, 2018:

	2019	2018
Revenue	**9,169**	9,715
Net income (loss) attributable to shareholders	**237**	2,154
Net income (loss) per common share attributable to shareholders:		
– Basic	**0.84**	6.61
– Diluted	**0.83**	6.55

The pro forma information include the effect of certain purchase accounting adjustments such as the estimate changes in amortization and depreciation for identified intangible assets and property, plant and equipment acquired and adjustments to share-based compensation expense. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the revenue or operating results that would have been achieved had the acquisition actually taken place as of January 1, 2018 or of the results of future operations of the combined business. In addition, these results are not intended to be a projection of future results and do not reflect synergies that might be achieved from the combined operations.

On March 27, 2019, we sold our remaining equity interest in WeEn, receiving net cash proceeds of $37 million.

2018

There were no material acquisitions during 2018. On July 10, 2018, NXP completed the sale of its 40% equity interest of Suzhou ASEN Semiconductors Co., Ltd. to J&R Holding Limited, receiving $127 million in cash proceeds. The net gain realized on the sale of $51 million is included in the Statement of Operations in the line item "Results relating to equity-accounted investees".

In June 2018, NXP completed the sale of 24% of its equity interest in WeEn to Tianjin Ruixin Semiconductor Industry Investment Centre LLP, receiving $32 million in cash proceeds. At December 31, 2018, due to the intended sale of the remaining interest in WeEn, NXP transferred the remaining holding to other current assets.

Assets held for sale

2019

In the second quarter of 2019, NXP management, in reviewing its portfolio, concluded that certain activities (Voice and Audio Solutions (VAS)) no longer fit the NXP strategic portfolio and took actions that resulted in the assets meeting the held for sale criteria. On August 16, 2019, NXP reached a definitive agreement with Shenzhen Goodix Technology Co., Ltd. ("Goodix") from China, under which Goodix will acquire all of these assets for an amount of $165 million. On February 3, 2020, we completed the transaction. Refer to Note 35 *Subsequent Events.*

The VAS assets presentation as held for sale does not meet the criteria to be classified as a discontinued operation at December 31, 2019 since it does not represent a separate major line of business or geographical area of operations.

`The following table summarizes the carrying value of the VAS assets held for sale:

	2019
Inventories	**8**
intangible assets	**29**
Goodwill	**23**
Total	**60**

2018

At December 31, 2018, there were no *Assets held for sale*.

5. Operating income

Disaggregation of revenue

Revenue by sales channel was as follows:

	2019	2018
Distributors	**4,409**	4,891
Original Equipment Manufacturers and Electronic Manufacturing Services	**4,352**	4,229
Other [1]	**116**	287
	8,877	9,407

1) Prior year information has been reclassified to align with NXP's current year presentation.

For information related to revenue on a geographical basis, see Note 3 *Segments and geographical information*.

Employee benefits

	2019	2018
Salaries and wages	**2,112**	2,265
Pension and other post-employment costs	**100**	113
Social security and similar charges	**180**	183
	2,392	2,561

Salaries and wages in 2019 include $42 million (2018: $45 million) relating to restructuring charges - see also Note 6 *Restructuring*. Pension and other post-employment costs include the costs of pension benefits, and other post-employment benefits. Part of salaries and wages were capitalized as product development assets.

As of December 31, 2019 we had 29,400 full-time equivalent employees compared to 30,000 at December 31, 2018.

The following table indicates the % of full–time equivalent employees per geographic area:

	% as of December 31, 2019	2018
Europe and Africa	**20%**	20%
Americas	**20%**	20%
Greater China	**25%**	25%
Asia Pacific	**35%**	35%
Total	**100%**	100%

See Note 23 *Post-employment benefits* for further information regarding pension and other post-employment benefits and Notes 31 *Share-based compensation* and 32 *Information on remuneration board of directors* for further information about remuneration and share-based payments to executives and non-executives.

Depreciation, amortization and impairment

Depreciation, amortization and impairment charges can be detailed as follows:

	2019	2018
Depreciation of property, plant and equipment - owned	**516**	479
Depreciation of property, plant and equipment - leased	**57**	—
Amortization of product development assets	**314**	235
Amortization of other intangible assets	**1,525**	1,512
Impairment intangible assets	**60**	29
	2,472	2,255

Depreciation of property, plant and equipment is primarily included in cost of revenue. Amortization of intangible assets is primarily reported in the Selling, general and administrative expenses and Research and development expenses.

Impairments

During the year, impairment events for intangible assets resulted in a total impairment charge of $60 million, which is included under Research and development expenses (2018: $29 million) – see also Note 14 *Intangible assets*.

Research and development expenses

The 2019 research and development expenses, excluding amortization of acquisition related intangible assets, amounted to $1,321 million (2018: $1,209 million). Government grants with regard to research and development activities were recognized in the statement of operations for a total amount of $76 million (2018: $78 million).

6. Restructuring

At each reporting date, we evaluate our restructuring liabilities, which consist primarily of termination benefits, to ensure that our accruals are still appropriate. During 2019 and 2018 there were no new significant restructuring programs.

The 2019 changes in the provision and accrued liabilities for restructuring are as follows:

$ in millions	Balance January 1, 2019	Additions	Utilized	Released	Other changes (1)	Balance December 31, 2019
Restructuring Liabilities	**37**	**44**	**(57)**	**(4)**	**(2)**	**18**

(1) Other changes primarily related to translation differences and internal transfers.

The total restructuring liability as of December 31, 2019 of $18 million is classified as current.

The utilization of the restructuring liabilities mainly reflects the execution of ongoing restructuring programs the Company initiated in earlier years.

The following table presents the changes in the provision and accrued liabilities for restructuring in 2018:

$ in millions	Balance January 1, 2018	Additions	Utilized	Released	Other changes (1)	Balance December 31, 2018
Restructuring Liabilities	**20**	**47**	**(25)**	—	(5)	**37**

(1) Other changes primarily related to translation differences and internal transfers.

The total restructuring liability as of December 31, 2018 of $37 million is classified in the balance sheet under short-term provisions for $31 million, long-term provisions for $5 million and accrued liabilities for $1 million.

The utilization of the restructuring liabilities mainly reflects the execution of ongoing restructuring programs the Company initiated in earlier years.

The components of restructuring charges less releases recorded in the liabilities in 2019 and 2018 are as follows:

	2019	2018
Personnel lay-off costs	**46**	43
Other exit costs	—	2
Release of provisions/accruals	**(4)**	—
Net restructuring charges	**42**	45

The restructuring charges less releases recorded in operating income are included in the following line items in the statement of operations:

	2019	2018
Cost of revenue	**9**	6
Selling, general and administrative expenses	**12**	31
Research and development expenses	**21**	9
Other income (expense)	—	(1)
Net restructuring charges	**42**	45

7. Financial income (expense)

	2019	2018
Interest income	**57**	48
Interest expense	**(376)**	(273)
Total interest expense, net	**(319)**	(225)
Net gain (loss) on extinguishment of debt	**(11)**	(26)
Foreign exchange rate results	**(15)**	(14)
Other [1)]	**(10)**	(70)
Total other financial income and expense	**(36)**	(110)
Total	**(355)**	(335)

[1)] For the period ending December 31, 2018, the amount includes one-time charges ($60 million) on certain financial instruments for compensation related to an adjustment event required by the termination of the Qualcomm Purchase Agreement.

Financial income (expense) was an expense of $355 million in 2019, compared to an expense of $335 million in 2018. The change in financial income (expense) is primarily attributable to an increase in interest expenses, net of $94 million, as a result of higher debt levels throughout 2019, partially offset by lower debt extinguishment costs in 2019 versus 2018 of $15 million and the absence of the one time charge ($60 million) on certain financial instruments for compensation related to an adjustment event required by the termination of the Qualcomm transaction in 2018. The 2019 adoption of the new lease accounting standard resulted in an interest expense of $6 million.

The 2019 Foreign exchange rate results include a currency hedging loss of $30 million (2018: $42 million loss).

Note 21 *Long-term debt* contains detailed information on our outstanding debt and related interest rates.

8. Income taxes

The tax expense on the net income before income tax recognized in the statement of operations amounted to $62 million (2018: expense of $240 million). The components of income tax (expense) benefit are as follows:

	2019	2018
Current taxes		
Netherlands:	**(84)**	(297)
Foreign:	**(110)**	(92)
	(194)	(389)
Deferred taxes		
Netherlands:	**(3)**	13
Foreign:	**135**	136
	132	149
Income tax (expense) benefit	**(62)**	(240)

The Company's operations are subject to income taxes in various jurisdictions. Excluding certain tax incentives, the statutory income tax rates vary from 9% to 34.94%.

Group Financial Statements

The current tax expense consists of the following items:

	2019	2018
Current year	**(198)**	(425)
Adjustments for prior years	**4**	36

The deferred tax benefit of 2019 and 2018 recognized in the statement of operations consists of the following items:

	2019	2018
Origination and reversal of temporary differences	**167**	87
Changes in recognition of deferred tax assets	**(15)**	(8)
Tax rate and law change	**(11)**	42
Prior year adjustments and other	**(9)**	28

The tax benefit relating to continued and discontinued operations is as follows:

	2019	2018
Income tax (expense) benefit from continuing operations	**(62)**	(240)
Income tax (expense) benefit from discontinued operations	—	—

The reconciliation of the statutory income tax rate in the Netherlands with the effective income tax rate can be summarized as follows:

	2019		2018	
	million	**%**	million	%
Income before taxes	**602**		2,827	
Income tax expense (benefit)	**62**		240	
Income after tax	**540**		2,587	
Statutory income tax in the Netherlands	**150**	**25.0 %**	707	25.0 %
Rate differential local statutory rates versus statutory rate of the Netherlands	**8**	**1.3 %**	6	0.2 %
Loss carry forwards for which deferred tax assets were not recognized in the year of loss	**15**	**2.5 %**	8	0.3 %
Changes previous year's tax effect	**9**	**1.5 %**	(85)	(3.0)%
Non-taxable income	**(3)**	**(0.5)%**	(3)	(0.1)%
Non-tax-deductible expenses	**41**	**6.8 %**	71	2.5 %
The U.S. Tax Cuts and Jobs Act	—	**— %**	(3)	(0.1)%
Other taxes and tax rate and legislation changes	**11**	**1.8 %**	(42)	(1.5)%
Other permanent differences	**12**	**2.1 %**	(65)	(2.3)%
Withholding and other taxes	**5**	**0.8 %**	(11)	(0.4)%
Unrecognized Tax benefits	—	**— %**	(3)	(0.1)%
Tax incentives and other	**(186)**	**(30.9)%**	(340)	(12.0)%
Effective tax rate	**62**	**10.4 %**	240	8.5 %

We recorded an income tax expense of $62 million in 2019, which reflects an effective tax rate of 10.4% compared to an income tax expense of $240 million in 2018, which reflects an effective tax rate of 8.5%.

The effective tax rate reflects the impact of tax incentives, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, adjustments of prior years' income taxes, tax rate and legislation changes and non-deductible expenses. The impact of these items results in offsetting factors that attribute to the change in the effective tax rate between the two periods, with the significant drivers outlined below:

- The Company benefits from certain tax incentives, which reduce the effective tax rate in a relative location. The dollar amount of the incentive in any given year is commensurate with the taxable income in that same period. For 2019, the Netherlands tax incentives was lower than 2018, mainly due to the fact that NXP had received a break-up fee from Qualcomm of $2,000 million in 2018 which drove a higher income before tax in 2018.
- The adjustments to prior years' income taxes was higher in 2018 as a result of the agreement NXP reached with the Dutch tax authorities relative to the application of the Dutch innovation box regime to the taxable income attributable to the Netherlands. This agreement is effective from January 1, 2017. As such, the Company was able to refine its estimate of the Dutch tax liability, recognizing an additional income tax benefit of $67 million in 2018.
- The tax rate and legislation changes in 2019 respectively 2018 is mainly driven by the changes in the enacted Dutch corporate income tax rates applicable for future years.
- The higher other differences in 2018 relate primarily to a tax benefit on the liquidation of a former investment of $45 million.

The Company benefits from income tax holidays in certain jurisdictions which provide that we pay reduced income taxes in those jurisdictions for a fixed period of time that varies depending on the jurisdiction. The predominant income tax holiday is expected to expire at the end of 2026.

The net income tax payable as of December 31, 2019 amounted to $15 million (2018: payable $174 million) and includes amounts directly payable to or receivable from tax authorities.

Tax years that remain subject to examination by major tax jurisdictions: the Netherlands (2016-2018), Germany (2013-2018), USA (2005-2018), China (2009-2018), Taiwan (2014-2018), Thailand (2014-2018), Malaysia (2011-2018) and India (2004, 2005, 2007-2018).

Deferred tax assets and liabilities

Deferred tax assets and liabilities for 2019 and 2018 relate to the following balance sheet captions:

	Balance January 1, 2019	Recognized in income	Acquisitions / disposals	Other[1)]	Balance December 31, 2019
Intangible assets	(1,325)	228			(1,097)
Property, plant and equipment	(48)	(36)		(1)	(85)
Inventories	32	(5)			27
Receivables	83	(20)		1	64
Other assets	2	(1)			1
Post-employment benefits	83	(2)		14	95
Provisions:					
– Restructuring	5	(3)			2
– Accrued interest	117	(14)			103
Other liabilities	83	83		(2)	164
Share-based payments	22	(10)	3	25	40
Undistributed earnings subsidiaries	(96)	(3)			(99)
Tax loss carry forward (including tax credit carry forwards)	455	(85)		(22)	348
Net deferred tax assets (liabilities)	(587)	132	3	15	(437)

	Balance January 1, 2018	Recognized in income	Acquisitions/ disposals	Other[1)]	Balance December 31, 2018
Intangible assets	(1,549)	224			(1,325)
Property, plant and equipment	(47)			(1)	(48)
Inventories	24	8			32
Receivables	71	13		(1)	83
Other assets	2				2
Post-employment benefits	93	(6)		(4)	83
Provisions:					
– Restructuring	—	5			5
– Accrued interest	156	(39)			117
Other liabilities	100	(21)		4	83
Share-based payments	60	(7)		(31)	22
Undistributed earnings subsidiaries	(109)	8		5	(96)
Tax loss carry forward (including tax credit carry forwards)	482	(36)		9	455
Net deferred tax assets (liabilities)	(717)	149	—	(19)	(587)

1) Other includes the effect of currency translation differences and the deferred taxes recorded directly in equity.

The gross amounts of deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
Intangible assets		—	**(1,097)**	(1,325)	**(1,097)**	(1,325)
Property, plant and equipment		—	**(85)**	(48)	**(85)**	(48)
Inventories	**27**	32		—	**27**	32
Receivables	**64**	83		—	**64**	83
Other assets	**1**	2		—	**1**	2
Post-employment benefits	**95**	83		—	**95**	83
Provisions:						
– Restructuring	**2**	5		—	**2**	5
– Accrued interest	**103**	117		—	**103**	117
Other liabilities	**164**	83		—	**164**	83
Share-based payments	**40**	22		—	**40**	22
Undistributed earnings subsidiaries		—	**(99)**	(96)	**(99)**	(96)
Tax loss carry forward (including tax credit carry forwards)	**348**	455		—	**348**	455
Deferred taxes	**844**	882	**(1,281)**	(1,469)	**(437)**	(587)
Offsetting between assets and liabilities	**(536)**	(606)	**536**	606		
Net deferred taxes recognized	**308**	276	**(745)**	(863)	**(437)**	(587)

The Company does not reinvest the majority of the undistributed earnings of its subsidiaries for the foreseeable future. Consequently, the Company has recognized a deferred tax liability of $99 million at December 31, 2019 (2018: $96 million) for the additional income taxes and withholding taxes payable upon the future remittances of these earnings of foreign subsidiaries. The Company considers $45 million of the undistributed earnings reinvested for the foreseeable future although the timing of the reversal can be controlled. Upon repatriation of those earnings the Company would be subject to tax of $9 million which is not recognized as deferred tax liability at December 31, 2019.

The Company has significant deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences that may reduce taxable income in future periods. The realization of our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction.

The following possible sources of taxable income have been considered when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

In assessing the Company's ability to realize deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax strategies in making this assessment.

In order to fully realize the deferred tax asset, the Company will need to generate future taxable income in the countries where the net operating losses were incurred (mainly Germany and USA). Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable that the Company will realize all aforementioned benefits.

At December 31, the amounts of deductible temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognized are as follows:

	2019	2018
Deductible temporary differences	**5**	5
Tax losses	**158**	206
Tax credits	**146**	136

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits there from.

The unused tax losses for which no deferred tax asset is recognized expire as follows:

Total	2020	2021	2022	2023	2024	2025-2029	later	unlimited
158	5	—	7	—	3	85	17	41

The unused tax credits for which no deferred tax asset is recognized expire as follows:

Total	2020	2021	2022	2023	2024	2025-2029	later	unlimited
146	11	1	7	6	6	46	43	26

9. Equity-accounted investees

Results relating to equity-accounted investees

Results related to equity-accounted investees at the end of each period were as follows:

	2019	2018
Share of result of equity-accounted investees	**(2)**	7
Other results	**3**	52
	1	59

In July 2018, we completed the sale of our 40% equity interest in Suzhou ASEN Semiconductors Co., Ltd., receiving $127 million in cash proceeds, and resulting in a net realized gain of $ 51 million – included in *other results* in the above table.

In June 2018, we completed the sale of 24% of our equity interest in WeEn, receiving $32 million in cash proceeds. At December 31, 2018, due to the intended sale of the remaining interest in WeEn, NXP transferred the remaining holding to other current assets. In March 2019 we sold our remaining equity interest in WeEn, receiving net cash proceeds of $37 million.

Investments in equity-accounted investees

The changes in equity-accounted investees are as follows:

	2019	2018
Balance as of January 1,	**13**	146
Changes:		
Share in income (loss)	**(2)**	7
Divestments	—	(106)
Transfer to assets held for sale	—	(34)
Balance as of December 31,	**11**	13

10. Subsidiaries and non-controlling interests

NXP Semiconductors N.V.'s material wholly owned (unless indicated differently) subsidiaries as of December 31, 2019:

Country of incorporation	**Legal entity name**
Austria	NXP Semiconductors Austria GmbH
Austria	Catena DSP GmbH
Belgium	NXP Semiconductors Belgium N.V.
Brazil	NXP Semicondutores Brasil Ltda.
BVI	Freescale Semiconductor Holding Limited
Canada	NXP Canada Inc.
China	NXP (China) Management Ltd (PSC)
China	Freescale Semiconductor (China) Ltd.
China	NXP Qiangxin (Tianjin) IC Design Co. Ltd. (75.0%)
China	NXP (Chongqing) Semiconductors Co. Ltd.
China	NXP Semiconductors (Shanghai) Co., Ltd.
Czech Republic	NXP Semiconductors Czech Republic s.r.o
France	NXP Semiconductors France SAS
Germany	NXP Semiconductors Germany GmbH
Germany	SMST Unterstützungskasse GmbH
Germany	Catena Germany GmbH
Hong Kong	NXP Semiconductors Asia Hong Kong Limited
Hungary	NXP Semiconductors Hungary Ltd.
India	NXP India Pvt. Ltd.
India	Intoto Software India Private Limited
Ireland	GloNav Limited
Israel	NXP Semiconductors Israel Limited
Israel	Freescale Semiconductor Israel Limited
Japan	NXP Japan Ltd
Korea	NXP Semiconductors Korea Ltd.

Country of incorporation	Legal entity name
Malaysia	Freescale Semiconductor Malaysia Sdn. Bhd.
Malaysia	Freescale Asia Fulfillment Centre Sdn. Bhd.
Mexico	NXP Semiconductors Mexico, S. de R.L. de C.V.
Netherlands	NXP Semiconductors Netherlands B.V.
Netherlands	NXP B.V.
Netherlands	NXP Software B.V.
Netherlands	Catena Holding B.V.
Netherlands	Catena Microelectronics B.V.
Netherlands	Catena Radio Design B.V.
Philippines	NXP Philippines Inc.
Romania	NXP Semiconductors Romania SRL
Russia	NXP Semiconductors Moscow LLC
Singapore	NXP Semiconductors Singapore Pte. Ltd.
Singapore	Systems on Silicon Manufacturing Company Pte Ltd (61.2%)
Sweden	NXP Semiconductors Nordic AB
Sweden	Catena Wireless Electronics AB
Switzerland	Freescale Semiconductor EME&A SA
Taiwan	NXP Semiconductors Taiwan Ltd
Thailand	NXP Manufacturing (Thailand) Ltd.
Thailand	NXP Semiconductors (Thailand) Ltd
Turkey	NXP Semiconductors Elektronik Ticaret A.S.
United Kingdom	NXP Laboratories Holding UK Limited
United Kingdom	NXP Laboratories UK Limited
US	NXP USA, Inc.
US	Freescale Semiconductor Holdings V, Inc.
US	Freescale Semiconductor International Corporation
US	OmniPhy Inc.
US	NXP Funding LLC
US	Intoto LLC

The consolidated financial statements include the financial statements of our 61.2% owned subsidiary *Systems on Silicon Manufacturing Company Pte. Ltd.* (“SSMC”), incorporated in Singapore.

The financial information for SSMC, prepared in accordance with IFRS, including fair value adjustments on acquisition and before inter-company eliminations, can be summarized as follows:

	2019	2018
Revenue	**384**	433
Net income	**74**	129
Net income attributable to NCI	**29**	49
Other comprehensive income	—	—
Total comprehensive income	**74**	129
Total comprehensive income attributable to NCI	**29**	49
Non-current assets	**362**	328
Current assets	**325**	291
	687	619
Non-current liabilities	**(41)**	(29)
Current liabilities	**(71)**	(89)
	(112)	(118)
Net assets	**575**	501
Net assets attributable to NCI	**215**	186
Cash flows from operating activities	**128**	167
Cash flows from investing activities	**(81)**	(136)
Cash flows from financing activities	—	(141)
Net increase in cash and cash equivalents	**47**	(110)
Dividends paid to NCI during the year [1)]	—	(54)

1) Included in cash flows from financing activities.

The share of non-controlling interests in the results of the Company amounted to a profit of $29 million in 2019 which relates predominantly to SSMC (2018: profit of $49 million which relates predominantly to SSMC). As of December 31, 2019, non-controlling interests in equity totaled $218 million of which $215 million relates to SSMC (2018: $189 million of which $186 million relates to SSMC).

At December 31, 2019 the Company had the following branches:

- NXP (China) Management Ltd., Beijing branch
- NXP (China) Management Ltd., Beijing second branch
- NXP (China) Management Ltd., Shenzhen branch
- NXP Semiconductors Netherlands B.V., Italy branch
- NXP Semiconductors Netherlands B.V., Denmark branch
- NXP Semiconductors Netherlands B.V., Spain branch
- NXP Semiconductors Netherlands B.V., Finland branch
- NXP Semiconductors Singapore Pte. Ltd., Australia branch
- NXP Semiconductors Hungary Kft, Swiss branch
- Catena Microelectronics B.V, Italy branch

11. Earnings per share

	2019	2018
Net income	**541**	2,646
Less: Net income attributable to non-controlling interests	**29**	49
Income attributable to shareholders of NXP	**512**	2,597
Weighted average number of shares outstanding (in thousands)	**282,056**	325,781
Plus incremental shares from assumed conversion of:		
Options [1]	**800**	1,234
Restrictive Share Units, Performance Share Units and Equity Rights [2]	**4,628**	2,897
Warrants [3]	—	—
Dilutive potential common shares	**5,428**	4,131
Adjusted weighted average number of shares outstanding during the year (in thousands)	**287,484**	329,912
EPS attributable to shareholders of NXP in $:		
Basic net income	**1.82**	7.97
Diluted net income [1]	**1.78**	7.87

1) Stock options to purchase up to 0.1 million shares of NXP's common stock that were outstanding in 2019 (2018: 0.1 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.

2) Unvested RSU's, PSU's and equity rights of 0.7 million shares that were outstanding in 2019 (2018: 0.9 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense was greater than the weighted average number of outstanding unvested RSU's, PSU's and equity rights or the performance goal has not been met.

3) Warrants to purchase up to 11.4 million shares of NXP's common stock at the price of $130.99 per share were outstanding in 2019 (2018: 11.2 million shares at a price of $132.55). Upon exercise, the warrants will be net share settled. At the end of 2019 and 2018 , the warrants were not included in the computation of diluted EPS because the warrants' exercise price was greater than the average fair market value of the common shares.

12. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets as follows:

	December 31,	
	2019	2018
Property, plant and equipment owned	**2,376**	2,362
Property, plant and equipment leased (right-of-use assets)	**296**	75
Total :	**2,672**	2,437

The changes in owned property, plant and equipment in 2019 and 2018 were as follows:

	Total	**Land and buildings**	**Machinery and installations**	**Other equipment**	**Prepayments and construction in progress**
Balance as of January 1, 2019:					
Cost	**5,654**	**1,357**	**3,406**	**612**	**279**
Accumulated depreciation and impairments	**(3,292)**	**(670)**	**(2,313)**	**(309)**	**—**
Book value	**2,362**	**687**	**1,093**	**303**	**279**
Changes in book value:					
Capital expenditures	**526**	**—**	**—**	**—**	**526**
Transfer assets put into use	**(1)**	**121**	**358**	**77**	**(557)**
Retirements and sales	**(11)**	**(4)**	**(3)**	**(4)**	**—**
Acquisitions through business combinations	**2**	**—**	**—**	**2**	**—**
Depreciation	**(505)**	**(115)**	**(304)**	**(86)**	**—**
Movements in exchange rates & other	**3**	**(1)**	**—**	**(1)**	**5**
Total changes	**14**	**1**	**51**	**(12)**	**(26)**
Balance as of December 31, 2019:					
Cost	**6,108**	**1,469**	**3,720**	**666**	**253**
Accumulated depreciation and impairments	**(3,732)**	**(781)**	**(2,576)**	**(375)**	**—**
Book value	**2,376**	**688**	**1,144**	**291**	**253**

	Total	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress
Balance as of January 1, 2018:					
Cost	5,187	1,383	3,100	531	173
Accumulated depreciation and impairments	(2,891)	(573)	(2,070)	(248)	—
Book value	2,296	810	1,030	283	173
Changes in book value:					
Capital expenditures	628	—	—	—	628
Transfer assets put into use	—	50	367	104	(521)
Retirements and sales	(4)	(1)	(2)	(1)	—
Acquisitions through business combinations	—	—	—	—	—
Depreciation	(475)	(118)	(276)	(81)	—
Movements in exchange rates & other	(8)	(3)	(1)	(3)	(1)
Total changes	141	(72)	88	19	106
Balance as of December 31, 2018:					
Cost	5,753	1,427	3,436	611	279
Accumulated depreciation and impairments	(3,316)	(689)	(2,318)	(309)	—
Book value	2,437	738	1,118	302	279

The useful lives of property, plant and equipment as of December 31, 2019 are as follows:

	Useful Life (in years)
Buildings	**9 to 50**
Machinery and installations	**2 to 10**
Other Equipment	**1 to 5**

There was no significant construction in progress and therefore no related capitalized interest.

Property, plant and equipment leased

Right-of-use assets relate to buildings (corporate offices, research and development and manufacturing facilities), land, machinery and installations and other equipment (vehicles and certain office equipment). These leases, except land leases, have remaining lease terms of 1 to 30 years (land leases 48 to 90 years), some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year.

Property, plant and equipment leased by the company (right-of-use assets) can be detailed as follows :

	Total	**Land and buildings**	**Machinery and installations**	**Other equipment**
Balance as of January 1, 2019:				
Cost	**82**	**53**	**29**	**—**
Effect of adopting IFRS 16 *Leases*	**188**	**141**	**38**	**9**
Cost (restated)	**270**	**194**	**67**	**9**
Accumulated depreciation and impairments	**(7)**	**(4)**	**(3)**	**—**
Book value	**263**	**190**	**64**	**9**
Changes in book value:				
Additions	**94**	**83**	**8**	**3**
Retirements and sales	**(2)**	**(2)**	**—**	**—**
Depreciation	**(57)**	**(40)**	**(14)**	**(3)**
Effect of movements in exchange rates	**(2)**	**(2)**	**—**	**—**
Total changes	**33**	**39**	**(6)**	**—**
Balance as of December 31, 2019:				
Cost	**356**	**272**	**75**	**9**
Accumulated depreciation and impairments	**(60)**	**(43)**	**(17)**	**—**
Book value	**296**	**229**	**58**	**9**

13. Goodwill

The changes in goodwill during 2019 and 2018 were as follows:

	2019	2018
Balance as of January 1,		
Cost	**9,119**	9,168
Accumulated impairment	**(254)**	(294)
Book value	**8,865**	8,874
Changes in book value:		
Acquisitions	**1,149**	11
Transfers to assets held for sale	**(23)**	—
Effect of movements in exchange rates	**(5)**	(20)
Total changes	**1,121**	(9)
Balance as of December 31,		
Cost	**10,240**	9,119
Accumulated impairment	**(254)**	(254)
Book value	**9,986**	8,865

At December 31, 2019 the goodwill stemming from the purchase accounting for the December 2015 acquisition of Freescale amounted to $ 7,503 million (December 31, 2018: $ 7,503 million) while $1,149 million relates to the December 2019 Marvell acquisition - see also Note 4 *Acquisitions, divestments and Assets held for sale*.

No goodwill impairment was identified in 2019 or 2018 and the recoverable amounts substantially exceeded the carrying amounts of the cash generating units.

The key assumptions used in the 2019 calculation included: a) cash flows based on financial projections for periods ranging from 2019 through 2024 and which were extrapolated until 2029 based on a 3% growth rate, (b) terminal values based on terminal growth rates of 3.0% and (c) a pre-tax discount rate of 10.0%.

The determination of the recoverable amount of cash-generating units requires us to make significant judgments and estimates, including projections of future cash flows from the business. We base our estimates on assumptions we believe to be reasonable; based on past experience or, if appropriate, consistent with external sources of information, but they are unpredictable and inherently uncertain.

Based on analysis of the 2018 events and circumstances, NXP assessed at the end of 2018 that the likelihood that the recoverable amount determination would be less than the current carrying amount of a cash-generating unit was remote. As the assets and liabilities making up the cash generating units to which goodwill has been allocated have not changed significantly since the most recent recoverable amount calculations in 2017, and those calculations resulted in an amount that exceeded the carrying amount of the units by a substantial margin (lowest ratio of recoverable amount/carrying value amounted to 1.7), these calculations were used in the 2018 goodwill impairment testing. Consequently, no new detailed calculations were made for the recoverable amounts at the end of 2018.

14. Intangible assets

The changes in intangible assets in 2019 and 2018 were as follows:

	Total	**Other intangible assets**	**Product development assets**
Balance as of January 1, 2019:			
Cost	**11,864**	**9,182**	**2,682**
Accumulated amortization and impairments	**(5,281)**	**(4,713)**	**(568)**
Book value	**6,583**	**4,469**	**2,114**
Changes in book value:			
Additions from internal development	**697**	**—**	**697**
Additions from separate acquisitions	**167**	**167**	**—**
Acquisitions through business combinations	**514**	**514**	**—**
Amortization	**(1,837)**	**(1,523)**	**(314)**
Impairment	**(60)**	**(4)**	**(56)**
Divestments and transfer to assets held for sale	**(29)**	**(1)**	**(28)**
Retirements and sales	**(2)**	**(2)**	**—**
Effect of movements in exchange rates and other	**—**	**—**	**—**
Total changes	**(550)**	**(849)**	**299**
Balance as of December 31, 2019:			
Cost	**12,470**	**9,384**	**3,086**
Accumulated amortization and impairments	**(6,437)**	**(5,764)**	**(673)**
Book value	**6,033**	**3,620**	**2,413**

	Total	Other intangible assets	Product development assets
Balance as of January 1, 2018:			
Cost	11,440	9,366	2,074
Accumulated amortization and impairments	(3,963)	(3,497)	(466)
Book value	7,477	5,869	1,608
Changes in book value:			
Additions from internal development	770	—	770
Additions from separate acquisitions	114	114	—
Amortization	(1,747)	(1,512)	(235)
Impairment	(29)	—	(29)
Effect of movements in exchange rates and other	(2)	(2)	—
Total changes	(894)	(1,400)	506
Balance as of December 31, 2018:			
Cost	11,864	9,182	2,682
Accumulated amortization and impairments	(5,281)	(4,713)	(568)
Book value	6,583	4,469	2,114

Intangible assets as of December 31 consist of:

	2019		2018	
	Gross	**Accumulated amortization**	Gross	Accumulated amortization
IPR&D	**272**	**—**	276	—
Marketing-related	**81**	**(66)**	81	(49)
Customer-related	**968**	**(341)**	964	(300)
Technology-based	**11,149**	**(6,030)**	10,544	(4,933)
	12,470	**(6,437)**	11,865	(5,282)

All intangible assets are subject to amortization and have no assumed residual value. Amortization begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Amortization expenses are generally recorded in the statement of operations under Selling, general and administrative expenses and with regard to product development under Research and Development expenses.

The useful lives of other intangible assets and the internally generated product development assets ranges respectively from 1 to 14 years and 5 to 6 years as of December 31, 2019.

There was no significant capitalized interest related to the construction in progress in the years reported.

15. Other non-current assets

Other non-current assets as of December 31, 2019 amounted to $202 million (2018: $238 million) and consist primarily of prepaid expenses and accrued income of $152 million (2018: $195 million) and financial assets of $39 million (2018: $28 million).

16. Inventories

Inventories are summarized as follows:

	2019	2018
Raw materials	**52**	74
Work in process	**894**	949
Finished goods	**246**	256
	1,192	1,279

The amounts recorded above are net of an allowance for obsolescence of $114 million as of December 31, 2019 (2018 : $111 million).

The portion of finished goods stored at customer locations under consignment amounted to $41 million as of December 31, 2019 (2018: $52 million).

The changes in the allowance for obsolescence inventories are as follows:

	2019	2018
Balance as of January 1,	**111**	107
Additions charged to income	**62**	60
Deductions from allowance	**(59)**	(56)
Other movements[1)]	**—**	—
Balance as of December 31,	**114**	111

[1)] Includes the effect of currency translation differences and divestments

17. Other current assets

Other current assets as of December 31, 2019 amounted to $201 million (2018: $209 million) and consist primarily of government grants to collect for $111 million (2018: $90 million), prepaid expenses of $38 million (2018: $44 million) and accrued revenue of $32 million (2018: $31 million).

18. Receivables

Receivables are summarized as follows:

	2019	2018
Accounts receivable from third parties	**669**	795
Less: allowance for doubtful accounts	**(2)**	(3)
Other receivables	**95**	137
	762	929

Income taxes receivable totaling $17 million (2018: $55 million) are included under other receivables.

The aging of accounts receivable from third parties that were not impaired at the reporting date was as follows:

	2019	2018
Not past due	**656**	768
1-15 days past due	**11**	24
16-30 days past due	**—**	—
	667	792

The following table presents accounts receivable, disaggregated by sales channel:

	2019	2018
Distributors	**80**	93
Original Equipment Manufacturers and Electronic Manufacturing Services	**536**	651
Other [1)]	**146**	185
	762	929

1) Represents accounts receivable for other services and other receivables.

19. Cash and cash equivalents

At December 31, 2019 and December 31, 2018, our cash balance was $1,045 million and $2,789 million, respectively, of which $188 million and $140 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During 2019, no dividend (2018: $139 million) was paid by SSMC.

20. Shareholders' equity

The share capital of the Company as of December 31, 2019 consists of 1,076,257,500 authorized shares, including 430,503,000 authorized shares of common stock, and 645,754,500 authorized but unissued shares of preferred stock.

Effective July 26, 2018, the board of directors of NXP, as authorized by its annual general meeting of shareholders (the "AGM"), authorized the repurchase of $5 billion of the Company's stock for a period of 18 months. In October 2018, the board of directors of NXP authorized the additional repurchase of shares up to a maximum 20% (approximately 69 million shares) of the number of shares issued. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of approximately $5 billion, of which a number of 17,300,143 shares had been cancelled. Effective June 17, 2019, the board of directors of NXP, as authorized by its annual general meeting of shareholders (the "AGM"), renewed and revised this authorization for a period of 18 months to repurchase ordinary shares up to the statutory limit. During the year-ended December 31, 2019, NXP repurchased 15.9 million shares, for a total of approximately $1.4 billion, of which a number of 13,183,081 shares had been cancelled. As a result, the number of issued NXP shares as per November 27, 2019 is 315,519,638 shares. At December 31, 2019, the Company has issued and paid up 315,519,638 shares (2018: 328,702,719 shares) of common stock each having a par value of €0.20 or a nominal stock capital of €63 million (2018: €66 million).

Cash dividends

The following dividends were declared in 2019 and 2018 under NXP's quarterly dividend program which was introduced as of the third quarter of 2018:

	2019	2018
Dividends paid (in millions)	**351**	147
Dividends paid (per share)	**1.25**	0.50

Share-based awards

The Company has granted share-based awards to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires to receive the Company's shares in the future (see also Note 31 *Share-based compensation*).

Treasury shares

From time to time, last on June 17, 2019, the General Meeting of Shareholders authorizes the Board of Directors to repurchase shares of our common stock. On that basis, for the first time in 2011 and latest effective November 19, 2019, the Board of Directors executed various share repurchase programs. In accordance with the Company's policy to provide share-based awards from its treasury share inventory, shares which have been repurchased and are held in treasury for delivery upon exercise of options and under restricted and performance share programs, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

Differences between the cost and the proceeds received when treasury shares are reissued, are recorded in capital in excess of par value. Deficiencies in excess of net gains arising from previous treasury share issuances are charged to retained earnings.

The following treasury share transactions took place in 2019 and 2018:

	2019	2018
Total shares in treasury at beginning of year	**35,913,021**	3,078,470
Total cost	**3,238**	342
Shares acquired under repurchase program	**15,865,718**	54,376,181
Average price in $ per share	**90.94**	92.07
Amount paid	**1,443**	5,006
Shares delivered	**4,513,416**	4,241,487
Average price in $ per share	**93.55**	107.75
Amount received	**84**	39
Shares retired	**13,183,081**	17,300,143
Total shares in treasury at end of year	**34,082,242**	35,913,021
Total cost	**3,037**	3,238

Shareholder tax on repurchased shares

Under Dutch tax law, the repurchase of a company's shares by an entity in the Netherlands is a taxable event (unless exemptions apply). The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within shareholders' equity.

21. Long-term debt

The following table summarizes the outstanding long-term debt as of December 31, 2019 and 2018:

		2019		2018	
	Maturities	**Amount**	**Effective rate**	Amount	Effective rate
Fixed-rate 4.125% senior unsecured notes	Jun, 2020	—	**4.125**	600	4.125
Fixed-rate 4.125% senior unsecured notes	Jun, 2021	**1,350**	**4.125**	1,350	4.125
Fixed-rate 4.625% senior unsecured notes	Jun, 2022	**400**	**4.625**	400	4.625
Fixed-rate 3.875% senior unsecured notes	Sep, 2022	**1,000**	**3.875**	1,000	3.875
Fixed-rate 4.625% senior unsecured notes	Jun, 2023	**900**	**4.625**	900	4.625
Fixed-rate 4.875% senior unsecured notes	Mar, 2024	**1,000**	**4.875**	1,000	4.875
Fixed-rate 5.35% senior unsecured notes	Mar, 2026	**500**	**5.350**	500	5.350
Fixed-rate 3.875% senior unsecured notes	Jun, 2026	**750**	**3.875**	—	—
Fixed-rate 5.55% senior unsecured notes	Dec, 2028	**500**	**5.550**	500	5.550
Fixed-rate 4.3% senior unsecured notes	Jun, 2029	**1,000**	**4.300**	—	—
Fixed-rate 1% cash convertible notes	Dec, 2019	—	**1.000**	1,150	1.000
Floating-rate revolving credit facility (RCF)	Jun, 2024	**—**		—	—
Total principal		**7,400**		7,400	
Liabilities arising from capital lease transactions		—		27	
Unamortized discounts, premiums and debt issuance costs		**(35)**		(31)	
Fair value of embedded cash conversion option		—		(42)	
Total debt, including unamortized discounts, premiums, debt issuance costs and fair value		**7,365**		7,354	
Current portion of long-term debt		—		(1,107)	
Long-term debt		**7,365**		6,247	

	Range of interest rates	**Average rate of interest**	**Principal amount outstanding 2019**	**Due in 2020**	**Due after 2020**	**Due after 2024**	**Average remaining term (in years)**	Principal amount outstanding 2018
USD notes	**3.9%-5.6%**	**4.5%**	**7,400**	—	**7,400**	**2,750**	**4.7**	6,250
2019 Cash Convertible Senior Notes	**1.0%**	**1.0%**						1,150
Revolving Credit Facility [1)]	**—%**	**—%**						—
Bank borrowings	**—%**	**—%**						—
Liabilities arising from capital lease transactions								27
		4.5%	**7,400**	—	**7,400**	**2,750**	**4.7**	7,427

1) We do not have any borrowings under the $1,500 million Revolving Credit Facility as of December 31, 2019 and 2018.

($ in millions)	December 31, 2018	Accrual/ release Original Issuance/ Debt Discount and Debt Issuance Cost	Debt Exchanges/ Repurchase/ New Borrowings	Other[10]	December 31, 2019
U.S. dollar-denominated 4.125% senior unsecured notes due June 2020 [1]	598	**2**	**(600)**	—	—
U.S. dollar-denominated 4.125% senior unsecured notes due June 2021 [2]	1,349	**1**	—	—	**1,350**
U.S. dollar-denominated 4.625% senior unsecured notes due June 2022 [3]	398	—	—	—	**398**
U.S. dollar-denominated 3.875% senior unsecured notes due September 2022 [4]	995	**2**	—	—	**997**
U.S. dollar-denominated 4.625% senior unsecured notes due June 2023 [5]	895	**1**	—	—	**896**
U.S. dollar-denominated 4.875% senior unsecured notes due March 2024 [6]	994	—	—	—	**994**
U.S. dollar-denominated 5.35% senior unsecured notes due March 2026 [6]	497	—	—	—	**497**
U.S. dollar-denominated 3.875% senior unsecured notes due June 2026 [7]	—	**1**	**745**	—	**746**
U.S. dollar-denominated 5.55% senior unsecured notes due December 2028 [6]	496	—	—	—	**496**
U.S. dollar-denominated 4.3% senior unsecured notes due June 2029 [7]	—	—	**991**	—	**991**
	6,222	**7**	**1,136**	—	**7,365**
RCF Agreement [8]	—	—	—	—	—
Other long-term debt [9]	25	—	—	**(25)**	—
Total long-term debt	6,247	**7**	**1,136**	**(25)**	**7,365**

(1) On June 9, 2015, we issued $600 million aggregate principal amount of 4.125% Senior Unsecured Notes due 2020. On June 11, 2019, an amount of $553 million aggregate principal amount were tendered and on June 18, 2019, retired. The remaining $47 million were redeemed under the terms of the indenture governing these notes on July 3, 2019.

(2) On May 23, 2016, and August 1, 2016, we issued $850 million and $500 million, respectively, aggregate principal amount of 4.125% Senior Unsecured Notes due 2021.

(3) On June 9, 2015, we issued $400 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2022.

(4) On August 11, 2016, we issued $1,000 million aggregate principal amount of 3.875% Senior Unsecured Notes due 2022.

(5) On May 23, 2016, we issued $900 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2023.

(6) On December 6, 2018, we issued $1,000 million aggregate principal amount of 4.875% Senior Unsecured Notes due 2024, $500 million aggregate principal amount of 5.35% Senior Unsecured Notes due 2026 and $500 million aggregate principal amount of 5.55% Senior Unsecured Notes due 2028.

(7) On June 18, 2019, we issued $750 million of 3.875% Senior Unsecured Notes due 2026 and $1 billion of 4.3% Senior Unsecured Notes due 2029.

(8) On June 11, 2019, we entered into a $1.5 billion unsecured revolving credit facility agreement, replacing the $600 million secured revolving credit facility, entered into on December 7, 2015.

(9) Other long-term debt consists primarily of capital lease obligations.

(10) Other mainly relates to the reclassification of capital lease obligations to current and non-current other liabilities due to the adoption of the new lease standard in 2019.

As of December 31, 2019, the following principal amounts of long-term debt are due in the next 5 years:

2020	—
2021	1,350
2022	1,400
2023	900
2024	1,000
Due after 5 years	2,750
	7,400

As of December 31, 2019, the book value of our outstanding long-term debt was $7,400 million, less debt issuance costs of $33 million and original issuance/debt discount of $2 million.

As of December 31, 2019, we had no aggregate principal amount of variable interest rate indebtedness under our loan agreements. The remaining tenor of unsecured debt is on average 4.7 years.

Accrued interest as of December 31, 2019 is $52 million (December 31, 2018: $31 million).

2019 Financing Activities

2024 Revolving Credit Facility

On June 11, 2019, NXP B.V. together with NXP Funding LLC, entered into a $1.5 billion unsecured revolving credit facility agreement, replacing the $600 million secured revolving credit facility, entered into on December 7, 2015.

2020 Senior Notes

On June 11, 2019, NXP B.V. together with NXP Funding LLC, commenced a cash tender offer for any and all of their $600 million outstanding aggregate principal amount of the 4.125% Senior Notes due 2020 ("4.125% 2020 Notes"). An amount of $553 million aggregate principal amount of the 4.125% 2020 Notes were tendered in this offer and retired on June 18, 2019. The remaining $47 million were redeemed under the terms of the indenture governing these notes on July 3, 2019.

2026 and 2029 Senior Unsecured Notes

On June 18, 2019, NXP B.V., together with NXP USA Inc. and NXP Funding LLC, issued $750 million of 3.875% Senior Unsecured Notes due 2026 and $1 billion of 4.3% Senior Unsecured Notes due 2029. NXP used a portion of the net proceeds of the offering of these notes to repay in full, the 2020 Senior Notes, as described above. The remaining proceeds were used to refinance the $1,150 million aggregate principal amount of Cash Convertible Notes due 2019 issued by NXP Semiconductors N.V. on December 1, 2014 upon the maturity of these notes on December 1, 2019.

2019 Cash Convertible Senior Notes

On December 2, 2019, NXP repaid the Cash Convertible Notes upon their maturity through a combination of available cash and payments made by the counterparties under privately negotiated convertible note hedge transactions (the "Cash Convertible Notes Hedges"), as further described below.

2018 Financing Activities

2024, 2026 and 2028 Senior Unsecured Notes

On December 6, 2018, NXP B.V., together with NXP Funding LLC, issued $1 billion of 4.875% Senior Unsecured Notes due March 1, 2024, $500 million of 5.35% Senior Unsecured Notes due March 1, 2026 and $500 million of 5.55% Senior Unsecured Notes due 2028. NXP used a portion of the net proceeds of the offering of these notes to repay in full the Bridge Loan, as described below. The remaining proceeds will be used for general corporate purposes, which may include the repurchase of additional shares of NXP's common stock.

2019 Bridge Loan

On September 19, 2018, NXP B.V., together with NXP Funding LLC, entered into a $1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of $1 billion of term loans (the "Bridge Loan") was borrowed. The Bridge Loan was to mature on September 18, 2019 and the interest at a LIBOR rate plus an applicable margin of 1.5 percent. NXP used the net proceeds of the Bridge Loan for general corporate purposes as well as to finance parts of the announced equity buy-back program. On December 6, 2018, the Bridge Loan was repaid in full, as described above.

2018 Senior Notes

On March 8, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 3.75% Senior Notes due 2018 (the "2018 Notes") $750 million of the outstanding aggregate principal amount of the 2018 Notes, which represented all of the outstanding aggregate principal amount of the 2018 Notes. The repayment occurred in April 2018 using available surplus cash.

2023 Senior Notes

On March 2, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 5.75% Senior Notes due 2023 (the "2023 Notes") $500 million of the outstanding aggregate principal amount of the 2023 Notes, which represented all of the outstanding aggregate principal amount of the 2023 Notes. The repayment occurred in April 2018 using available surplus cash.

Certain terms and Covenants of the notes

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the notes.

The indentures governing the notes contain covenants that, among other things, limit the Company's ability and that of restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock or make certain other restricted payments or investments; enter into agreements that restrict dividends from restricted subsidiaries; sell assets, including capital stock of restricted subsidiaries; engage in transactions with affiliates; and effect a consolidation or merger. The Company has been in compliance with any such indentures and financing covenants.

No portion of long-term and short-term debt as of December 31, 2019 and December 31, 2018 has been secured by collateral on substantially all of the Company's assets and of certain of its subsidiaries.

We are in compliance with all covenants under our debt agreements as of December 31, 2019.

2019 Cash Convertible Senior Notes

In November 2014, NXP issued $1,150 million principal amount of its 2019 Cash Convertible Senior Notes (the "Notes"). The 2019 Cash Convertible Senior Notes had a stated interest rate of 1.00% payable June 1 and December 1 of each year, beginning on June 1, 2015. The initial purchasers' transaction fees and expenses totaling $16 million were capitalized as deferred financing costs and are amortized over the term of the 2019 Cash Convertible Senior Notes using the effective interest method. The Cash Convertible Notes matured on December 1, 2019. All of the holders elected to convert their Cash Convertible Notes for settlement on December 2, 2019, and none of the Cash Convertible Notes were repurchased or converted into cash prior to such date.

The cash conversion feature of the Cash Convertible Notes was a derivative liability that required bifurcation from the Cash Convertible Notes in accordance with IFRS 9 *Financial Instruments*, and was carried at fair value, with changes in fair value reported in our Consolidated Statements of Operations in other (expense) income, net. The initial fair value liability of the embedded cash conversion option simultaneously reduced the carrying value of the Cash Convertible Notes (effectively an original issuance discount). The embedded cash conversion option is measured and reported at fair value on a recurring basis, within Level 3 of the fair value hierarchy. The fair value of the embedded cash conversion option at December 31, 2018 was $24 million which is recorded in other long-term liabilities in the accompanying balance sheet. For the year ended December 31, 2019, the change in the fair value of the embedded cash conversion option resulted in a profit of $24 million (2018: a profit of $277 million).

In connection with the issuance of the Cash Convertible Notes, we entered into privately negotiated convertible note hedge transactions (the "Cash Convertible Notes Hedges"), whereby NXP had the option to receive the cash amount that may be due to the Notes holders at maturity in excess of the $1,150 million principal amount of the notes, subject to certain conversion rate adjustments in the Notes Indenture. These were cash settled in the fourth quarter. The Cash Convertible Notes Hedges were recorded as a derivative asset under IFRS 9 *Financial Instruments* and were carried at fair value. See Note 33 *Fair value of financial instruments* for additional information regarding the Cash Convertible Notes Hedges and the Cash Conversion Derivative and their fair values.

On December 2, 2019, we repaid the $1,150 million aggregate principal amount of the Cash Convertible Notes using available cash. In addition, on December 1, 2019 we settled the Cash Conversion Derivative of $144 million, which was fully funded by payments made by the counterparties for the settlement of the Cash Convertible Notes Hedges.

In separate transactions, NXP also sold warrants, to various parties for the purchase of up to 11.18 million shares of NXP's common stock at an initial strike price of $133.32 per share in a private placement pursuant to Section 4 (2) of the Securities Act of 1933, as amended, or the Securities Act. The warrants expire on various dates ranging from March 2, 2020 to May 26, 2020, and will be net share settled. Under the terms of the warrants, the calculation agency may adjust certain terms of its warrants upon the announcement, termination or occurrence of certain events, including the payment of cash dividends. The warrant transactions may also be terminated if the calculation agent determines that no such adjustment will produce a commercially reasonable result, and that the relevant event is reasonably likely to occur. As a result of the payment of cash dividends, the terms of the warrants have been adjusted, resulting in the right to purchase up to 11.38 million shares of NXP's common stock at an adjusted strike price of $130.99 per share, as of December 31, 2019. Any additional adjustment in the future may increase our delivery obligations upon expiration and settlement of the warrants or our obligations upon their cancellation, termination or unwinding, which would be settled using shares of our stock. NXP received $134 million in cash proceeds from the sale of the Warrants, which were at the time of issuance recorded in Other non-current liabilities. As of January 1, 2016, as of result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Consequently, beginning from January 1, 2016, the Warrants with a carrying value of $168 million were reclassified to shareholders' equity, and mark-to-market accounting is no longer applicable. The Warrants are included in diluted earnings per share to the extent the impact is dilutive. As of December 31, 2019, the Warrants were not dilutive.

The principal amount, unamortized debt discount and net carrying amount of the liability component of the 2019 Cash Convertible Senior Notes as of December 31, 2018 was as follows:

(in millions)	2018
Principal amount of 2019 Cash Convertible Senior Notes	1,150
Unamortized debt discount of 2019 Cash Convertible Senior Notes	45
Net liability of 2019 Cash Convertible Senior Notes	1,105

The effective interest rate, contractual interest expense and amortization of debt discount for the 2019 Cash Convertible Senior Notes for 2018 were as follows:

(in millions, except percentage)	2018
Effective interest rate	5.14%
Contractual interest expense	12
Amortization of debt discount	44

22. Provisions

Provisions can be summarized as follows:

	2019		2018	
	Long-term	**Short-term**	Long-term	Short-term
Restructuring	—	17	5	30
Other provisions	128	17	210	10
Total	128	34	215	40

Restructuring

The restructuring provision covers the following:

- benefits provided to former or inactive employees after employment but before retirement, including salary continuation, supplemental unemployment benefits and disability-related benefits;
- the Company's commitment to pay employees a lump sum upon the employee's dismissal or resignation. In the event that a former employee has passed away, in certain circumstances the Company pays a lump sum to the deceased employee's relatives.

Further details with regard to restructuring liabilities are disclosed in Note 6 *Restructuring*.

Other provisions

Other provisions as of December 31, 2019 include provisions for litigation totaling $41 million (2018: $115 million) and provisions for environmental remediation costs of $90 million (2018: $88 million) – see also Note 29 *Contingencies*.

The changes in other provisions are as follows:

	2019	2018
Balance as of January 1,	**220**	219
Changes:		
Additions	**10**	20
Utilizations	**(79)**	(12)
Releases	**(6)**	(7)
Effect of movements in exchange rates	**—**	—
Balance as of December 31,	**145**	220

23. Post-employment benefits

Amounts recognized in the balance sheet with regard to post-employment benefits can be summarized as follows:

	2019		2018	
	Long-term	**Short-term**	Long-term	Short-term
1. Unfunded defined benefit pension plans	**(255)**	**(9)**	(228)	(9)
2. Unfunded other post-employment benefits	**(7)**	**(2)**	(9)	(2)
3. Accrued pension costs-underfunded plans	**(197)**	**(1)**	(179)	—
Post-employment benefits - liabilities	**(459)**	**(12)**	(416)	(11)
4. Overfunded pension plans - assets (*)	—	—	—	—
Net balance	**(459)**	**(12)**	(416)	(11)

(*) Included in prepaid pension costs as part of the other non-current assets see Note 15 *Other non-current assets.*

The total of items 1, 3 and 4 represents our net defined benefit pension liability of $462 million at December 31, 2019 (2018: $416 million) for which a reconciliation from the opening balance to the closing balance is provided below.

Pensions

Our employees participate in employee pension plans in accordance with the legal requirements, customs and the local situation in the respective countries. These are defined-benefit pension plans, defined-contribution plans and multi-employer plans.

The Company's employees in The Netherlands participate in a multi-employer plan, implemented for the employees of the Metal and Electrical Engineering Industry ("Bedrijfstakpensioenfonds Metalektro" or "PME") in accordance with the mandatory affiliation to PME effective for the industry in which NXP operates. As this affiliation is a legal requirement for the Metal and Electrical Engineering Industry it has no expiration date. This PME multi-employer plan (a career average plan) covers 1,380 companies and 631,000 participants. The plan monitors its risk on an aggregate basis, not by company or participant and can therefore not be accounted for as a defined benefit plan. The pension fund rules state that the only obligation for affiliated companies will be to pay the annual plan contributions. There is no obligation for affiliated companies to fund plan deficits. Affiliated companies are also not entitled to any possible surpluses in the pension fund.

Every participating company contributes the same fixed percentage of its total pension base, being pensionable salary minus an individual offset. The Company's pension cost for any period is the amount of contributions due for that period.

The contribution rate for the mandatory scheme will increase from 25.02% (2019) to 26.41% (2020).

PME multi-employer plan	**2019**	2018
NXP's contributions to the plan	**31**	34
(including employees' contributions)	**4**	4
Average number of NXP's active employees participating in the plan	**2,129**	2,183
NXP's contribution to the plan exceeded more than 5 percent of the total contribution (as of December 31 of the plan's year-end)	**No**	No

The amounts included in the statement of operations for all post-employment pension plans are as follows:

	2019	2018
Defined benefit plans	**24**	28
Defined contribution plans excluding multi-employer plans	**47**	49
Multi-employer plans	**27**	30
	98	107

Defined-benefit plans

The benefits provided by defined-benefit plans are based on employees' years of service and compensation levels. Contributions are made by the Company, as necessary, to provide assets sufficient to meet the benefits payable to defined-benefit pension plan participants.

These contributions are determined based upon various factors, including funded status, legal and tax considerations as well as local customs. The Company funds certain defined-benefit pension plans as claims are incurred.

The following table shows a reconciliation from the opening balance to the closing balance of our net defined benefit pension liability and its components.

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2019	2018	**2019**	2018	**2019**	2018
Balance at January 1,	**(617)**	(651)	**201**	195	**(416)**	(456)
Included in profit or loss						
Current service cost	**(14)**	(15)	—	—	**(14)**	(15)
Past service and settlement effects	**(1)**	(2)	—	—	**(1)**	(2)
Interest (cost) income	**(12)**	(12)	**3**	1	**(9)**	(11)
	(27)	(29)	**3**	1	**(24)**	(28)
Included in OCI						
Remeasurement (loss) gain:						
– Actuarial (loss) gain arising from:						
- demographic assumptions	—	11	—	—	—	11
- financial assumptions	**(47)**	6	—	—	**(47)**	6
- experience adjustment	**(2)**	(4)	—	—	**(2)**	(4)
- Return on plan assets excl. interest income	—	—	**2**	3	**2**	3
Effect of movements in exchange rates	**5**	19	**(2)**	(5)	**3**	14
	(44)	32	—	(2)	**(44)**	30
Other						
Contributions paid by the Company	—	—	**22**	38	**22**	38
Benefits paid	**23**	31	**(23)**	(31)	—	—
Settlement payments	—	—	—	—	—	—
	23	31	**(1)**	7	**22**	38
Balance at December 31,	**(665)**	(617)	**203**	201	**(462)**	(416)

The expense of post-employment pension plans is recognized in the following line items of the consolidated statement of operations:

	2019	2018
Cost of revenue	**5**	5
Selling, general and administrative expenses	**11**	14
Research and development expenses	**8**	9
Net periodic pension cost	**24**	28

The weighted average assumptions used to calculate the projected benefit obligations as of December 31,were as follows:

	2019	2018
Discount rate	**1.2%**	2.0%
Expected rate of salary increase	**1.5%**	1.8%

At December 31, 2019 the weighted-average duration of the defined benefit obligation was 16 years (2018: 16 years).

For the Company's major plans, the discount rate used is based on high quality corporate bonds (iBoxx Corporate Euro AA 10+).

The mortality tables used in the actuarial valuations of the Company's most significant plans are:

- Germany: Richttafelen 2018 G by K. Heubeck with CMI projection;
- Taiwan: Taiwan Standard Ordinary Mortality Table of 2011;
- Thailand: Thailand TMO 17 table; and
- Japan: Japan MHLW 2015 table.

A sensitivity analysis shows that if the discount rate increases by 1% from the level of December 31, 2019, with all other variables held constant, the defined benefit obligation would decrease by $103 million. If the discount rate decreases by 1% from the level of December 31, 2019, with all other variables held constant, the defined benefit obligation would increase by $117 million.

A sensitivity analysis shows that if the assumption of salary increases by 1% from the level of December 31, 2019, with all other variables held constant, the defined benefit obligation would increase by $20 million. If the assumption of salary increase decreases by 1% from the level of December 31, 2019, with all other variables held constant, the defined benefit obligation would decrease by $22 million.

Calculations show that in case the assumed rates of mortality decrease with 10% (equivalent to improvement of life expectancy by about 1 year) from the level of December 31, 2019, with all other variables held constant, the defined benefit obligation for our German plans would increase with $17 million.

Estimated future pension benefit payments

The following benefit payments are expected to be made (including those for funded plans):

2020	**21**
2021	**21**
2022	**24**
2023	**24**
2024	**27**
Years 2025-2029	**147**

Plan assets

The actual post-employment plan asset allocation at December 31, 2019 and 2018 is as follows:

	2019	2018
Asset Category:		
Equity securities	**63**	66
Debt securities	**87**	88
Insurance contracts	**14**	14
Other	**39**	33
	203	201

We met our target plan asset allocation. The investment objectives for the pension plan assets are designed to generate returns that, along with the future contributions, will enable the pension plans to meet their future obligations. The investments in our major defined benefit plans largely consist of government bonds, “Level 2” Corporate Bonds and cash to mitigate the risk of interest fluctuations. The asset mix of equity, bonds, cash and other categories is evaluated by an asset-liability modeling study for our largest plan. The assets of funded plans in other countries mostly have a large proportion of fixed income securities with return characteristics that are aligned with changes in the liabilities caused by discount rate volatility. Total pension plan assets of $203 million include $180 million related to the German and Japanese pension funds.

The following table summarizes the classification of these assets.

		2019			2018	
	Level I	**Level II**	**Level III**	Level I	Level II	Level III
Equity securities	—	59	—	—	63	—
Debt securities	11	62	—	9	64	—
Insurance contracts	—	14	—	—	14	—
Other	2	18	14	1	16	12
	13	153	14	10	157	12

Cash flow 2020

The Company currently expects to make $14 million of employer contributions to defined-benefit pension plans and $9 million of expected cash payments in relation to unfunded pension plans in 2020.

24. Other non-current liabilities

Other non-current liabilities are summarized as follows:

	2019	2018
Asset retirement obligations	**5**	5
Amounts payable under pension plans	**3**	4
Income tax	**28**	54
Lease liabilities [1)]	**199**	—
Others	**101**	63
	336	126

1) See also Note 2 *Accounting Standards adopted in 2019*

In determining the amount of current income tax position the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. At December 31, 2019 the related tax liability amounted to $28 million (2018: $54 million) - see also Note 8 *Income taxes.*

Lease liabilities are split between current and non-current as follows:

$ in millions	**As of December 31, 2019**
Other current liabilities	**64**
Other non-current liabilities	**199**
Total	**263**

Future minimum lease payments as of December 31, 2019 are as follows:

$ in millions	**Leases**
2020	**71**
2021	**54**
2022	**40**
2023	**33**
2024	**25**
Thereafter	**70**
Total future minimum lease payments	**293**
Less imputed interest	**(30)**
Total future minimum lease payments	**263**

Lease commitments at December 31, 2018

At December 31, 2018, there were no material capital lease obligations. Long-term operating lease commitments totaled $156 million as of December 31, 2018. The long-term operating leases are leases with a lease term of more than 12 months and mainly related to the rental of buildings and installations. These leases expire at various dates during the next 30 years. Future minimum lease payments under operating leases are as follows:

2019	43
2020	35
2021	24
2022	13
2023	11
Thereafter	30
Total	156

Rent expense amounted to $12 million in 2019 (containing as from 2019 only services related to leased assets as well as short-term leases) compared to $57 million in 2018 (containing all leases of land and buildings and other equipment as well as related services).

25. Short-term debt

$ in millions	**2019**	2018
Short-term bank borrowings	—	—
Current portion of long-term debt	—	1,107
Total	—	1,107

26. Accrued liabilities

Accrued liabilities are summarized as follows:

	2019	2018
Personnel		
- Salaries and wages	**103**	188
- Accrued vacation entitlements	**68**	67
- Other personnel	**47**	47
Sales & Distribution	**36**	33
Purchases	**22**	18
Communication & IT	**63**	66
Utilities, rent and other	**35**	49
Interest accruals	**52**	31
Income tax payable (see also Note 8)	**37**	236
Other accrued liabilities	**59**	74
	522	809

Other accrued liabilities consist of various smaller items.

27. Other current liabilities

Other current liabilities are summarized as follows:

	2019	2018
Other taxes including social security taxes	**39**	43
Amounts payable under pension plans	**7**	5
Notes embedded conversion derivative[1)]	—	24
Dividends payable	**106**	73
Tax on repurchased shares	**3**	228
Lease liabilities[2)]	**64**	—
Other short-term liabilities	**46**	18
	265	391

1) See Note 21 *Long-term debt*

2) See also Note 24 *Other non-current liabilities*

Other short-term liabilities consist of various smaller items.

28. Contractual obligations

The Company maintains purchase commitments with certain suppliers, primarily for raw materials, semi-finished goods and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary for different suppliers. As of December 31, 2019, the Company had purchase commitments of $290 million which are due through 2044.

29. Contingencies

Litigation

We are regularly involved as plaintiffs or defendants in claims and litigation relating to a variety of matters such as contractual disputes, personal injury claims, employee grievances and intellectual property litigation. In addition, our acquisitions, divestments and financial transactions sometimes result in, or are followed by, claims or litigation. Some of these claims may possibly be recovered from insurance reimbursements. Although the ultimate disposition of asserted claims cannot be predicted with certainty, it is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our consolidated statement of operations for a particular period. The Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated. Legal fees are expensed when incurred.

Based on the most current information available to it and based on its best estimate, the Company also reevaluates at least on a quarterly basis the claims that have arisen to determine whether any new accruals need to be made or whether any accruals made need to be adjusted. Based on the procedures described above, the Company has an aggregate amount of $44 million accrued for potential and current legal proceedings pending as of December 31, 2019, compared to $123 million accrued at December 31, 2018 (without reduction for any related insurance reimbursements). The accruals are included in "Other current liabilities" and "Other non-current liabilities". As of December 31, 2019, the Company's balance related to insurance reimbursements was $25 million (December 31, 2018: $65 million) and is included in "Other current assets" and "Other non-current assets".

The Company also estimates the aggregate range of reasonably possible losses in excess of the amount accrued based on currently available information for those cases for which such estimate can be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings, the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate. As at December 31, 2019, the Company believes that for all litigation pending its potential aggregate exposure to loss in excess of the amount accrued (without reduction for any amounts that may possibly be recovered under insurance programs) could range between $0 and $66 million. Based upon our past experience with these matters, the Company would expect to receive insurance reimbursement on certain of these claims that would offset the potential maximum exposure of up to $53 million.

In addition, the Company is currently assisting Motorola in the defense of personal injury lawsuits due to indemnity obligations included in the agreement that separated Freescale from Motorola in 2004. The multi-plaintiff Motorola lawsuits are pending in the Circuit Court of Cook County, Illinois. These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 23 individuals. The Motorola suits allege exposures between 1965 and 2006. Each claim seeks an unspecified amount of damages for the alleged injuries; however, legal counsel representing the plaintiffs has indicated they will seek substantial compensatory and punitive damages from Motorola for the entire inventory of claims which, if proven and recovered, the Company considers to be material. A portion of any indemnity due to Motorola will be reimbursed to NXP if Motorola receives an indemnification payment from its insurance coverage. Motorola has potential insurance coverage for many of the years indicated above, but with differing types and levels of coverage, self-insurance retention amounts and deductibles. We are in discussions with Motorola and their insurers regarding the availability of applicable insurance coverage for each of the individual cases. Motorola and NXP have denied liability for these alleged injuries based on numerous defenses.

Environmental remediation

In each jurisdiction in which we operate, we are subject to many environmental, health and safety laws and regulations that govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain of our operations.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated.

Soil and groundwater contamination has been identified at our properties in Nijmegen, the Netherlands and near Phoenix, Arizona, United States. The remediation processes at these locations are expected to continue for many years.

As of December 31, 2019, we have recorded $90 million for environmental remediation costs, which are primarily included in other non-current liabilities in the accompanying consolidated balance sheet. This amount represents the undiscounted future cash flows of our estimated share of costs incurred in environmental cleanup sites without considering recovery of costs from any other party or insurer, since in most cases potentially responsible parties other than us may exist and be held responsible.

30. Related-party transactions

The Company's related parties are the members of the board of directors of NXP Semiconductors N.V., the members of the management team of NXP Semiconductors N.V., equity-accounted investees, post-employment benefit plans and, up to July 26, 2018, Qualcomm Incorporated. As of the divestment of the SP business on February 7, 2017, the newly formed Nexperia has become a related party.

We have a number of strategic alliances and joint ventures. We have relationships with certain of our alliance partners in the ordinary course of business whereby we enter into various sale and purchase transactions, generally on terms comparable to transactions with third parties. However, in certain instances upon divestment of former businesses where we enter into supply arrangements with the former owned business, sales are conducted at cost.

The following table presents the amounts related to revenue and other income and purchase of goods and services incurred in transactions with these related parties:

	2019	2018
Revenue and other income	**82**	133
Purchase of goods and services	**64**	106

The following table presents the amounts related to receivable and payable balances with these related parties:

	2019	2018
Receivables	**21**	25
Payables	**9**	49

As part of the divestment of the SP business, we entered into a lease commitment and related services to Nexperia, that is $64 million as of December 31, 2019, and committed $50 million to an investment fund affiliated with Nexperia's owners. The lease commitments are reflected in our recorded lease liabilities in other current and non-current liabilities. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

For transactions with post-employment benefit plans we refer to Note 23 *Post-employment benefits.*

For disclosures of transactions with key management personnel we refer to Note 32 *Information on remuneration board of directors*.

31. Share-based compensation

Share-based compensation expense is included in the following line items in our statement of operations:

	2019	2018
Cost of revenue	**41**	40
Research and development	**136**	133
Selling, general and administrative	**157**	141
	334	314

Long Term Incentive Plans (LTIP's)

The LTIP was introduced in 2010 and is a broad-based long-term retention program to attract, retain and motivate talented employees as well as align stockholder and employee interests. The LTIP provides share-based compensation ("awards") to both our eligible employees and non-employee directors. Awards that may be granted include performance shares, stock options and restricted shares. Awards granted generally will become fully vested upon a termination event occurring within one year following a change in control, as defined. A termination event is defined as either termination of employment or services other than for cause or constructive termination of resulting from a significant reduction in either the nature or scope of duties and responsibilities, a reduction in compensation or a required relocation. The number of shares authorized and available for awards at December 31, 2019 was 29.6 million.

A charge of $326 million was recorded in 2019 for the LTIP (2018: $308 million). A summary of the activity for our LTIP's during 2019 and 2018 is presented below.

Stock options

The options have a strike price equal to the closing share price on the grant date. The fair value of the options has been calculated using the Black-Scholes formula, using the following assumptions:

- an expected life varying from 5.76 to 6.25 years, calculated for plain vanilla options using the simplified method, since our equity shares have been publicly traded for only a limited period of time and we do not have sufficient historical exercise data at the grant date of the options;
- a risk-free interest rate varying from 1.0% to 1.9%;
- no expected dividend payments; and
- a volatility of 42 – 45% based on the volatility of a set of peer companies. Peer company data has been used given the short period of time our shares have been publicly traded.

Above assumptions were valid at the moment NXP granted option. Changes in the assumptions can materially affect the fair value estimate.

	2019		2018	
	Stock options	**Weighted average exercise price in USD**	Stock options	Weighted average exercise price in USD
Outstanding at January 1,	**2,104,088**	**51.81**	2,981,033	48.39
Granted	—	—	—	—
Exercised	**880,581**	**50.97**	803,391	37.13
Forfeited	**20,598**	**72.07**	73,554	73.43
Outstanding at December 31,	**1,202,909**	**52.08**	2,104,088	51.81
Exercisable at December 31,	**1,193,418**	**51.85**	1,583,001	43.14

No options were granted in 2019 and 2018.

The intrinsic value of the exercised options was $48 million (2018: $59 million), whereas the amount received by NXP was $45 million (2018: $30 million).

The weighted average share price at the date of exercise for share options exercised in 2019 was $105.49 (2018: $110.15). For stock options outstanding at the end of the reporting period the range of the exercise prices was USD 13.27 to USD 96.12. The weighted average contractual life is 3.99 years.

At December 31, 2019, there were no unrecognized compensation cost related to non-vested stock options (2018: $2 million). This 2018 cost were expected to be recognized over a weighted-average period of 0.8 years.

Performance share units

Performance conditions

	2019		2018	
	Shares	**Weighted average grant date fair value in USD**	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	**222,496**	**75.28**	282,938	74.31
Granted	—	—	—	—
Vested	—	—	41,335	65.53
Forfeited	**27,398**	**73.00**	19,107	86.36
Outstanding at December 31,	**195,098**	**75.60**	222,496	75.28

No PSUs based on performance conditions were granted in 2018 and 2019. In 2019 no PSUs based on performance conditions have vested. For 2018 the fair value of the PSUs based on performance conditions at the time of vesting was $3 million.

Market conditions

	2019		2018	
	Shares	**Weighted average grant date fair value in USD**	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	**1,478,986**	**121.18**	37,791	40.28
Granted	**400,025**	**141.64**	1,484,882	121.18
Vested	—	—	37,791	40.28
Forfeited	**34,824**	**121.37**	5,896	121.37
Outstanding at December 31,	**1,844,187**	**125.61**	1,478,986	121.18

In 2019 no PSUs based on market conditions have vested. For 2018 the fair value of the PSUs based on market conditions at the time of vesting was $3 million.

At December 31, 2019, there was a total of $135 million (2018: $143 million) of unrecognized compensation cost related to non-vested PSUs based on performance conditions or market conditions. This cost is expected to be recognized over a weighted-average period of 2.0 years (2018: 2.6 years).

Restricted share units

	2019		2018	
	Shares	**Weighted average grant date fair value in USD**	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	**6,511,564**	**94.73**	6,411,610	101.13
Granted	**2,953,782**	**111.62**	3,552,823	84.77
Vested	**3,119,913**	**96.13**	3,083,601	95.61
Forfeited	**338,842**	**96.50**	369,268	102.84
Outstanding at December 31,	**6,006,591**	**102.20**	6,511,564	94.73

The weighted average grant date fair value of restricted share units granted in 2019 was $111.62 (2018: $84.77). The fair value of the restricted share units at the time of vesting was $325 million (2018: $263 million).

At December 31, 2019, there was a total of $358 million (2018: $347 million) of unrecognized compensation cost related to non-vested restricted share units. This cost is expected to be recognized over a weighted-average period of 1.6 years (2018: 1.6 years).

32. Information on remuneration board of directors

In accordance with Dutch law, our stockholders have adopted a compensation policy for the board of directors. The remuneration of our non-executive directors is determined at the general meeting of shareholders and the remuneration of our executive directors is resolved upon by our board of directors, with due observance of our compensation policy. Our chief executive officer is our only executive director. The executive director does not participate in the discussions of our board of directors on his compensation, nor does the chief executive officer vote on such a matter. To the extent the stockholders at a future stockholder meeting do not adopt the proposal of the board, the board must prepare a new proposal. After adoption of a proposal, only subsequent amendments will require stockholder approval.

Compensation Policy and Objectives

We operate globally and our chief executive officer, the other members of our management team and other key employees are located in multiple countries. As a result, our pay philosophy considers both the overall importance of consistency across the geographies in which we operate and where our executive talent resides, as well as the need to ensure competitive practices within a local country. Our executive compensation program is designed to:

- Enable the organization to attract, retain, motivate and grow highly qualified talent with competitive and comprehensive programs
- Align to stakeholder interests, including shareholders, customers, employees, suppliers, as well as local and international communities where we operate, by delivering short and long term corporate strategic goals
- Create, develop and reward our smart, dedicated, hard-working and innovative executive and management team
- Reward both collective and individual performance with highly competitive rewards for outstanding performance consistent with our top pay for superior performance
- Deliver fiscally sound practices while maximizing the value to individuals and NXP
- Align to and reward demonstration of corporate values in support of our strong corporate culture

Overall, our compensation programs are competitive in the marketplace and highly incentive-based, with a majority of compensation at-risk which can be earned via our short and long term incentive programs based on overall Company performance.

Our executive compensation package therefore includes a significant variable part, consisting of an annual cash incentive, restricted stock units and performance-based restricted stock units. Executive performance targets are determined annually, at the beginning of the year, and assessed after the year once the financial performance of the year is known by, respectively, our Compensation Committee, our executive director or the other members of our management team. The compensation package for our board of directors, including our chief executive officer, the other members of our management team and our key employees is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry.

Base Salary

During 2019, we paid our chief executive officer an annual base salary of €1,200,000, the chairman of our board of directors an annual fixed fee of €275,000 and the other members of our board of directors an annual fixed fee of $85,000 gross.

In accordance with Dutch law, the remuneration of the non-executive directors of the Board’s committees has been set for the last time at the annual general meeting of shareholders held in 2016. Since then, in September 2019, the

Board installed three permanent committees (the Audit Committee, the Compensation Committee and the Nominating and Governance Committee), which is reason for the Board to consider it advisable to re-set the committee membership remuneration to conform to market levels. The board proposes to the Annual General Meeting to be held on May 27, 2020 to set the following committee membership fees:

- Members of all permanent committees (the Audit Committee, the Compensation Committee and the Nominating and Governance Committee) will receive an annual fixed fee of $15,000; and

- Chairs of all permanent committees will receive, in addition to their committee annual fixed fee remuneration, an annual fixed Chair fee of $15,000.

Detailed information of the 2019 executive compensation program for the five Named Executive Officers of the Company (Messrs. Clemmer, Sievers, Kelly, Owen and Reed) will be described in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and our other key employees can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. For our chief executive officer, the on-target cash incentive percentage is set at 150% of the base salary as of September 1, 2018. The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets.

To support the performance culture, the Annual Incentive plan 2019 is based on revenue and market share targets, as well as on gross margin. Any targets are set by the board of directors, at the proposal of its compensation committee.

Over the year 2019, the financials targets were not earned at threshold and thus no amount has been accrued as an annual incentive bonus for our chief executive officer for our performance in 2019. Over the year 2018, our chief executive officer realized a target achievement of 65.40%, and thus an amount of € 1,177,200 was accrued in 2018 (paid in 2019) as an annual incentive bonus for our performance in 2018 (over the year 2017, the target achievement was 79.90%, and thus an amount of € 684,344 was accrued in 2017 (paid in 2018)).

Share Based Compensation Plans

The purpose of our share based compensation plans, is to align the interests of directors and management with those of our stockholders by providing additional incentives to improve our medium and long term performance, by offering the participants an opportunity to share in the success of NXP.

Since 2010, we have maintained annual Long Term Incentive Plans, under which performance stock, restricted stock and stock options were granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under these Long Term Incentive Plans, equity incentives may be granted on, or the first Nasdaq trading day after NXP publishes its quarterly financials.

Performance stock units and restricted stock units vest over a period of one to three years, subject to relevant performance criteria being met in the case of performance stock units, and stock options vest over four years. Since 2016, no stock options are granted anymore. In the annual general meeting of shareholders held in June 2019, our shareholders approved the 2019 Omnibus Incentive Plan which provides for parameters of cash and equity-based incentive awards for employees including our chief executive officer, the other members of the board of directors and our management team.

Since this 2019 restrictive Omnibus Incentive Plan, restrictive stock units granted to the non-executive directors in our board vest over a period until the next annual general meeting of shareholders. As of July 26, 2018, we granted performance stock units ("PSU's") awards with a performance measure of Relative Total Shareholder Return ("Relative TSR"). Each PSU, which cliff vests on the third anniversary of the date of grant, entitles the grant recipient to receive from 0 to 2 common shares for each of the target units awarded based on the Relative TSR of the Company's share price as compared to a set of peer companies. Awards granted generally will become fully vested upon a termination event occurring within one year following a change in control, as defined. A termination event is defined as either termination of employment or services other than for cause or constructive termination of resulting from a significant reduction in either the nature or scope of duties and responsibilities, a reduction in compensation or a required relocation.

As of December 31, 2019, under the above equity plans, a total amount of 1,202,909 stock options, 2,039,285 performance stock units and 6,006,591 restricted stock units were outstanding, in total representing 9,248,785 shares of common stock.

Shares to be delivered under any equity program may be newly issued, for up to 10% of our share capital, or they may come out of treasury stock or be purchased from time to time upon the decision of our board of directors.

As of December 31, 2019, the following stock options, restricted stock, performance stock and shares of common stock were outstanding with members of our board of directors:

Richard L. Clemmer, CEO

As of December 31, 2019, our chief executive officer held 848,878 shares of common stock as filed under SEC Section 16 and had been granted the following unvested stock options, restricted stock units and performance stock units, which were outstanding:

Series	Number of Stock Options	Exercise Price (in $)	Stock options Exercisable
2016/February	15,376	76.31	15,376

Series	Number of Stock Options	Exercise Price (in $)	Stock options Exercisable
2015/October	82,939	73	82,939

Series	Number of Stock Options	Exercise Price (in $)	Stock Options Exercisable
2014/October	40,419	64.18	40,419

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule		
		10/29/20	10/29/21	10/29/22
2019/October	39,333	13,111	13,111	13,111

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule	
		07/26/20	07/26/21
2018/July	129,297	64,648	64,649

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule
		10/26/20
2017/October	45,455	45,455

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 10/28/2022
2019/October	91,776	183,552

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 07/26/21
2018/July	452,538	905,076

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		10/29/20
2016/February	13,105	Up to 13,105

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		10/23/20
2015/October	71,918	Up to 71,918

Other members of our board of directors

As of December 31, 2019, the other members of our board of directors held the following number of shares of common stock:

Sir Peter Bonfield: 25,551 from vested stock units

Mr. Goldman: 22,840 from vested stock units and acquisitions in the open market

Mrs. Olving: nil from vested stock units

Mr. Kaeser: 37,807 from vested stock units

Mrs. Staiblin: nil from vested stock units

Mr. Smitham: 3,892 from vested stock units

Ms. Southern: 10,832 from vested stock units

Mr. Sundström: nil from vested stock units

Mr. Summe: 11,594 from vested stock units and acquisitions in the open market

To each of the non-executive members of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2019:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule
		05/28/20
2019/October	1,749	1,749

Pensions

It has been our long-standing practice that our chief executive officer participates in the executives' pension plan, which we established in the Netherlands and which consisted of a combination of a career average and a defined-contribution plan. Since January 1, 2015, pension plans which allow pension accrual based on a pensionable salary exceeding an amount of €100,000 (threshold is adapted by the fiscal authorities each year, 2019: €107,593) are, for fiscal purposes, considered to be non-qualifying schemes.

The following pension arrangement is in place for our chief executive officer:

- Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with an age-dependent fixed contribution percentage up to a maximum pensionable salary of €100,000 (2019: € 107,593). The Pension Plan has a target retirement age of 68 and a target accrual rate of 1.85%. As our chief executive officer reached the age of 68 in April 2019, the contributions for him to the DC plan stopped per April 1, 2019.
- Introduction of a Benefit Allowance of 12.3% of the pensionable salary above €107,593 (2019) for all current and new employees;
- Compensation of remaining loss in pension accrual, compared to 2014, as an individual Retirement allowance. This individual compensation has been protected for 5 years (up to end 2019) and then reduced to 75%, 50%, 25% in the following 3 years (2020-2021-2022). No individual compensation after year 8 (January 2023 onwards).

The total pension cost of the Company related to these revised pension arrangements (including the temporary Retirement Allowance for the remaining 7 years) is at a comparable level over a period of time to the pension cost under the former Executive Pension Plan.

In 2019, we paid for our chief executive officer a pension plan contribution of €2,720 ($3,049), (€ 10,640 ($12,549) in 2018), and an aggregated amount of €526,998 ($590,765) as Retirement Allowance and individual Allowance in 2019 (€ 531,863 ($627,304) in 2018).

Additional Arrangements

The employment arrangements for our chief executive officer are outlined in the management services agreement as amended over time from his hire in 2009. A subsidiary of the Company entered into an employment agreement with Mr. Clemmer effective as of January 1, 2009. As of the Company's initial public offering in August 2010, Mr. Clemmer became executive director and chief executive officer of a listed company. His contract was extended and amended, most recently as of November 28, 2018. In addition to his base salary and bonus, Mr. Clemmer's current management services agreement also provides him with certain benefits and perquisites as described previously, as well as with severance upon a qualifying termination of employment. Mr. Clemmer is subject to non-competition provisions that remain in effect for a period of one year following the termination of his management services agreement. The term of the management services contract is linked to his board membership which expires the next annual general meeting of stockholders.

The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of stockholders at which the appointment of such member of the board of directors will be proposed. Non-executive directors of our board do not have a contract of employment.

In addition to the main conditions of employment, a number of additional arrangements apply to our chief executive officer; these arrangements do not apply to the non-executive members of our board of directors. These additional arrangements, such as housing compensation and relocation allowances, medical insurance, accident insurance, company car arrangements, are broadly in line with those for the NXP executives globally. In the event of disablement, our chief executive officer is entitled to benefits in line with those for other NXP executives. In the event of our chief executive officer's death while in the service of NXP, any unvested equity awards (including any performance stock units and restricted stock units) will vest. In line with regulatory requirements, the Company's policy forbids personal loans, guarantees or similar arrangements to members of our board, and consequently no loans, guarantees or similar arrangements were granted to such members since 2010, nor were any such loans outstanding as of December 31, 2019. The contract of employment entered into with our chief executive officer as of January 1, 2009, the terms of which have been extended from time to time, latest on November 28 , 2018, provides that if our chief executive officer terminates his employment within twelve months of a change of control, then he will be entitled to two years' base salary (gross) plus twice the amount of his target annual bonus (gross).

Unless the law provides otherwise, the members of our board of directors are expected to be reimbursed by us for various costs and expenses, such as reasonable costs of defending claims, as formalized in the articles of association. Under certain circumstances, described in the articles of association, such as an act or failure to act by a member of our board of directors that can be characterized as intentional (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*), there will be no entitlement to this reimbursement.

Summary Compensation Table – key management remuneration

The following table summarizes the total compensation paid to our chief executive officer and to each member of our board of directors, in each of the years presented. Any amounts that are paid to individuals in Euros are presented in U.S. dollars, where the average exchange rate for the year was used for conversion. In connection with the disclosure requirements of IAS 24 *Related Party Disclosures*, we consider the board of directors as our key management personnel.

Name and Principal Position	Year	Salary	Non-equity Incentive Plan Compensation	Performance and Restricted Share Units	Stock Options	Cost of Share and Option Awards	Other Compensation, Pension Costs, Pension Allowances	Total Costs
		($)	($) 1)	(#) 2)	(#) 3)	($) 4)	($) 5)	($) 4)
Richard L. Clemmer	2019 [7]	1,345,200	—	131,109	—	33,633,528	1,608,589	36,587,317
Executive director, chief	2018 [7]	1,369,730	1,388,390	646,483	—	26,810,424	1,695,958	31,264,502
executive officer	2017 [7]	1,291,625	774,006	136,364	—	13,791,056	1,551,320	17,408,007
Sir Peter Bonfield	2019	326,275	—	1,749	—	221,365	—	547,640
Non-executive director and	2018	336,348	—	2,379	—	195,984	—	532,332
chairman of the board	2017	323,031	—	1,715	—	200,583	—	523,614
Johannes P. Huth 9)	2019	44,997	—	—	—	(32,146)	—	12,851
Non-executive director and	2018	97,000	—	2,379	—	195,984	—	292,984
vice-chairman of the board	2017	97,000	—	1,715	—	200,583	—	297,583
Kenneth A. Goldman	2019	100,000	—	1,749	—	221,365	—	321,365
Non-executive director	2018	110,000	—	2,379	—	195,984	—	305,984
	2017	115,000	—	1,715	—	200,583	—	315,583
Dr. Marion Helmes 6)	2019 [8]	—	—	—	—	—	—	—
Non-executive director	2018 [8]	50,000	—	—	—	(36,165)	—	13,835
	2017	100,000	—	1,715	—	200,583	—	300,583
Josef Kaeser	2019	98,750	—	1,749	—	221,365	—	320,115
Non-executive director	2018	100,000	—	2,379	—	195,984	—	295,984
	2017	100,000	—	1,715	—	200,583	—	300,583
Ian Loring 6)	2019 [8]	—	—	—	—	—	—	—
Non-executive director	2018 [8]	42,500	—	—	—	(36,165)	—	6,335
	2017	85,000	—	1,715	—	200,583	—	285,583
Eric Meurice 9)	2019	39,431	—	0	—	(32,146)	—	7,285
Non-executive director	2018	101,667	—	2,379	—	195,984	—	297,651
	2017	110,000	—	1,715	—	200,583	—	310,583
Peter Smitham	2019	111,667	—	1,749	—	221,365	—	333,032
Non-executive director	2018	101,334	—	2,379	—	195,984	—	297,318
	2017	97,000	—	1,715	—	200,583	—	297,583
Gregory L. Summe	2019	113,000	—	1,749	—	221,365	—	334,365
Non-executive director	2018	104,000	—	2,379	—	195,984	—	299,984
	2017	100,000	—	1,715	—	200,583	—	300,583
Julie Southern	2019	115,000	—	1,749	—	221,365	—	336,365
Non-executive director	2018	105,000	—	2,379	—	195,984	—	300,984
	2017	100,000	—	1,715	—	200,583	—	300,583
Lena Olving 11)	2019	50,569	—	1,749	—	57,957	—	108,526
Non-executive director	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Jasmin Staiblin 11)	2019	50,569	—	1,749	—	57,957	—	108,526
Non-executive director	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Karl-Henrik Sundström 11)	2019	55,569	—	1,749	—	57,957	—	113,526
Non-executive director	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Total	2019	2,451,027	—			35,071,297	1,608,589	39,130,913
	2018	2,517,579	1,388,390			28,305,966	1,695,958	33,907,893
	2017	2,518,656	774,006			15,796,886	1,551,320	20,640,868

1) The annual incentive amount is related to the performance in the year reported, which is then paid to the individual in the subsequent year. The amounts reported are the amounts that have been accrued as annual incentive bonus for our chief executive officer for our performance in the respective years.

2) Represents the number of Performance and Restricted share units granted to the individual in the year reported. See also Note 31 *Share-based Compensation* for additional information regarding our long-term incentive plans.

3) Represents the number of Stock Options granted to the individual in the year reported. See also Note 31 *Share-based Compensation* for additional information regarding our long-term incentive plans.

4) Amounts reflect the costs of Performance and Restricted share units and Stock Options in accordance with IFRS 2 *Share-based Payment*. These amounts do not represent the actual amounts paid to or realized by the individuals in the year reported, but represent amounts charged to the income of the year. Total costs includes this item.

5) The total amount consists of pension costs (2019: $3,049 - 2018: $12,549 - 2017: $19,414), pension allowances (2019: $590,765 - 2018: $627,304 - 2017: $584,841) and other allowances (2019: $1,014,775 - 2018: $1,056,105 - 2017: $947,065).

   Due to legislative changes in the Netherlands, effective January 1, 2015 a new pension arrangement applies to our chief executive officer (as to other employees working under a Dutch employment contract). Refer to above explanation under the heading Pensions.

6) Dr. Marion Helmes' and Mr. Ian Loring's director term expired at the annual meeting of shareholders on June 22, 2018, and both did not stand for re-election to the board of directors.

7) In 2019, Mr. Clemmer received no performance share units that had financial performance conditions, 91,776 performance share units that had market performance conditions and 39,333 restricted share units.

   In 2018, Mr. Clemmer received no performance share units that had financial performance conditions, 452,538 performance share units that had market performance conditions and 193,945 restricted share units.

   In 2017, Mr. Clemmer received no performance share units that had financial performance conditions or market performance conditions and 136,364 restricted share units.

   In 2016, Mr. Clemmer received 13,105 performance share units that had financial performance conditions, no performance share units that had market performance conditions and 126,161 restricted share units.

8) As a result of not standing for re-election by Dr. Helmes and Mr. Loring as noted in Note 6, 1,715 awards for Dr. Helmes and for Mr. Loring, respectively, were forfeited in 2018 resulting in a reversal of the related costs in accordance with IFRS 2.

9) Mr. Eric Meurice's and Mr. Johannes P. Huth's director term expired at the annual meeting of shareholders on June 17, 2019, and both did not stand for re-election to the board of directors.

10) As a result of not standing for re-election by Mr. Eric Meurice's and Mr. Johannes P. Huth as noted in Note 9, 2,379 awards for Mr. Eric Meurice's and Mr. Johannes P. Huth, respectively, were forfeited in 2019 resulting in a reversal of the related costs in accordance with IFRS 2 *Share-based Payment*.

11) Ms. Lena Olving, Jasmin Staiblin and Mr. Karl-Hendrik Sundström were appointed as non-executive director effective June 17, 2019.

The tables below give an overview of the vesting of performance shares, restricted shares and stock options held by the members of the board of directors.

Performance shares (holdings) in number of shares and US$ - 2019

	1-Jan-19	Awarded 2019	Grant Date Share Price	Vested in 2019	Vesting dates in 2019	Vesting Date Share price	Vesting in 2020 or later
Richard L. Clemmer	71,918		73.00				71,918
	13,105		76.31				13,105
	452,538		92.81				452,538
		91,776	114.41				91,776

Performance shares (holdings) in number of shares and US$ - 2018

	1-Jan-18	Awarded 2018	Grant Date Share Price	Vested in 2018	Vesting dates in 2018	Vesting Date Share price	Vesting in 2019 or later
Richard L. Clemmer	17,529		64.18	17,529	Oct 30, 2018	70.72	—
	16,880		64.18	16,880	Nov 1, 2019	74.99	—
	71,918		73.00				71,918
	13,105		76.31				13,105
		452,538	92.81				452,538

Restricted shares (holdings) in number of shares and US$ - 2019

	1-Jan-19	Awarded 2019	Grant Date Share Price	Vested in 2019	Vesting Date Share Price	Vesting date	Vesting in 2020 or later
Richard L. Clemmer	42,054			42,054	105.86	Oct 27, 2019	
	90,910			45,455	105.86	Oct 26, 2019	45,455
	193945			64,648	101.77	Jul 26, 2019	129,297
		39,333	114.41				39,333
Sir Peter Bonfield	2,379			2,379	113.68	Nov 1, 2019	
		1,749	114.41				1,749
Kenneth Goldman	2,379			2,379	113.68	Nov 1, 2019	
		1,749	114.41				1,749
Josef Kaeser	2,379			2,379	113.68	Nov 1, 2019	
		1,749	114.41				1,749
Julie Southern	2,379			2,379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Peter Smitham	2,379			2,379	113.68	Nov 1, 2019	
		1,749	114.41				1,749
Gregg Summe	2,379			2,379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Lena Olving							
		1,749	114.41				1,749
Jasmin Staiblin							
		1,749	114.41				1,749
Karl-Henrik Sundström							
		1,749	114.41				1,749

Restricted shares (holdings) in number of shares and US$ - 2018

	1-Jan-18	Awarded 2018	Grant Date Share Price	Vested in 2018	Vesting Date Share Price	Vesting date	Vesting in 2019 or later
Richard L. Clemmer	84,108			42,054	70.95	Oct 27, 2018	42,054
	136,364			45,454	73.75	Oct 26, 2018	90,910
	0	64,648	92.81			Jul 26, 2019	64,648
	0	64,648	92.81			Jul 26, 2020	64,648
		64649	92.81			Jul 26, 2021	64,649
Sir Peter Bonfield	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Kenneth Goldman	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Johannes Huth	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Josef Kaeser	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Julie Southern	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Eric Meurice	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Peter Smitham	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379
Gregg Summe	1715			1715	73.75	Oct 26, 2018	
		2379	84.09			Nov 1, 2019	2,379

Stock Options (holdings) in number of shares and US$ - 2019

	Outstanding 1/1/2019	Granted	Strike Price	Vested	Vest date	Vest date share price	Exercised	Exercise date	Exercise price	Outstanding 31/12/2019	Exercisable
Richard L. Clemmer	40,419		$64.18							40,419	40,419
	82,939		$73.00	41,470	29-Oct-19	$108.65				82,939	82,939
	15,376		$76.31	7,688	29-Oct-19	$108.65				15,376	15,376

Stock Options (holdings) in number of shares and US$ - 2018

	Outstanding 1/1/2018	Granted	Strike Price	Vested	Vest date	Vest date share price	Exercised	Exercise date	Exercise price	Outstanding 31/12/2018	Exercisable
Richard L. Clemmer	40,419		$64.18	40,419	23-Oct-18	$76.48				40,419	40,419
	82,939		$73.00	41,469	29-Oct-18	$70.95				82,939	41,469
	15,376		$76.31	7,688	29-Oct-18	$70.95				15,376	7,688

33. Fair value of financial instruments

The following table summarizes the estimated fair value and carrying amount of our financial instruments measured on a recurring basis:

	December 31, 2019			December 31, 2018	
	Fair value hierarchy	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Assets:					
Money market funds	**1**	**6**	**6**	1,906	1,906
Notes hedges	**3**	**—**	**—**	24	24
Other financial assets	**2**	**42**	**42**	32	32
Derivative instruments-assets	**2**	**10**	**10**	6	6
Liabilities:					
Short-term debt	**2**	**—**	**—**	(2)	(2)
Short-term debt (2019 Cash Convertible Senior Notes)	**2**	**—**	**—**	(1,105)	(1,327)
Long-term debt (bonds)	**2**	**(7,365)**	**(7,922)**	(6,222)	(6,191)
Other long-term debt	**2**	**—**	**—**	(25)	(25)
Notes Embedded Conversion Derivative	**3**	**—**	**—**	(24)	(24)
Derivative instruments-liabilities	**2**	**(1)**	**(1)**	(2)	(2)

The following methods and assumptions were used to estimate the fair value of financial instruments:

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

Investments in money market funds (as part of our cash and cash equivalents) have fair value measurements which are all based on quoted prices in active markets for identical assets or liabilities.

Other financial assets and derivatives

For other financial assets and derivatives the fair value is based upon significant other observable inputs depending on the nature of the other financial asset and derivative.

Notes hedges and Notes Embedded Conversion Derivative

The Notes hedges and the Notes Embedded Conversion Derivative, which were settled along with the aggregate principal amount of the 2019 Cash Convertible Notes, are measured at fair value using level 3 inputs. The instruments are not actively traded and are valued at the measurement date using an option pricing model that uses observable inputs for the share price of NXP's common stock, risk-free interest rate, dividend yield and the term, in combination with a significant unobservable input for volatility. Volatility has historically been determined by a hypothetical market place. The volatility factor utilized at December 31, 2018 was 34.8%. The change in the fair value of the Notes hedges and Notes Embedded Conversion Derivative was solely the gain and loss, respectively for each instrument that was recognized.

Debt

The fair value is estimated on the basis of observable inputs other than quoted prices in active markets for identical liabilities for certain issues, or on the basis of discounted cash flow analyses. Accrued interest is included under accrued liabilities and not within the carrying amount or estimated fair value of debt.

Assets and liabilities recorded at fair value on a non-recurring basis

We measure and record our non-marketable equity investments and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

34. Financial risk management and concentration of risk

We conduct business in diverse markets around the world and employ a variety of risk management strategies and techniques to manage foreign currency exchange rate and interest rate risks. Our risk management program focuses on the unpredictability of financial markets and seeks to minimize the potentially adverse effects that the volatility of these markets may have on our operating results. One way we achieve this is through the active hedging of risks through the selective use of derivative instruments.

Derivatives are recorded on our consolidated balance sheet at fair value which fluctuates based on changing market conditions.

The Company does not purchase or hold financial derivative instruments for trading purposes.

The aim of the capital management strategy of NXP is to secure the Company's continued business operations, to enhance its enterprise value and to create solid capital resources for financing its profitable growth. When analyzing NXP's capital structure the Company uses the same debt/equity classifications as applied in the IFRS reporting.

In managing capital we seek to:

- maintain sufficient financial strength to support our business growth as well as satisfy the requirements of our regulators and other stakeholders, giving both our customers and shareholders assurance of our financial stability;
- optimize our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

Market risk

We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through fixed and variable rate debt instruments and denominate our transactions in a variety of foreign currencies. Changes in these rates may have an impact on future cash flow and earnings. We manage these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not enter into financial instruments for trading or speculative purposes.

By using derivative instruments, we are subject to credit and market risk. The fair market value of the derivative instruments is determined by using valuation models whose inputs are derived using market observable inputs, including interest rate yield curves, as well as foreign exchange and commodity spot and forward rates, and reflects the asset or liability position as of the end of each reporting period. When the fair value of a derivative contract is positive, the counterparty owes us, thus creating a receivable risk for us. We are exposed to counterparty credit risk in the event of non-performance by counterparties to our derivative agreements. We minimize counterparty credit (or repayment) risk by entering into transactions with major financial institutions of investment grade credit rating. Our exposure to market risk is not hedged in a manner that completely eliminates the effects of changing market conditions on earnings or cash flow.

Interest rate risk

Our RCF Agreement has a $1,500 million borrowing capacity with a floating rate interest. As there are currently no borrowings under this facility, a hypothetical increase in LIBOR based interest rates would not have caused any change to our interest expense on our floating rate debt. Additional information regarding our notes is provided in Note 21 - *Long-term debt.*

Currency risk

The Company's transactions are denominated in a variety of currencies. The Company uses financial instruments to reduce its exposure to the effects of currency fluctuations. Accordingly, the Company's organizations identify and measure their exposures from transactions denominated in other than their own functional currency. We calculate our net exposure on a cash flow basis considering balance sheet items, actual orders received or made and anticipated revenue and expenses. The Company generally hedges foreign currency exposures in relation to transaction exposures, such as receivables/payables resulting from such transactions and part of anticipated sales and purchases. The Company generally uses forwards to hedge these exposures. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, our U.S. dollar-denominated notes and short term loans will no longer need to be re-measured. Prior to January 1, 2016, the U.S. dollar-denominated debt held by our Dutch subsidiary (which had at that time a euro functional currency) could have generated adverse currency results in financial income and expenses depending on the exchange rate movement between the euro and the U.S. dollar. This exposure was partially mitigated by the application of net investment hedge accounting, which had been applied since May 2011. The U.S. dollar exposure of the net investment in U.S. dollar functional currency subsidiaries was hedged by certain of our U.S. dollar denominated debt. The hedging relationship was assumed to be highly effective. Foreign currency gains or losses on this U.S. dollar debt that were recorded in a euro functional currency entity that were designated as, and to the extent they were effective, as a hedge of the net investment in our U.S. dollar foreign entities, were reported as a translation adjustment in other comprehensive income within equity, and offset in whole or in part the foreign currency changes to the net investment that were also reported in other comprehensive income. Absent the application of net investment hedging, these amounts would have been recorded as a loss within financial income (expense) in the statement of operations.

In the below table we have summarized how the quarterly change in the USD/EUR exchange rate during 2019 impacted the foreign exchange result in the statement of operations as well as the currency translation reserve in equity:

Volatility ($ in millions)			**statement of operations**	**Statement of changes in equity**
	EUR/USD opening-closing rate	change in %	foreign exchange gain/ (loss)	currency translation gain/ (loss)
Q1 2019	**1.1451 - 1.1241**	**(2)%**	**(6)**	**(12)**
Q2 2019	**1.1241 - 1.1375**	**1 %**	**(1)**	**6**
Q3 2019	**1.1375 - 1.0935**	**(4)%**	**1**	**(41)**
Q4 2019	**1.0935 - 1.1217**	**3 %**	**8**	**32**

Our currency hedging activity had no impact on cost of revenue (2018: $3 million gain), $9 million loss impact on Research and development expenses (2018: $ 1 million gain), $4 million loss impact on Selling, general and administrative expenses (2018: $1 million gain). The impact of currency hedging on financial income is disclosed in Note 7 *Financial income (expense)*.

The gross notional amounts of the Company's foreign currency derivatives by currency for the years ended December 31, 2019 and December 31, 2018 were as follows:

	2019	2018
Euro	579	1,100
Chinese renminbi	90	127
Japanese yen	29	21
Malaysian ringgit	138	82
Singapore dollar	49	57
Swiss franc	28	25
Taiwan dollar	103	102
Thai baht	69	75
Other	63	51

See also Note 7 *Financial income and expense* as well as Note 33 *Fair value of financial instruments* for the effect that hedge accounting has had on our statement of operations and balance sheet.

Liquidity risk

At December 31, 2019, our cash balance was $1,045 million, of which $188 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. There was no dividend declared in 2019 (in 2018, a dividend of $139 million.

From time to time, we engage in discussions with third parties regarding potential acquisitions of, or investments in, businesses, technologies and product lines. Any such transaction could require significant use of our cash and cash equivalents, or require us to arrange for new debt and equity financing to fund the transaction. Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness. Our business may not generate sufficient cash flow from operations, or we may not have enough capacity under the RCF Agreement, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the RCF Agreement, the unsecured notes or to fund our other liquidity needs, including working capital and capital expenditure requirements. In any such case, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

Equity price risk

Concentration of risk

Financial instruments, including derivative financial instruments, that may potentially subject NXP to concentrations of credit risk, consist principally of cash and cash equivalents, short-term investments, long-term investments, accounts receivable and forward contracts.

We sell our products to OEMs and to distributors in various markets, who resell these products to OEMs, or their subcontract manufacturers. One of our distributors accounted for 14% of our revenue in 2019 and 14% in 2018. One other distributor accounted for less than 10% of our revenue in 2019 and 10% in 2018. No other distributor accounted for greater than 10% of our revenue for 2019 or 2018. One OEM for which we had direct sales to accounted for 11% of our revenue in 2019 and 11% in 2018. No other individual OEM for which we had direct sales to accounted for more than 10% of our revenue for 2019 or 2018.

Credit exposure related to NXP's foreign currency forward contracts is limited to the realized and unrealized gains on these contracts.

The Company is using outside suppliers or foundries for a portion of its manufacturing capacity.

We have operations in Europe and Asia subject to collective bargaining agreements which could pose a risk to the Company in the near term but we do not expect that our operations will be disrupted if such is the case.

The Company's risk factors are summarized in the Report of the Directors under the *Governance* chapter.

35. Subsequent events

On February 3, 2020, NXP completed the sale of the Company's Voice and Audio Solutions (VAS) assets, pursuant to the definitive agreement dated August 16, 2019, with Shenzhen Goodix Technology Co., Ltd. ("Goodix") from China, for a net cash amount of $161 million inclusive of final working capital adjustments.

On March 1, 2020 NXP provided an update to its first quarter 2020 revenue guidance due to potential impacts from the novel coronavirus ("COVID 19"). "Subsequent to our earnings call on February 3, 2020, we now believe that our expectations for total revenue in the first quarter of 2020 will be reduced due to the impact of the coronavirus. The estimated business impact is based on business trends over the last several weeks post the Lunar New Year holiday. What we have seen is lower than expected sell-through and order push outs in both our distribution channel and with direct customers. While we have not seen any material order cancellations, we currently expect the impact to revenue in the first quarter to be in the range of $50 million to $150 million. At the lower end of this range, the $50 million impact is what we've actually seen so far, with the weakness most pronounced in the weeks after the Lunar New Year holiday, however, we have now seen more normal order levels in the last two weeks. The $150 million upper range is estimated on a scenario where we would see a return of weakness in the coming weeks, like what we saw right after Lunar New Year. We need to stress that these assumptions are based on less than perfect data, as the situation continues to be highly fluid."

On March 5, 2020 NXP announced that its Board of Directors has unanimously nominated Kurt Sievers, to be appointed as President and Chief Executive Officer. Mr. Sievers will succeed Richard "Rick" Clemmer, who has successfully led NXP since 2009. The Board of Directors will propose the appointment of Mr. Sievers as executive director and Chief Executive Officer at the company's Annual General Meeting of Shareholders scheduled for May 27, 2020. To ensure a seamless transition, Mr. Clemmer will remain a strategic advisor to NXP.

On March 5, 2020, the Board of Directors of NXP Semiconductors N.V. approved the payment of an interim dividend for the first quarter of 2020 of $0.375 per ordinary share. The interim dividend will be paid on April 6, 2020 to shareholders of record as of March 16, 2020.

Company Financial Statements

Balance sheet of NXP Semiconductors N.V.

The balance sheet is presented before appropriation of profit.

	$ in millions, unless otherwise stated	December 31, 2019	2018
	Assets		
2	Equity -accounted investees	**11,196**	19,493
3	Loan receivable from subsidiary	**354**	—
	Notes Embedded Conversion Derivative [1)]	—	24
	Total assets	**11,550**	19,517
	Liabilities and shareholders' equity		
3	Loan payable to subsidiary	—	5,882
	Short-term debt [1)]	—	1,105
	Notes Embedded Conversion Derivative [1)]	—	24
	Other current liabilities	**106**	301
4	Shareholders' equity:		
	Share capital		
	Preferred stock, par value €0.20 per share:		
	Authorized: 645,754,500 (2018: 645,754,500 shares)		
	Issued: none		
	Common stock, par value €0.20 per share:		
	Authorized: 430,503,000 shares (2018: 430,503,000 shares)		
	Issued and fully paid: 315,519,638 shares (2018: 328,702,719 shares)	**64**	67
	Capital in excess of par value	**16,326**	16,587
	Treasury shares	**(3,037)**	(3,238)
	Legal reserves: currency translation differences	**(384)**	(369)
	Legal reserves: hedging	**(511)**	(516)
	Legal reserves: participating interests	**1,310**	1,241
	Accumulated deficit	**(2,836)**	(4,164)
	Net income	**512**	2,597
		11,444	12,205
	Total equity and liabilities	**11,550**	19,517

[1)] See Note 21 *Long-term debt* 2019 Financing Activities of the consolidated financial statements.

Shareholders' equity corresponds with the shareholders' equity of NXP as disclosed in the consolidated balance sheet.

Company Financial Statements

Statement of operations of NXP Semiconductors N.V.

$ in millions, unless otherwise stated	**2019**	2018
Other income (expense)	**2**	1,749
Income from equity-accounted investees	**720**	998
Financial expense	**(210)**	(150)
Net income	**512**	2,597

Other income (expense) in 2018 includes the termination compensation received from Qualcomm ($2,000 million) as well as $250 million of costs related to the contemplated Qualcomm transaction.

The net income corresponds with the net income attributable to shareholders of NXP as disclosed in the consolidated statements of operations.

Notes to the company financial statements for the year ended December 31, 2019

$ in millions, unless otherwise stated

1. Basis of preparation and summary of significant accounting policies

NXP Semiconductors N.V.'s company financial statements in this section have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code on a going concern basis. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the recognition and measurement principles applied in the Company financial statements are since 2011 the same as those applied in the consolidated financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. Dutch law allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same accounting principles in the parent company financial statements. Company financial statements that are based on this provision qualify as financial statements under Dutch law.

The accounting principles are explained in Note 2 *Significant accounting policies and new accounting standards to be adopted after 2019* of the consolidated financial statements of this Annual report.

The loan receivable (payable) to subsidiary is carried at amortized cost using the effective interest method.

The Company is head of a fiscal unity for the corporate income tax and VAT that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. With the members of the Dutch fiscal unity it was agreed to fully allocate the corporate income tax expenses to NXP Semiconductors Netherlands BV which also pays the corporate income tax liabilities of the Dutch fiscal unity. Hence, NXP Semiconductors N.V. has not recognized a corporate income tax benefit regarding the financial income and expenses and other income which amounts to $52 million (2018: corporate income tax expense of $255 million). NXP Semiconductors Netherlands BV has a corporate income tax receivable of $1 million (2018: corporate income tax payable of $161 million). For more information on income taxes, see Note 8 *Income taxes* of the consolidated financial statements.

The statutory reserve for participating interests pertains to participating interests that are measured at net asset value. The reserve is equal to the share in the results and direct changes in equity (both calculated on the basis of the Company's accounting policies) of the participating interests since the first measurement at net asset value, less the distributions that the Company has been entitled to since the first measurement at net asset value, and less distributions that the Company may effect without restrictions. As to the latter share, this takes into account any profits that may not be distributable by participating interests that are Dutch limited companies based on the distribution tests to be performed by the management of those companies. The statutory reserve is determined on an individual basis.

The statutory reserve for hedging pertains to net investment and cash flow hedge accounting, measured in accordance with IFRS. The statutory reserve for currency translation is determined in accordance with the IFRS requirements for currency translation reserve.

Income from equity accounted investees relates to the share of the Company in the results of its participating interests.

Presentation of Company financial statements

The statement of operations has been prepared in accordance with Section 402 Part 9 of Book 2 of the Netherlands Civil Code which allows a simplified statement of operations in the event that a comprehensive statement of operations is included in the consolidated group financial statements. The Company financial statements only contain an abbreviated statement of operations.

2. Equity-accounted investees

Equity-accounted investees (including goodwill) are measured at their net asset value in accordance with the IFRS accounting policies used in the consolidated financial statements.

Movements in the book value of the equity-accounted investees are as follows:

	2019	2018
Balance as of January 1,	**19,493**	18,687
Changes in book value:		
Share-based payments	**318**	246
Net income	**720**	998
Currency translation differences	**(15)**	(54)
Hedge accounting	**5**	(8)
Treasury shares used by NXP B.V. and its subsidiaries	**(310)**	(392)
Net actuarial gains/(losses)	**(32)**	15
Dividend paid	**(9,000)**	—
Business combinations	**19**	—
Other	**(2)**	1
Balance as of December 31,	**11,196**	19,493

A list of subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Book 2, Sections 379 and 414), is deposited at the office of the Commercial Register in Eindhoven, Netherlands.

3. Loan receivable from (payable to) subsidiary

The loan payable to NXP B.V. at December 31, 2018 of $ 5,882 million became a loan receivable amounting to $354 million at year-end. The change from loan payable to loan receivable is primarily explained by the dividend paid by NXP B.V. of $ 9,000 million and the cross charging to NXP B.V. for treasury shares used by NXP B.V. and its subsidiaries for a total amount of $310 million; partially offset by the 2019 financing by NXP B.V. of the Company's purchases of treasury shares (including taxes) ($1,489 million), the repayment of the short-term debt ($1,150 million), dividends paid ($319 million) and the payment of interest ($171 million). Furthermore, the loan receivable consists of the settlement of assets and liabilities between NXP Semiconductors N.V. and NXP B.V. related to the ordinary course of business. The applicable interest rate is LIBOR plus a margin equal to the credit spread for the NXP B.V.'s Revolving Credit Facility.

4. Shareholders’ equity

$ in millions, unless otherwise stated	Share capital	Capital in excess of par value	Treasury shares	Legal reserves: Currency translation differences	Legal reserves: Hedging	Legal reserves: Participating interests*	Legal reserves: Unrealized gains/ losses FVOCI securities	Accumu- lated deficit	Net income	Total Share- holders’ equity
Balance as of December 31, 2017	71	17,112	(342)	(315)	(505)	1,113	(3)	(4,795)	2,520	14,856
Appropriation of prior year result								2,520	(2,520)	—
Net income (loss)									2,597	2,597
Allocation to legal reserve								(128)		(128)
Current period change				(54)	(10)	128				64
Reclassifications into income					(1)		3			2
Share-based compensation plans		283								283
Retirement treasury shares	(4)	(811)						(838)		(1,653)
Shareholder tax on repurchased shares								(381)		(381)
Remeasurements defined benefits								15		15
Treasury shares transactions			(2,896)					(418)		(3,314)
Dividends common stock								(147)		(147)
Other		3						8		11
Balance as of December 31, 2018	**67**	**16,587**	**(3,238)**	**(369)**	**(516)**	**1,241**	**—**	**(4,164)**	**2,597**	**12,205**
Appropriation of prior year result								**2,597**	**(2,597)**	**—**
Net income (loss)									**512**	**512**
Allocation to legal reserve								**(69)**		**(69)**
Current period change				**(15)**	**(6)**	**69**				**48**
Reclassifications into income					**11**					**11**
Share-based compensation plans		**352**						**13**		**365**
Retirement treasury shares	**(3)**	**(632)**						**(587)**		**(1,222)**
Shareholder tax on repurchased shares								**95**		**95**
Remeasurements defined benefits								**(32)**		**(32)**
Treasury shares transactions			**201**					**(338)**		**(137)**
Dividends common stock								**(351)**		**(351)**
Business combinations		**19**								**19**
Balance as of December 31, 2019	**64**	**16,326**	**(3,037)**	**(384)**	**(511)**	**1,310**	**—**	**(2,836)**	**512**	**11,444**

* The Participating interests reserve includes the legal reserve related to capitalized development expenses of the Dutch principal.

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the company started to pay a regular quarterly cash dividend. Accordingly, interim dividends of $0.25 per ordinary share were paid on March 15, 2019 and June 13, 2019, and dividends of $0.375 per ordinary share were paid on October 4, 2019 and January 6, 2020.

A proposal will be submitted to the 2020 General Meeting of Shareholders to appropriate the 2019 net income to the accumulated deficit.

We also refer to the consolidated statements of changes in equity of the consolidated financial statements.

5. Employees

The number of persons having a contract with the Company at the year-end 2019 was 3 (2018: 3): one of them (Mr. Clemmer) had a services contract, and the other two had a contract of employment. All three were at the payroll of the Company in The Netherlands.

Detailed information of the 2019 executive compensation program for the five Named Executive Officers of the Company (Messrs. Clemmer, Sievers, Kelly, Owen and Reed) will be described in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting.

6. Contingent liabilities

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands.

7. Auditor's fee KPMG

$ in millions	KPMG Accountants N.V.		Other KPMG network		Total	
	2019	2018	**2019**	2018	**2019**	2018
Audit of the financial statements	**3.3**	3.4	**1.1**	1.0	**4.4**	4.4
Other audit engagements	**0.2**	0.6	—	—	**0.2**	0.6
Tax-related advisory services	—	—	—	—	—	—
Other non-audit services	—	0.1	—	—	—	0.1
Total	**3.5**	4.1	**1.1**	1.0	**4.6**	5.1

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements. Other audit engagements also include fees that only our independent auditor can reasonably provide such as comfort letters and review of documents filed with the SEC. The above mentioned fees exclude out of pocket expenses of $0.3 million (2018: $0.3 million).

The fees mentioned in the table for the audit of the financial statements relate to the total fees for the audit of the financial statements 2019 (2018), irrespective of whether the activities have been performed during the financial year 2019 (2018).

8. Related parties

Reference is made to Note 30 *Related-party transactions* of the consolidated financial statements. The Company maintains a General Service Agreement contract with NXP B.V. that stipulates that certain third party consultancy costs and other services, which are due by the Company (including salary costs of the Executive Officers), are paid by NXP B.V.

9. Subsequent events

For the subsequent events, we refer to Note 35 *Subsequent events* of the consolidated financial statements.

March 16, 2020

Board of directors

KPMG

Independent auditor's report

To: the General Meeting of Shareholders of NXP Semiconductors N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of NXP Semiconductors N.V. as at December 31, 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of NXP Semiconductors N.V. as at December 31, 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of NXP Semiconductors N.V. (the Company) based in Eindhoven. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at December 31, 2019;
2. the following consolidated statements for 2019: the statement of operations, comprehensive income, cash flows and changes in equity; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at December 31, 2019;
2. the company statement of operations for 2019; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of NXP Semiconductors N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— Materiality of USD 45 million
— 0.5% of Revenue

Group audit
— 98% of total assets
— 99% of revenue

Key audit matters
— Fraud risk on revenue recognition
— Capitalized product development costs
— Income Taxes
— Initial measurement of intangible assets acquired in the Marvell business combination

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at USD 45 million (2018: USD 45 million). The materiality is determined with reference to revenue (0.5%). We consider revenue as the most appropriate benchmark as the company's analysts are primarily focused on revenues and revenue growth.

KPMG

In addition, earnings measures can be very volatile as a result of the cyclical nature of the semiconductor industry and the cost structure. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee of the Board of Directors that misstatements in excess of USD 2.25 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NXP Semiconductors N.V. is at the head of a group of components. The financial information of this group is included in the financial statements of NXP Semiconductors N.V.

We scoped group components of NXP Semiconductors N.V. into the group audit where they are of significant size or contain specific risks. Where this did not give adequate coverage we used our judgement to bring additional group components in scope. On this basis, we selected group components for which a full scope audit or specified audit procedures had to be carried out on the complete set of financial information or specific items.

Furthermore, the group audit team performed audit procedures at group level on significant risk areas and on centralised processes, including the general IT control environment, the inventory valuation, treasury positions, the goodwill impairment test, purchase price accounting and income taxes. This resulted in coverage of 99% of total revenue and 98% of total assets for which also local auditors were involved. For the remaining group components, we performed, among others, analytical procedures to corroborate our assessment that there are no significant risks of material misstatement within these components.

Materiality levels for the audits of group components were, for the majority of them, based on the lower of relevant local statutory audit materiality or component materiality as set by the group audit team which is lower than group materiality.

The group audit team sent detailed instructions to all auditors of group components part of the group audit, covering the significant areas that should be covered (which included the relevant risks of material misstatement) and set out the information required to be reported back to the group audit team. The group audit team visits the major group components on a rotating basis. In relation to the 2019 audit, the component locations in China, Singapore and Taiwan were visited. During the site visits the group audit team also performed file reviews. In addition, off-site file reviews have been performed for component locations in Singapore and Taiwan as well as Thailand. Telephone conferences were also held with auditors of group components that form part of the group audit.

At these visits and telephone conferences, the audit approach, findings and observations reported to the group audit team were discussed in more detail.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our procedures as described above can be summarized as follows:

Total assets

88%	10%	2%
Full scope Audit procedures	Specified audit procedures	Additional centrally performed procedures

Revenue

99%	0%	1%
Full scope audit procedures	Specified audit procedures	Additional centrally performed procedures

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with the Board of Directors and the Audit Committee of the Board of Directors. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements. In these risk assessments we made use of a forensic professional.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition at year-end as a result of management override resulting from the pressure management may feel to achieve planned results.
- fraud risk in relation to management override of controls.

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussion with the Board of Directors, the Audit Committee of the Board of Directors and/or other management (as required by auditing standards) and discussed the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, NXP Semiconductors N.V. is subject to laws and regulations that directly affect the financial statements, such as relevant tax laws and financial reporting standards and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, NXP Semiconductors N.V. is subject to other, sector specific, laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas of laws and regulation as those most likely to have such an effect: intellectual property, environmental, export controls and health. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of the Board of Directors, the Audit Committee of the Board of Directors and other management and inspection of (board) minutes and regulatory and legal correspondence, if any. These are part of our procedures on the related financial statement items.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Our procedures did result in a key audit matter. We refer to the key audit matter related to fraud risk on revenue recognition.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee of the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Compared to prior year, we have identified a new key audit matter in 2019 related to the initial measurement of intangible assets acquired in the Marvell business combination.

Fraud risk on revenue recognition

Description

There is a risk that sales may be deliberately misstated at year-end as a result of management override resulting from the pressure management may feel to achieve planned results.

The management of the group focuses on sales as a key performance measure which could create an incentive for sales to be recognized before the risks and rewards have been transferred. We therefore consider this is a key audit matter.

Our response

Our audit procedures are mainly performed at the component level and included, among others, assessing the appropriateness of the company's revenue recognition accounting policies and assessing compliance with the policies in terms of EU-IFRS. We tested the company's controls, both application controls and manual controls, in the sales process including controls over the correct timing of revenue recognition. We also assessed sales transactions taking place before and after year-end to ensure that revenue was recognised in the correct period. We tested the accuracy of the sales recorded based on a sample basis, among others, inspection of sales contracts and distribution agreements, proof of delivery, and the receipt of the cash from the sales transactions. We also tested credit notes issued before and after year-end to determine whether revenue was recognised in the correct period. In addition we tested manual journal entries performed on revenue accounts. Finally, we assessed the adequacy of the Company's disclosures included in Note 2 to the financial statements in relation to IFRS 15 requirements.

Our observation

Overall, based on our procedures performed, we consider the company's revenue recognition policy as disclosed in Note 2 to be appropriately applied.

Capitalized product development costs

Description

Under IFRS, development costs need to be capitalised when certain criteria are met. Capitalised product development costs are a key audit matter as determining when the criteria for capitalisation and subsequent amortisation have been met requires judgement. Furthermore the amount of capitalised product development costs (USD 2.413 million) is financially significant.

Our response

Our audit of the capitalized product development costs is performed by the group audit team. In our audit we documented and tested certain controls in respect of the development costs. We also evaluated and tested, on a sample basis, the assumptions and data used by the company to determine whether criteria for capitalization are met, for example by comparing them with market data and business plans.

Furthermore, we tested the costs that are being capitalized by comparing them to invoices and hour registrations. In addition, we assessed the historical accuracy of management's estimates. We also assessed the adequacy of the company's disclosure included in Note 14.

KPMG

Our observation

Overall, based on our procedures performed, we consider the assumptions and data used by management to determine if capitalization criteria are met to be reasonable and the related disclosure Note 14 to be adequate.

Income taxes

Description

The company has extensive international operations and in the normal course of business makes judgments and estimates in relation to the tax effect of operations and transactions, including post-acquisition integration activities, qualification for tax incentives, and exposures resulting in the recognition of other tax liabilities. We considered income taxes a key audit matter as the accounting is complex, the amounts involved are material to the financial statements as a whole and it requires significant audit attention. At December 31, 2019, the net deferred tax liability was USD 437 million.

Our response

Our audit procedures included, among others, testing the effectiveness of the company's internal controls around the recording and continuous re-assessment of other tax liabilities. We have tested the amounts reported for current and deferred taxes. In addition we assessed the historical accuracy of management's assumptions. To analyse and challenge the assumptions used to determine tax provisions, among others, we corroborated the assumptions with the supporting evidence, considered developments in 2019 and we read correspondence with the relevant tax authorities. We assessed the Dutch tax incentives related to the innovation box ruling and we involved tax professionals at the group level as well as at the component level for entities with significant tax risks. We also assessed the adequacy of the company's disclosure included in Note 8.

Our observation

Overall, based on our procedures performed, we consider the accounting for income taxes to be reasonable and the disclosure Note 8 Income taxes to be adequate.

Initial measurement of intangible assets acquired in the Marvell business combination

Description

As discussed in Note 4 to the consolidated financial statements, on December 6, 2019, the Company acquired Marvell's Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets ("Marvell") in a business combination for net consideration of USD 1.7 billion. The assets acquired included amongst others USD 324 million of developed technology and USD 170 million of in-process R&D. Management valued these intangible assets on a preliminary basis using the multi-period excess earnings method under the income approach.

This method reflects the present values of the projected cash flows that are expected to be generated by the developed technology and in-process R&D less charges representing the contribution of other assets to those cash flows.

There was a high degree of subjectivity in applying and evaluating the discounted cash flow models used to calculate the acquisition-date fair value of these intangible assets including the allocation of projected cash flows between developed technology and in-process R&D. In addition, the discounted cash flow models included internally-developed assumptions such as expected revenue growth rates, profitability and discount rates, and the calculated fair values of such assets were sensitive to possible changes to these assumptions. We therefore identified the initial measurement of intangible assets acquired in the Marvell business combination as a key audit matter.

Our response

The primary procedures we performed to address this key audit matter included the following. We tested certain internal controls over the Company's acquisition-date valuation process including controls related to the development of the assumptions based on comparable market data. We compared the assumptions, including the Company's forecasted growth rates and profitability, to those of market participants. We also involved valuation professionals with specialized skills and knowledge, who assisted in developing an estimate of the fair value of the acquired business using the Company's cash flow forecast and an independently developed discount rate, and evaluating the Company's discount rate by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities and transactions.

Our observation

Overall, based on our procedures performed, we consider the initial measurement of intangible assets acquired in the Marvell business combination to be reasonable.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NXP Semiconductors N.V. as of the audit for the year 2009 and have operated as statutory auditor ever since that financial year.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors and the Audit Committee of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee of the Board of Directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

KPMG

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

— identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

— evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

— concluding on the appropriateness of the Board of Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;

— evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

— evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

From the matters communicated with the Audit Committee of the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amstelveen, March 16, 2020

KPMG Accountants N.V.

M.J.P. Thunnissen RA

Statutory rules concerning appropriation of profit

Distributions.

Article 34.

34.1. The Board will keep a separate share premium account for each class of shares to which only the holders of the class of shares in question are entitled.

The amount or the value of the share premium paid on a specific class of shares issued by the Company will be booked separately on the share premium account in question.

34.2. The Company may make distributions on shares only to the extent that its shareholders' equity exceeds the sum of the paid-up and called-up part of the capital and the reserves which must be maintained by law.

34.3. Distributions of profit, meaning the net earnings after taxes shown by the adopted annual accounts, shall be made after the determining of the annual accounts from which it appears that they are justified, entirely without prejudice to any of the other provisions of the Articles of Association.

34.4. a. A dividend shall be paid out of the profit, if available for distribution, first of all on the preferred shares series PA in accordance with this paragraph. Subsequently, a dividend shall be paid out of the profit, if possible, on the preferred shares series PB in accordance with this paragraph.

b. The dividend paid on the preferred shares shall be based on the percentage, mentioned immediately below, of the amount called up and paid-up on those shares. The percentage referred to in the previous sentence shall be equal to the average of the EURIBOR interest charged for cash loans with a term of twelve months as set by the European Central Bank - weighted by the number of days to which this interest was applicable - during the financial year for which this distribution is made, increased by a maximum margin of three hundred (300) basis points to be fixed upon issue by the Board; EURIBOR shall mean the euro Interbank Offered Rate, which margin may vary per with each individual series.

c. If in the financial year over which the aforesaid dividend is paid the amount called up and paid-up on the preferred shares has been reduced or, pursuant to a resolution to make a further call on said shares, has been increased, the dividend shall be reduced or, if possible, increased by an amount equal to the aforesaid percentage of the amount of such reduction or increase, as the case may be, calculated from the date of the reduction or, as the case may be, from the date when the further call on the shares was made.

d. If and to the extent that the profit is not sufficient to pay in full the dividend referred to under a of this paragraph, the deficit shall be paid to the debit of the reserves, provided that doing so shall not be in violation of paragraph 2 of this article.

If and to the extent that the dividend referred to under a of this paragraph cannot be paid to the debit of the reserves either, the profits earned in subsequent years shall be applied first towards making to the holders of preferred shares such payment as will fully clear the deficit, before the provisions of the following paragraphs of this article can be applied. No further dividends on the preferred shares shall be paid than as stipulated in this article, in article 35 and in article 37. Interim dividends paid over any financial year in accordance with article 35 shall be deducted from the dividend paid by virtue of this paragraph 4.

e. If the profit earned in any financial year has been determined and in that financial year one (1) or more preferred shares have been cancelled against repayment, the persons who were the holders of those shares shall have an inalienable right to payment of dividend as described below. The amount of profit, if available for distribution, to be distributed to the aforesaid persons shall be equal to the amount of the dividend to which by virtue of the provision under a of this paragraph they would be entitled if on the date of determination of the profit they had still been the holders of the aforesaid preferred shares, calculated on the basis of the period during which in the financial year concerned said persons were holders of said shares, this dividend to be reduced by the amount of any interim dividend paid in accordance with article 35.

f. If in the course of any financial year preferred shares have been issued, with respect to that financial year the dividend to be paid on the shares concerned shall be reduced pro rata to the day of issue of said shares.

g. If the dividend percentage has been adjusted in the course of a financial year, then for the purposes of calculating the dividend over that financial year the applicable rate until the date of adjustment shall be the percentage in force prior to that adjustment and the applicable rate after the date of adjustment shall be the altered percentage.

34.5. Any amount remaining out of the profit, after application of paragraph 4, shall be carried to reserve as the Board may deem necessary.

34.6. The profit remaining after application of paragraphs 4 and 5 shall be at the disposal of the General Meeting, which may resolve to carry it to reserve or to distribute it among the holders of common shares.

34.7. On a proposal of the Board, the General Meeting may resolve to distribute to the holders of common shares a dividend in the form of common shares in the capital of the Company.

34.8. Subject to the other provisions of this article the General Meeting may, on a proposal made by the Board, resolve to make distributions to the holders of common shares to the debit of one (1) or several reserves which the Company is not prohibited from distributing by virtue of the law.

34.9. No dividends shall be paid to the Company on shares held by the Company or where the Company holds the depositary receipts issued for such shares, unless such shares or depositary receipts are encumbered with a right of usufruct or pledge.

34.10. Any change to an addition as referred to in paragraph 4 under b and g in relation to an addition previously determined by the Board shall require the approval of the meeting of holders of preferred shares of the series concerned. If the approval is withheld the previously determined addition shall remain in force.

Special statutory voting rights

There are no special statutory voting rights.

Investor Information

Corporate seat and head office

We were incorporated in The Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006. On May 21, 2010 we converted into a public company with limited liability (*naamloze vennootschap*) and changed our name to NXP Semiconductors N.V.. Our corporate seat is in Eindhoven, The Netherlands, and the statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Part 9 of Book 2, Sections 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, Netherlands (file no. 34253298).

Our registered office is:

NXP Semiconductors N.V.

High Tech Campus 60,

PO Box 80073, 5600 KA Eindhoven

The Netherlands

Switchboard telephone: +31 40 2729960