

ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

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.

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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

	<u>2018</u>	<u>2017</u>
Revenue	9,407	9,256
Operating income	3,162	2,443
as a % of revenue	33.6	26.4
Net income	2,646	2,576
- per common share in \$:		
* basic	7.97	7.44
* diluted	7.87	7.26
Earnings before interest, tax, depreciation and amortization (EBITDA) ¹⁾	5,499	4,877
as a % of revenue	58.5	52.7
Cash flows before financing activities	3,847	4,519
Shareholders' equity	12,205	14,856
Employees at end of period	30,000	30,100

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

Corporate Information

Our legal name is NXP Semiconductors N.V. and our commercial name is “NXP” or “NXP Semiconductors”. We are incorporated in the Netherlands 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.

NXP Semiconductors N.V. is the 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 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.

On December 7, 2015, NXP acquired Freescale in a stock and cash transaction for a total consideration of \$11.8 billion. In connection with the merger, each outstanding share of Freescale common stock was converted into 0.3521 shares of NXP common stock and \$6.25 in cash, without interest. NXP issued 110 million shares of common stock to former holders of Freescale common stock, representing 32% of the 342 million total shares of outstanding NXP common stock after the merger. NXP accounted for the merger under the acquisition

method of accounting in accordance with IFRS 3 *Business Combinations*, with NXP treated as the accounting acquirer, see further discussion below.

Other Significant Transactions

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 April 19, 2017, we sold our shares in Advanced Semiconductor Manufacturing Corporation Ltd. (ASMC), representing a 27.47 percent ownership, for a total consideration of \$54 million.

On June 14, 2016, we announced an agreement to divest our Standard Products (“SP”) business to a consortium of financial investors consisting of JAC Capital and Wise Road Capital. On February 6, 2017 NXP divested SP, receiving \$2.6 billion in cash proceeds, net of cash divested.

Business overview

Semiconductor 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 \$469 billion in 2018.

Our Company

We are 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, 2018, we generated revenue of \$9,407 million, compared to \$9,256 million for the year ended December 31, 2017.

We provide leading High Performance Mixed Signal (HPMS) and, until February 6, 2017, Standard Product (SP) 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, personal security and identification, wireless and wireline infrastructure, mobile communications, multi-market industrial, consumer and computing. We engage with leading global original equipment manufacturers (OEM) and sell products in all major geographic regions.

Reporting Segments

Until February 6, 2017, NXP was organized into two market oriented reportable segments, High Performance Mixed Signal (“HPMS”) and Standard Products (“SP”). Corporate and Other represents the remaining portion to reconcile to the consolidated financial statements. You can find a description of each of our reportable segments below. We also have a manufacturing group that manages our manufacturing and supply chain activities.

Effective January 1, 2019, NXP removed the reference to HPMS in its organizational structure in acknowledgment of the one reportable segment representing the entity as a whole. In addition, as of January 1, 2019, the Company will report its revenue across the following four end-markets – Automotive; Industrial & IoT; Mobile; and Communications Infrastructure & Other and no longer through the four business lines that are discussed below.

Markets, applications and products

HPMS products consist of highly differentiated application-specific semiconductors and system solutions. We believe the HPMS market is an attractive market due to the growth in excess of the overall semiconductor market, the high barriers to entry, the loyalty of the customer base, the relative pricing stability and lower long-term capital intensity.

SP products consisted primarily of discrete semiconductor devices that could be incorporated in many different types of electronics equipment, were typically sold to a wide variety of customers, and was divested on February 6, 2017.

High Performance Mixed Signal

The HPMS segment consists of the following four business lines: Automotive, Secure Identification Solutions, Secure Connected Devices and Secure Interfaces and Infrastructure. We focus on developing products and system and sub-system solutions that are innovative and allow our customers to bring their end products to market more quickly. Our products, particularly our application system and sub-system solutions, help our customers design critical parts of their end products and thus help many of them to differentiate themselves based on feature performance, advanced functionality, cost or time-to-market.

We apply our technical expertise in the areas of RF, analog, power management, interface, security technologies and digital processing across our priority applications markets. Our strong RF capabilities are utilized in our high performance RF for wireless infrastructure and industrial applications, car security and car radio products, mobile connectivity and contactless identification products. Our power technologies and capabilities are applied in AC-DC power conversion, power management and audio power products, while our ability to design ultra-low power semiconductors is used in a wide range of our products including our consumer, mobile, identification, healthcare products and our microcontrollers. Our high-speed interface design skills are applied in various interface products, and our security capability is used in our identification solutions, digital networking and microcontroller solutions. Finally, our digital processing capabilities are used in our microcontroller and

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application processor based products, our digital networking products, our Auto DSPs and the products leveraging our Coolflux ultra-low power DSPs, such as in our hearing aid products. The below table provides an overview of the key applications per each business line, the leading market positions and our key customers.

	Automotive	Secure Identification Solutions	Secure Connected Devices	Secure Interfaces and Infrastructure
Key applications	<ul style="list-style-type: none"> • Car access & immobilizers • In vehicle networking • Car entertainment • ADAS • Telematics • ABS • Transmission/throttle control • Automotive Lighting • Gateways • Battery Management • Sensors 	<ul style="list-style-type: none"> • Secure identity • Tagging 	<ul style="list-style-type: none"> • Secure transactions • Smartphone • Tablet • Personal computer • Smart buildings • White goods & home appliances • Medical/Personal Healthcare • Industrial/ IoT • Consumer/TV/Set top box 	<ul style="list-style-type: none"> • Wireless base stations • Networking • Satellite & CATV infra • Radar • Power supplies • Lighting • Smartphone • Personal computer • Pachinko machines
Selected market leading positions	<ul style="list-style-type: none"> • #1 in Automotive semiconductors • #1 Can/LIN/ Flex Ray in-vehicle networking • #1 passive keyless entry/ immobilizers • #1 automotive applications processors • #1 car radio • #1 Chassis & Safety • #2 Powertrain • #2 automotive MCU • #2 audio amplifiers 	<ul style="list-style-type: none"> • #1 e-Government • #1 Transport & Access management • #2 Banking 	<ul style="list-style-type: none"> • #1 NFC/Secure Element • #3 I broad based MCU 	<ul style="list-style-type: none"> • #1 in RF Power • #2 in communication processors
Key OEM and electronic manufacturing services (EMS) end customers	<ul style="list-style-type: none"> • Autoliv • Bosch • Continental • Delphi • Denso • Fujitsu Ten • Lear • TRW • Valeo • Visteon 	<ul style="list-style-type: none"> • Avery Dennison • Bundesdruckerei • China Vision Microelectronic • Chutian Dragon • Eastcompeace • Gemalto • Giesecke • HID • Linxens • Smartrac 	<ul style="list-style-type: none"> • Amazon • Apple • BBK • Bosch • Huawei • LG • Reliance • Samsung • Visteon • ZLG Electronics 	<ul style="list-style-type: none"> • Apple • Arris • Cisco • Ericsson • Huawei • Fujitsu • NEC • Nokia • Samsung • ZTE

The table above provides a list of our key OEM, ODM and electronic manufacturing services end customers in alphabetical order, based on 2018 revenue, of which some of whom are supplied by distributors. Key distributors across these applications are Arrow, Avnet, Edom, Nexty, Vitec and WPG.

Automotive. Growth in semiconductor sales to the global automotive market relies on global economic trends, the unit growth of automobiles manufactured and the growth in semiconductor content per vehicle which is being driven by the proliferation of electronic features throughout the vehicle. Among the highest growth applications are advanced driver assistance systems (ADAS), infotainment (information, convenience and connectivity), secure in-vehicle networking and electrified powertrain (hybrid and electric vehicles).

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.

Semiconductor content per vehicle continues to increase due to government regulation for improved safety and emissions, the standardization of higher-end options across a greater number of vehicle classes as well as consumer demand for greater fuel efficiency, advanced safety and multimedia applications. Automotive safety features are evolving from passive safety systems to active safety systems with ADAS such as radar, vision, vehicle-to-vehicle and vehicle-to-infrastructure (V2X) systems. We believe regulatory actions and consumer demand in both the developed and emerging markets should drive the increase in applications such as ADAS, electric and hybrid powertrains, vehicle gateway and secure connectivity, electronic safety, as well as stability control. Semiconductor content per vehicle is also increasing to address applications such as engine management, fuel economy improvement, driver comfort, convenience and user interface. In addition, with the increase in overall semiconductor content in modern automobiles, the demand for secure in-vehicle networking continues to increase as various subsystems communicate within the automobile and with external devices and networks. Data integrity and security hardware features for safeguarding memory, communication and system data are also increasing in importance.

As a result of the Merger with Freescale, NXP became the largest semiconductor supplier to the automotive industry with strong positions in Car Entertainment, In-Vehicle Networking, Secure Car Access, Chassis & Safety and Powertrain. The combined portfolio is highly complementary, enabling NXP to address a broader scope of complete and complex solutions for our automotive partners. We continue to invest in growth areas including the evolution of the Secure Connected Car, ADAS, electrification of powertrains and other safety and comfort applications.

In Car Entertainment, we are the market leader with the broadest portfolio of products addressing both audio and visual head-end unit applications. Our leadership in audio processing for mid-to-high-end car radio is driven by excellent reception performance as well as high-levels of integration of terrestrial, satellite and digital multi-band tuners. Within the low-end and after-market car radio, our leadership is a result of highly integrated, single-chip radio solutions that offer our customers ease of implementation and lower total cost of ownership. In digital reception, we have developed multi-standard radios based on our

software-defined radio implementation. In addition, we provide class-AB and class-D audio amplifiers and power analog products for car entertainment. Our i.MX applications processors, which are developed and brought to market by our Microcontroller and Processor teams, are highly integrated ARM-based application processors with integrated audio, video and graphics capability.

In the In-vehicle Networking market, we are the market leader, having played a defining role in setting in-vehicle networking standards including the CAN, LIN, FlexRay and more recently the two-wire automotive Ethernet standard. We are a leading supplier to major OEMs and continue to drive new system concepts, such as partial networking for enhanced energy efficiency. To strengthen our Ethernet position, in 2018 NXP acquired OmniPHY, a supplier of Gbit automotive Ethernet and SerDes IP.

In the Secure Car Access market, we are the market leader in two-way secure entry products, and have pioneered the development of next generation passive keyless entry/start with our customers. As a result of our R&D innovations we are a key supplier to almost all major automobile manufacturers for secure car access products.

In the Chassis & Safety domain, we offer a broad range of sensors and microcontrollers. Our inertial sensors enable vehicle stability control and airbag crash detection while our pressure sensors are well-positioned for continued growth in tire pressure monitoring, occupancy detection and engine control.

For Powertrains, we offer microcontroller and precision analog components which provide the intelligence needed for engine management systems that reduce emissions and improve fuel efficiency. In December 2013, we announced a joint venture with Datang Telecom, targeting the China domestic hybrid and electrical car market. This joint venture became active in April 2014.

For the electrification of vehicles, we have introduced a portfolio of battery cell controllers suitable for a wide range of automotive battery management systems, designed to deliver industry leading measurement accuracy and scalable, coherent functional safety mechanism up to ASIL-D. The new Battery Cell Controllers combined with NXP's comprehensive portfolio of world-class automotive microcontrollers, power management system basis chips and communication transceivers are a perfect solution for car makers to electrify their entire fleet across 12V, 48V, Plug-in Hybrid and electrical vehicles.

In ADAS, we are developing solutions for Radar, Vision and Secure V2X , including high-performance microcontrollers as well as precision analog radio frontends. In 2013, we made a strategic investment in Cohda Wireless, an equipment vendor in the Intelligent Transport Systems (ITS) market with whom we co-operate for V2X solutions. In December 2013, we also announced the intended sale of our Telematics Module business to Telit Communications which closed in March 2014.

We employ both proprietary in-house processes with automotive-grade, high-voltage, RF and non-volatile capabilities as well as advanced submicron foundry processes. We also deploy specialty IP such as leading edge security IP developed by our Secure Identification Solutions business, to enhance our automotive solutions. We design our products to be compliant with

all key global relevant automotive quality standards (such as ISO/TS16949, AEC-Q-100 and VDA6.3).

For the full year 2018, we had High Performance Mixed Signal revenue of \$3,953 million in automotive applications, compared to \$3,762 million in 2017, which represents a 5.1% year over year increase. According to Strategy Analytics, the total market for automotive semiconductors was \$37.6 billion in 2017, and projects it will grow at a compounded annual growth rate of 7.5% between 2017 and 2021.

Secure Identification Solutions (SIS). The SIS business is focused on delivering solutions to address the security and privacy requirements of three specific end market dynamics: (1) the increasing adoption of chip-based banking cards (“Banking”); (2) the increasing usage of high-volume, single-payment platform systems for urban transportation (“Transit—Access”); and (3) the increased need to provide government sponsored products to assure privacy and secure cross-border movement of people (“eGov”).

Nearly all of SIS 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 assure extreme levels of security of user information, undergoing stringent and continued global governmental and banking certification processes, as well as delivering the highest level of device performance enabling significant throughput and productivity to our customers.

In the banking sector NXP is one of the leading suppliers in the contact, contactless and dual-interface bank card market. We have innovated and deployed “multi-application” banking solutions which support a combination of payment, transit and access solutions all leveraging a single physical bank card. In the transit and access market, NXP’s MIFARE products are ubiquitous throughout the world, having been deployed in over 750 cities, facilitating the mass transit requirements of over one billion people per day. Additionally our transit and access products are deployed in application such as employee identification for facility access and security. We are also focused on deploying our technology into new emerging market applications such as interactive gaming, theme-park attendee management and supply chain and inventory product management to support high velocity supply chain management. In the eGovernment sector, NXP is a market leader providing solutions for chip-based cross-border passports, drivers-licenses, health cards and other government sponsored identification documents. We have also worked with emerging market government agencies to facilitate government sponsored identity cards which also serve as payment platforms helping the mass-population of under-banked.

For the full year 2018, we had High Performance Mixed Signal revenue of \$554 million in SIS, compared to \$523 million in 2017, which represents a 5.9% year over year increase. According to ABI Research, the market size for secure identification ICs was \$3.3 billion in 2017, and is expected to grow at a compounded annual rate of 1% to \$3.4 billion in 2021.

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Secure Connected Devices (SCD). The SCD business is focused on delivering solutions to enable the future of connected devices – also known as “Internet of Things” (IoT). We believe the future growth of secure connected devices requires the ability to deliver four fundamental functional capabilities: (1) embedded microcontrollers; (2) connectivity – short range RF and wireless technology (Bluetooth LE, Zigbee, Thread and NFC); (3) security; and (4) sensor. We see end-markets and applications emerging in the area of Mobile Payments, Smart Home-Health, Smart Cities, Wearables and Smart Industrial.

The SCD business has a broad portfolio of products which we believe enables NXP to successfully compete and deliver all aspects of semiconductor-based technologies for connected devices including microcontrollers, secure mobile transactions solutions and various connectivity solutions.

Post-Merger, we are one of the largest supplier of broad based microcontrollers. We differentiate ourselves versus our competitors with a broad portfolio of products addressing different processing power, connectivity standards, peripherals and security levels depending on customers evolving requirements.

We have a strong position in multi-purpose 32-bit ARM-based microcontrollers serving a broad array of applications. 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 MCUs 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. We believe we have the broadest ARM portfolio in the industry.

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.

We are the market leader in secure mobile transactions. NXP has pioneered and led the development of the ISO standard for Near Field Communications (NFC), which is rapidly emerging as the de facto standard for secure short-range connectivity. In combination with our industry leading SmartMX family of secure element device as well as our secure operating system, NXP has garnered market leadership in the deployment of mobile wallets and mobile payment. Our position leverages our decades long position in cryptography and security in the Banking, Transit – Access and eGov sectors.

NXP has a broad and diverse portfolio of connectivity assets, IP and application knowledge which we believe enables us to fulfill our customer’s connectivity requirements for IoT

applications, including smart lighting, smart energy, wireless remote controls & switches and healthcare monitoring.

In February 2015 we acquired Quintic, which brought assets and IP to broaden our connectivity portfolio. Specifically, Quintic is an innovator in the area of Bluetooth Low Energy (BTLE), a key connectivity standard for IoT devices.

Our mobile audio business focuses on smart speaker drivers and leverages many of the same core technologies and competencies as our personal healthcare business. We also sell software solutions for mobile phones through our NXP Software business. The NXP Software solutions business develops audio solutions that enable mobile device manufacturers to produce differentiated hand held products that enhance the end-user experience. Our software has been incorporated into over 1 billion mobile devices produced by many of the world's leading mobile device manufacturers.

Our personal healthcare revenue is generated in different segments. First, we have our hearing instrument and hearable products, which leverage our ultra-low power DSP, NVM, magnetic induction and 2.4GHz audio streaming radio technology. Second, we co-develop and manufacture custom medical imaging sensors for selected customers. Finally, we offer single chip solutions for monitoring patients' therapy compliance.

Our overall High Performance Mixed Signal revenue in the SCD business was \$2,723 million in 2018, compared to \$2,587 million in 2017, which represents a 5.3% year over year increase. The worldwide market for Microcontrollers 32-bit was \$9.0 billion in 2017, and we expect a compounded annual growth rate of 6.0% between 2017 and 2021.

Our leadership in secure/smartcard Microcontrollers and our position in the non-secure Microcontrollers outside Automotive creates a strong position in broad based Microcontrollers.

Secure Interfaces and Infrastructure (SI&I). Our SI&I businesses consist of: Digital Networking Processors, Secure Interface and System Management Products, High-performance RF Power-Amplifiers (HPRF) and Smart Antenna solutions.

NXP is a significant participant in the communications infrastructure market. Our communications processors are programmable semiconductors that perform tasks related to control and management of digital data, as well as network interfaces. They are designed to handle tasks related to data transmission between nodes within a network, the manipulation of that data upon arrival at its destination and protocol conversion. Our product portfolio includes 32-bit and 64-bit offerings ranging from a single core to 28- and 45-nanometer multicore QorIQ communications processors. Wireless-infrastructure processors combine communication processors with DSP functionality and specific wireless acceleration technology. Our portfolio of secure wireless-infrastructure processors targets small cells and macro base stations. These products perform baseband processing and support multiple cellular-network air-interfaces such as 5G, LTE-Advanced, TD-LTE, LTE, HSPA+, TD-SCDMA, and CDMA2000K. Used by leading OEMs worldwide, our broad portfolio of wireless-infrastructure and communications processors satisfies wireless infrastructure requirements.

We are a major supplier in interface, power, authentication and high-performance analog products. Our products address many interface and power standards and we serve various applications across the mobile, computing, industrial, consumer and automotive markets. We have broad product portfolios including I2 C/PC, GPIO, LED controllers, real-time clocks, signal and load switches, signal integrity products, wired and wireless charging solutions, DC-DC, AC-DC converters and authentication products. We generate our revenue by selling products to a very broad customer base, which we serve through our distribution channel. We have 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. We are engaged in development activities and standard setting initiatives with many of the innovation leaders in each of these markets.

Key growth drivers will be the adoption of fast wired USB-C and fast Qi wireless charging in mobile applications. Our value proposition is to provide differentiating and complete NXP end-to-end fast-charging solutions, for both wired and wireless charging. In AC-DC conversion application, we are a market leader in resonant power conversion below 300W. Our differentiation is based on our high-voltage power process technologies and engineering capabilities in designing high-efficiency power conversion products. In the computing market, we have industry-leading linear redriver products for 10-20Gbps signal integrity applications. In the audio market, we are a market leader in smart phones, as well as hearing instruments and hearables. We add value by combining low-power IC design and audio enhancement software for our customers. Our extensive I2C and GPIO portfolios serve very fragmented market segments, generating long-lived revenue with long-tail customers of varied applications. NXP is co-author to I3C and will lead in I3C product innovation. Combined with NXP processors and complete with differentiating software, our analog, interface and power solutions provide customers with differentiating and complete solutions in focused IOT verticals, such as smart home and Industry 4.0.

We are the market leader in HPRF power amplifiers for markets, such as mobile base stations, wireless connectivity, satellite and CATV infrastructure and receivers, industrial applications, and to a lesser extent the military and aerospace markets. We are engaged with the majority of the largest customers in mobile base stations and in several other application areas.

Both Freescale and NXP prior to the Merger were the main suppliers into the HPRF power amplifier market. As a result of the Merger, NXP was required to sell its HPRF business. On December 7, 2015 NXP completed the divestment of its RF Power business to JAC Capital. We also have a business offering Smart Antenna solutions focused on high-performance RF amplifiers. This business utilizes RF technologies optimized for various applications in the smartphone, consumer, industrial and infrastructure markets.

Our overall revenue in these businesses was \$1,792 million in 2018 versus \$1,873 million in 2017, which represents a decrease of 4.3% year over year.

Standard Products

Until February 6, 2017, our SP business supplied a broad range of standard semiconductor components, such as small signal discretes, power discretes, protection and signal conditioning devices and standard logic devices, which were largely produced in dedicated

in-house high-volume manufacturing operations. Our portfolio consisted of a large variety of catalog products, using widely-known production techniques, with characteristics that were largely standardized throughout the industry as well as leading discrete solutions especially in the field of ESD protection / EMI filtering and low loss rectification and power switching. Our SP products were often sold as separate components, but in many cases, were used in conjunction with our HPMS solutions, often within the same subsystems. Further, we were able to leverage customer engagements where we provided standard products devices, as discrete components, within a system to identify and pursue potential HPMS opportunities. Our products were sold both directly to OEMs as well as through distribution, and were primarily differentiated on cost, packaging type and miniaturization, and supply chain performance. Alternatively, our innovative products included “design-in” products, which required significant engineering effort to be designed into an application solution. For these products, our efforts made it more difficult for a competitor to easily replace our product, which made these businesses more predictable in terms of revenue and pricing than is typical for standard products.

Manufacturing

We manufacture integrated circuits and discrete semiconductors through a combination of wholly owned manufacturing facilities, manufacturing facilities operated jointly with other semiconductor companies 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, and have concentrated the majority of our manufacturing base in Asia. 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 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 discretely. 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 sizes used	Line widths used (vm) (Microns)	Technology/Products
	Front-end			
Singapore ⁽¹⁾	61.2%	8”	0.14-0.25	CMOS
Nijmegen, the Netherlands	100%	8”	0.14-0.80	CMOS, BiCMOS, LDMOS
Oak Hill, Austin, US	100%	8”	0.25	CMOS, BiCMOS, Sensors, LDMOS, HDTMOS, PowerCMOS
Chandler, US	100%	8”	0.25-0.50	CMOS, eNVM, PowerCMOS
Austin Technology and Manufacturing Center, US	100%	8”	0.09-0.18	CMOS, eNVM, PowerCMOS, Advanced CMOS, SoC
Back-end⁽²⁾				
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.

(2) On July 10, 2018, NXP completed the sale of its 40% equity interest of Suzhou ASEN Semiconductors Co., a back-end manufacturing joint venture with ASE in Suzhou, China.

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, ODMs, contract manufacturers and distributors. We generate demand for our products by delivering HPMS 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, Aptiv, Bosch, Continental, Denso, Ericsson, Huawei, LG, Samsung and Visteon. We also have a strong position with our distribution partners being a top three semiconductor supplier (other than microprocessors and memory ICs) through distribution worldwide. Our 3 largest distribution partners are 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 2018, 15% in 2017 and 13% in 2016. Arrow accounted for 10% of our revenue in 2018 and less than 10% of our revenue in 2017 and 2016. No other distributor accounted for greater than 10% of our revenue. With 11%

of total revenue, Continental was the only OEM for which we had direct sales to that accounted for more than 10% of revenue in 2018 and 2017. In 2016, this percentage was below 10%.

Research and Development, Patents and Licenses, etc.

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 HPMS 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, 2018, we had 8,452 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 automotive advanced driver-assistance systems (ADAS), in-vehicle networks and power management as well as Edge computing to support the successful deployment in the Internet of Things with our cross-over processing technology, but also in emerging markets, such as massive MIMO in RF Power and millimeter wave for 5G. Finally, 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 over 9,000 patent families (each patent family includes all patents and patent applications originating from the same invention). To protect certain 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 any 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 being 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, ranging from multinational companies with integrated research and development, manufacturing, sales and marketing organizations across a broad spectrum of product lines, to “fabless” semiconductor companies, to 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., Broadcom, Infineon, Intel, Marvell, Maxim Integrated Products, Microchip, Renesas, Power Integrations, Silicon Laboratories, STMicroelectronics and Texas Instruments.

The basis on which we compete varies across market segments and geographic regions. Our HPMS businesses compete primarily 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 HPMS 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, 2018, we have recorded \$88 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.

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 (IFRS) as adopted by the European Union.

For the IFRS accounting principles, we refer to note 2 *Significant accounting policies and new accounting standards to be adopted after 2018* 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.

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

\$ in millions	2018	2017
Operating income as per the consolidated statements of income on an IFRS basis	3,162	2,443
Adjustments to reconcile to U.S. GAAP:		
- Reversal of capitalized product development costs	(770)	(635)
- Reversal of amortization of product development assets	235	176
- Reversal of impairment of product development assets	29	46
- Reversal of IPR&D amortization	2	2
- Additional amortization of intangible assets	1	1
- Reversal of IFRS adjustments for share-based compensation	-	(5)
- Reversal of IFRS adjustment for restructuring	40	59
- Reversal of IFRS differences for divested businesses	-	6
- Reversal of additional step-up from partial acquisitions of subsidiaries of NXP	1	1
- No deferral under IFRS for past service costs from plan amendments	10	8
Operating income as per the consolidated statement of income on a U.S. GAAP basis	2,710	2,102

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 by reportable segment is presented on a U.S. GAAP basis, with, when applicable, a reconciling item to the IFRS basis.

The following table presents the aggregate by segment of Revenue and Operating income for the full year 2018 and 2017.

Revenue and Operating income

\$ in millions	2018			2017		
	Revenue	Operating income (loss)	%	Revenue	Operating income (loss)	%
High Performance						
Mixed Signal	9,022	807	8.9	8,745	656	7.5
Standard Products	-	-	-	118	31	26.3
Corporate and Other	385	1,903	494.3	393	1,415	360.1
	9,407	2,710	28.8	9,256	2,102	22.7
Adjustments to reconcile to IFRS		452			341	
		3,162	33.6		2,443	26.4

Revenue

The following table presents revenue by segment for the years ended December 31, 2018 and 2017.

(\$ in millions, unless otherwise stated)	For the year ended December 31,			
	2018		2017	
	Revenue	% nominal growth	Revenue	% nominal growth
High Performance Mixed Signal	9,022	3.2	8,745	8.1
Standard Products	-	-	118	(90.3)
Corporate and Other	385	(2.0)	393	104.7
Total	9,407	1.6	9,256	(2.5)

Revenue increased by \$151 million to \$9,407 million in 2018 compared to \$9,256 million in 2017, a nominal increase of 1.6%, despite the industry wide slowdown in the fourth quarter of 2018 and the inclusion of one month of revenue of the divested SP business in 2017.

Our HPMS segment reported an increase in revenue of \$277 million to \$9,022 million in 2018 compared to \$8,745 million in 2017, resulting in 3.2% nominal growth. The increase was primarily due to increased demand in Automotive and Secure Connected Devices and to a lesser extent in Secure Identification Solutions, partly offset by lower sales in Secure Interface & Infrastructure due to lower overall market demand.

Revenue for Corporate and Other amounted to \$385 million in 2018, compared to \$393 million in 2017 and mainly related to our manufacturing operations, including revenue derived from services to Nexperia.

Gross profit

The following table presents gross profit by segment for the years ended December 31, 2018 and 2017.

(\$ in millions, unless otherwise stated)	2018		2017	
	Gross profit	% of segment revenue	Gross profit	% of segment revenue
	High Performance Mixed Signal	4,822	53.4	4,527
Standard Products	-	-	45	38.1
Corporate and Other	29	7.5	47	12.0
	4,851	51.6	4,619	49.9
Adjustments to reconcile to IFRS	(11)		(6)	
Total	4,840	51.5	4,613	49.8

Gross profit in 2018 was \$4,851 million, or 51.6% of revenue, compared to \$4,619 million, or 49.9% of revenue in 2017. The increase of \$232 million was primarily driven by incremental revenue generated in 2018 as well as lower depreciation related to the purchase accounting from the Freescale acquisition and partly offset by the divestment of SP.

Our HPMS segment had a gross profit of \$4,822 million, or 53.4% of revenue in 2018, compared to \$4,527 million, or 51.8% of revenue in 2017. The increase of \$295 million was

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primarily driven by incremental revenue generated in 2018 as well as lower depreciation related to the purchase accounting from the Freescale acquisition.

Operating expenses

The following table presents operating expenses by segment for the years ended December 31, 2018 and 2017.

(\$ in millions, unless otherwise stated)	2018		2017	
	Operating expenses	% of segment revenue	Operating expenses	% of segment revenue
High Performance Mixed Signal	4,014	44.5	3,871	44.3
Standard Products	-	-	14	11.9
Corporate and Other	128	33.2	207	52.7
	4,142	44.0	4,092	44.2
Adjustments to reconcile to IFRS	(463)		(352)	
Total	3,679	39.1	3,740	40.4

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

(\$ in millions, unless otherwise stated)	2018	2017
Research and development	1,700	1,554
Selling, general and administrative	993	1,090
Amortization of acquisition-related intangible assets	1,449	1,448
Adjustments to reconcile to IFRS	(463)	(352)
Operating expenses	3,679	3,740

Operating expenses were \$4,142 million, or 44.0% of revenue in 2018, compared to \$4,092 million, or 44.2% of revenue in 2017, an increase of \$50 million. This was the result of higher expenses in R&D, partly offset by lower cost in SG&A due to a continued focus on cost control, lower merger related expenses and the divestment of SP.

In our HPMS segment, operating expenses amounted to \$4,014 million, or 44.5% of revenue in 2018, compared to \$3,871 million, or 44.3% of revenue in 2017. The increase was primarily the result of higher expenses in R&D.

Operating expenses in Corporate and Other amounted to \$128 million, or 33.2% of revenue in 2018, compared to \$207 million or 52.7% of revenue in 2017. The decrease in operating expenses was a result of less incurred expenses associated with the terminated proposed acquisition by Qualcomm Incorporated (6 months of merger cost in 2018 compared to a full year of merger cost in 2017).

When comparing to US GAAP, the \$463 million lower 2018 operating expenses (2017: \$352 million) under IFRS primarily relate to (i) the net effect of capitalizing development costs of \$507 million (2017: \$413 million) and (ii) the higher IFRS restructuring charges for an amount

of \$40 million (2017: higher restructuring charges of \$59 million) due to the stricter IFRS recognition criteria.

Other income and expense

Other income (expense) reflects income of \$2,001 million for 2018, compared to \$1,570 million of income in 2017. Included in 2018 is the \$2,000 million break-up fee received from Qualcomm, whereas the 2017 amount included the realized gain of \$1,592 million on the sale of the SP business to JAC Capital.

Restructuring charges

Total restructuring and restructuring related costs amounted to \$45 million in 2018, compared to \$60 million in 2017. The 2018 and 2017 restructuring charges relate primarily to employee severance costs.

Financial income and expense

	2018	2017
Interest income	48	27
Interest expense	(273)	(310)
Net gain (loss) on extinguishment of debt	(26)	(41)
Foreign exchange rate results	(14)	(30)
Other	(70)	(12)
Total	(335)	(366)

Financial income (expense) was an expense of \$335 million in 2018, compared to an expense of \$366 million in 2017. The change in financial income (expense) is primarily attributable to (i) the decrease in interest expense, net, as a result of repayment of debt in 2018, (ii) a favorable impact of foreign exchange rate results and (iii) lower debt extinguishment cost related to repayment of debt, offset by (a) a one-time charge (\$60 million) on certain financial instruments for compensation related to an adjustment event required by the termination of the Qualcomm Purchase Agreement and (b) fees for the Bridge loan.

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 \$240 million in 2018, which reflects an effective tax rate of 8.5% compared to a benefit of \$465 million (22.4%) in 2017. 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 and the mix of income and losses in various jurisdictions. 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:

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- The U.S. Tax Cuts and Jobs Act is the primary driver for the change between the two periods as a result of the one-time benefit of \$817 million we received in 2017, which only had an impact of an additional income tax benefit of \$3 million in 2018.
- The Netherlands tax incentives increased in 2018 due to the fact that NXP reached an agreement with the Dutch tax authorities related to the application of the Dutch innovation box regime to the taxable income attributable to the Netherlands. In addition to this, in 2018, NXP received a break-up fee from Qualcomm of \$2,000 million which helped drive a higher income before tax in 2018 than in 2017, even though in 2017 NXP had realized a gain of \$1,592 million on the divestment of SP business.
- The adjustments to prior years' income taxes increased in 2018 as a result of the aforementioned agreement which 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 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 related to our on-going operations are expected to remain at \$30-35 million per quarter during 2019. Our future cash payments for income taxes will also be impacted by the following non-recurring events, related to the termination compensation and the realized gain on the divestment of SP, resulting in additional payments of \$349 million in total, with \$298 million being paid in 2019 and \$51 million being paid in 2020.

Results relating to equity-accounted Investees

Results relating to equity-accounted investees amounted to a gain of \$59 million in 2018, which includes a net gain realized of \$51 million resulting from the sale of ASEN in July 2018. In 2017, results relating to equity-accounted investees amounted to a gain of \$34 million, including a gain of \$12 million resulting from the sale of ASMC in April 2017.

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 \$49 million in 2018, compared to a profit of \$56 million in 2017.

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, 2018, our cash balance was \$2,789 million, a decrease of \$758 million compared to December 31, 2017 (\$3,547 million). Taking into account the available undrawn amount of the Secured Revolving Credit Facility (the "RCF Agreement") of \$600 million, we had access to \$3,389 million of liquidity as of December 31, 2018.

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 \$611 million in 2018, compared to \$552 million in 2017.

On July 26, 2018, subsequent to the termination of the purchase agreement, the board of directors of NXP authorized the repurchase of an additional \$5 billion of the Company's stock. During October 2018, the board of directors of NXP authorized the additional repurchase of approximately 15 million shares. The extended authorization, effective November 1, 2018, is above the completed \$5 billion share repurchase program announced on July 26, 2018. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of approximately \$5 billion. 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 stockholders' equity.

On November 16, 2018, the Company, as authorized by the June 2018 AGM, cancelled 5% (representing 17,300,143 shares) of the issued number of NXP shares. As a result, the number of issued NXP shares as per November 16, 2018 is 328,702,719 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 October 5, 2018 and January 7, 2019. Our total debt amounted to \$7,354 million as of December 31, 2018, an increase of \$789 million compared to December 31, 2017 (\$6,565 million). On April 2, 2018, we fully redeemed the \$500 million of outstanding principal amount of our 5.75% Senior Notes due 2023 using available surplus cash. Additionally, on April 9, 2018, we fully redeemed the \$750 million of outstanding principal amount of our 3.75% Senior Notes due 2018 using available surplus cash. On September 19, 2018, we entered into a \$1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of \$1 billion (the "Bridge Loan") was borrowed. On December 6, 2018, NXP entered into 3 new senior unsecured notes, which are due in 2024 (\$1 billion), 2026 (\$500 million) and 2028 (\$500 million). A portion of the net proceeds from the December 6, 2018 notes offering was used to repay the \$1 billion Bridge Loan in December 2018.

At December 31, 2018, our cash balance was \$2,789 million, of which \$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. In 2018, a dividend of \$139 million has been declared by SSMC, of which \$54 million was distributed to the joint venture partner.

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

In 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.

In 2017 our operating activities provided \$3,082 million in cash. This was primarily the result of net income of \$2,576 million and non-cash items; primarily depreciation, amortization and impairment of \$2,400 million; partially offset by the gain on the sale of assets of \$1,591 million and changes in deferred taxes of \$465 million.

Cash flow from investing activities

Net cash used for investing activities amounted to \$1,292 million in 2018 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).

Net cash provided by investing activities amounted to \$1,437 million in 2017 and principally consisted of the cash inflow from proceeds from the sale (net of cash) of the SP business, partly offset by the cash outflows for capital expenditures of \$552 million, capital expenditures on development assets for \$635 million and \$66 million for the purchase of identified intangible assets, mainly related to the purchase of licenses.

Cash flow from financing activities

Net cash used for financing activities was \$4,597 million in 2018 compared to \$2,886 million in 2017. The cash flows related to financing transactions in 2018 and 2017 are primarily related to the financing activities described below under the captions *2018 Financing Activities* and *2017 Financing Activities*, respectively.

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

	Year ended December 31,	
	2018	2017
Dividends paid to non-controlling interests	(54)	(89)
Dividends paid to common stockholders	(74)	-
Cash proceeds from exercise of stock options	39	233
Purchase of treasury shares	(5,006)	(286)
Cash paid for terminated acquisition adjustment event	(60)	-
Cash paid on behalf of shareholders for tax on repurchased shares	(142)	-
Excess tax benefits from share-based compensation plans	-	-

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

Report of the Directors *Management commentary*

outstanding aggregate principal amount of the 2023 Notes. The repayment occurred in April 2018 using available surplus cash.

2017 Financing Activities

2017 and 2020 Term Loans

In February 2017, NXP repaid (i) all its outstanding floating-rate term loan due March 2017 in an aggregate principal amount of \$388 million, (ii) all its outstanding floating-rate term loan due January 2020 in an aggregate principal amount of \$387 million and (iii) all its outstanding floating-rate term loan due December 2020 in an aggregate principal amount of \$1,436 million, in each case, together with accrued interest and applicable fees. The repayment occurred in February 2017 with the funds for these repayments coming from the proceeds of the divestment of the SP business.

2021 Senior Unsecured Notes

In March 2017, NXP redeemed \$500 million of the outstanding aggregate principal amount of its 5.75% Senior Unsecured Notes due 2021, which represented all of the outstanding aggregate principal amount of these Notes. The funds for this redemption coming from available surplus cash.

Debt position

Short-term debt

As of December 31, 2018, our short-term debt amounted to \$1,107 million. As of December 31, 2017, our short-term debt amounted to \$751 million.

Long-term debt

We refer to note 21 *Long-term debt* for the details and 2018 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.

Certain Terms of the 2019 Cash Convertible Senior Notes

We have issued \$1,150 million aggregate principal amount of 2019 Cash Convertible Senior Notes, which bear interest at 1.00% per annum and mature on December 1, 2019, unless earlier converted, repurchased or redeemed. The 2019 Cash Convertible Senior Notes pay interest on June 1 and December 1 of each year, beginning on June 1, 2015. The 2019 Cash Convertible Senior Notes are senior unsecured obligations of NXP Semiconductor N.V. and will be settled solely in cash upon conversion. We may not redeem the 2019 Cash Convertible Senior Notes prior to their maturity date other than following the occurrence of certain tax law changes as set forth in the indenture governing the 2019 Cash Convertible Senior Notes (the "Convertible Notes Indenture"). Upon the occurrence of certain events which constitute a "fundamental change" under the Convertible Notes Indenture, such as certain change of control, the holders of 2019 Cash Convertible Senior Notes may require us to repurchase for

cash all or part of their 2019 Cash Convertible Senior Notes at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest.

Prior to September 1, 2019, holders may convert their 2019 Cash Convertible Senior Notes only upon satisfaction of certain conditions specified in the Convertible Notes Indentures. On or after September 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may, at their option, convert their 2019 Cash Convertible Senior Notes solely into cash at any time.

Upon conversion, in lieu of receiving any shares of our common stock, a holder will receive, per \$1,000 principal amount of 2019 Cash Convertible Senior Notes being converted, an amount in cash equal to the settlement amount, determined as described in the Convertible Notes Indenture. The conversion rate will initially be 9.7236 shares of our common stock per \$1,000 principal amount (equivalent to an initial conversion price of \$102.84 per share). The conversion rate for the 2019 Cash Convertible Senior Notes is subject to customary anti-dilution adjustments and will also be adjusted for any fundamental change or tax redemption, each as described in the Convertible Notes Indenture.

Concurrently with the issuance of the 2019 Cash Convertible Senior Notes, we entered into cash convertible note hedge and warrant transactions.

Cash Convertible Note Hedge Transactions and Warrant Transactions

On November 24, 2014 and November 25, 2014, in connection with our issuances of the 2019 Cash Convertible Senior Notes, we entered into cash convertible note hedge transactions with affiliates of the initial purchasers of the 2019 Cash Convertible Senior Notes (in such capacity, the "Option Counterparties") to offset any cash payment we are required to make in excess of the principal amount of the 2019 Cash Convertible Senior Notes.

In these transactions, we paid \$208 million for call options, subject to customary anti-dilution adjustments, that cover an aggregate 11.18 million shares of NXP's common stock, with an initial strike price of \$102.84 per share. The Option Counterparties or their respective affiliates may enter into, or unwind, various over-the-counter derivatives and/or purchase or sell our common stock in open market and/or privately negotiated transactions prior to maturity of the 2019 Cash Convertible Senior Notes, including during any observation period for the settlement of conversions of the 2019 Cash Convertible Senior Notes, or upon any repurchase of the 2019 Cash Convertible Senior Notes by us, which could adversely impact the price of our common stock and of the 2019 Cash Convertible Senior Notes.

Separately, we sold warrants to the Option Counterparties for \$134 million giving them the right to purchase from us, subject to customary anti-dilution adjustments, 11.18 million shares of NXP's common stock, with an initial strike price of \$133.32 per share. The warrants will have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants on or prior to the expiration date of the warrants. The warrants expire on various dates starting from March 2, 2020, and will be net share settled. Under the terms of the warrants, each Option Counterparty may adjust certain terms of its warrants upon the announcement, termination or occurrence of certain events. The warrant transactions may also be terminated if the Option Counterparty determines that no such adjustment will produce a commercially reasonable result, and that

the relevant event is reasonably likely to occur. Any such adjustment 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.

Employees

As of December 31, 2018 we had 30,000 full-time equivalent employees compared to 30,100 at December 31, 2017. The average 2018 full-time equivalent employees is 30,050; which is calculated by the sum of 30,000 and 30,100 dividend by two.

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

	As of December 31,	
	2018	2017
Europe and Africa	20	20
Americas	20	20
Greater China	25	24
Asia Pacific	35	36
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

There were no events after the reporting period that require disclosure in accordance with IAS 10 *Events after the Reporting Period*.

Eindhoven, May 2, 2019
Board of directors

Report of the Directors Governance

NXP's Leadership

Board of Directors

Set forth below are the names, ages and positions as of December 31, 2018, of the persons who serve as members of our board of directors.

Name	Age	Position	Meeting attendance (1)
Richard L. Clemmer	67	Executive director and chief executive officer	100%
Sir Peter Bonfield	74	Non-executive director, chairman of the board and member of the nominating & compensation committee	100%
Johannes P. Huth	58	Non-executive director, vice-chairman of the board and member of the nominating & compensation committee	59%
Kenneth A. Goldman	69	Non-executive director and member of the audit committee	95%
Josef Kaeser	61	Non-executive director and member of the audit committee	70%
Eric Meurice	62	Non-executive director	94%
Peter Smitham	76	Non-executive director and chairman of the nominating & compensation committee	88%
Julie Southern	59	Non-executive director and chairman of the audit committee	100%
Gregory Summe	62	Non-executive director, member of the audit committee, and member of the nominating & compensation committee	95%

(1) Attendance is reflected for the twelve Board meetings/calls held in 2018. For those directors that are member of the audit committee and the nominating & compensation committee, attendance also reflects the eight audit committee meetings/calls and the five nominating & compensation committee meetings/calls.

Report of the Directors Governance

- **Richard L. Clemmer (1951, American).** Mr. Clemmer became executive director, president and chief executive officer on January 1, 2009. Prior to that, from December 2007, Mr. Clemmer was a member of the supervisory board of NXP B.V. and a senior advisor of Kohlberg Kravis Roberts & Co. Prior to joining NXP, he was the President and CEO of Agere Systems, served as Chairman of u-Nav Microelectronics Corporation, and was executive vice president and chief financial officer at Quantum Corporation. Prior to that, Mr. Clemmer worked for Texas Instruments Incorporated as senior vice president and semiconductor group chief financial officer. Mr. Clemmer also serves on the boards of NCR Corporation and RMG Technologies Inc., a private start-up focused on network security.
- **Sir Peter Bonfield CBE FEng (1944, British).** Sir Peter has been appointed a non-executive director and 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 Belgium. He is also Advisor to Longreach LLP in Hong Kong, Alix Partners UK LLP in London and The Hampton Group in London, and is a Fellow of The Royal Academy of Engineering. Sir Peter is named Outstanding Director for 2019 by the Financial Times.
- **Johannes P. Huth (1960, German).** Mr. Huth has been appointed a non-executive director and vice-chairman of our board of directors in August 2010. Prior to that, Mr. Huth was a member and chairman of our supervisory board and a member and vice-chairman of NXP B.V.'s supervisory board from September 29, 2006. Mr. Huth joined Kohlberg Kravis Roberts & Co. LLP in May 1999 and is a Member of KKR and Head of KKR's operations in Europe, the Middle East and Africa. He is also a member of the Firm's senior management and several of the Firm's Investment Committees. Prior to joining KKR, he was a member of the Management Committee of Investcorp and jointly responsible for Investcorp's operations in Europe. From 1986 to 1991, he worked at Salomon Brothers, where he was a Vice President in the Mergers and Acquisitions departments in London and New York. Mr. Huth currently is also the chairman of Henslodt GmbH and a member of the Supervisory Board of GEG German Estate Group AG and member of the Board of SoftwareOne AG. He is Vice-Chair of the Board of Trustees of the Design Museum, trustee of the Staedel Museum in Frankfurt, trustee of The Education Endowment Foundation, and a member of the Global Advisory Board of the University of Chicago Booth School of Business. He is a Visiting Fellow of Oxford University and a Fellow of the Royal Society of Arts and member of the Conseil d'Administration of Les Arts Decoratifs in Paris. He earned a BSc with Highest Honors from the London School of Economics and an MBA from the University of Chicago.
- **Kenneth A. Goldman (1949, American).** Mr. Goldman has been 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. 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 has been 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. Prior to this, from May 2006 to August 2013, he was member of the managing board and chief financial officer of Siemens AG. From 2004 to 2006, Mr. Kaeser served as chief strategy officer for Siemens AG 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 managing board of Siemens AG and the board of directors of Siemens Ltd., India, Daimler AG and Allianz Deutschland AG.
- **Eric Meurice (1956, French).** Mr. Meurice has been appointed a non-executive director of the board of directors effective April 1, 2014. Mr. Meurice was the CEO and Chairman of the management board of ASML Holding NV, a leading provider of manufacturing equipment and technology to the semiconductor industry from 2004 to 2013. Under his watch, ASML became the largest Lithography vendor in the world, leading to a significant equity investment and funding commitment by its customers. Before joining ASML, he was Executive Vice President of Thomson Television, where he completed the merger of his division with TCL Corporation, one of the largest Chinese consumer electronics companies. Before 2001, he served as head of Dell Computers' Western, Eastern Europe and EMEA emerging market businesses. He gained extensive technology experience in the semiconductor industry between 1984 and 1994, first at Intel, in the micro-controller group, and then at ITT Semiconductors, a provider then of digital video and audio DSP integrated circuits. Mr. Meurice is a director of IPG Photonics, a US-based Laser supplier, since June 2014, of UMICORE, a Belgium based materials specialist, since April 2015, of Meyer Burger, a Swiss Solar cell manufacturing equipment supplier, since May 2018, and of SOITEC, a French based leader of Semiconductor materials, since July 2018. He served on the board of Verigy LTD (former HP test division), until its acquisition by Advantest in 2011. From July 1, 2013 to April 1, 2014 he was non-executive director of ARM Holdings plc (UK, semiconductor intellectual property supplier).
- **Peter Smitham (1942, British).** Mr. Smitham has been 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.

- **Ms. Julie Southern (1959, British).** Ms. Southern has been appointed a non-executive director of our board of directors in October 2013. She was with Virgin Atlantic Limited (UK) from 2000 to May 2013. From 2010 to 2013 Ms. 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. Ms. Southern currently holds non-executive directorships at Rentokil-Initial Plc, Cineworld PLC, DFS PLC and EasyJet plc, and is Chair of the respective Audit Committees. Ms. Southern is also a non-executive director and member of the Nomination Committee and Audit Committee of Ocado Group PLC.
- **Gregory L. Summe (1956 American).** Mr. Summe has been appointed a non-executive director of our board of directors effective December 7, 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. Prior to 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 and Chairman of the Compensation and Leadership Committee prior to serving as Chairman of the Board. 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, where he is the chairman of the Nomination & Governance and Strategy committees and two private companies, Ohana Biosciences, and Pella Corporation.

Management Team

Set forth below are the names, ages and positions as of December 31, 2018, of the executive officers who together with our chief executive officer, Mr. Clemmer, constitute our management team.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Richard L Clemmer	67	Executive director and chief executive officer
Kurt Sievers	49	President
Peter Kelly	61	Executive vice president strategy and chief financial officer
Steve Owen	58	Executive vice president sales & marketing
David Reed	60	Executive vice president technology and operations
Keith Shull	67	Executive vice president and chief human resources officer
Jennifer Wuamett	53	Executive vice president and general counsel

- **Kurt Sievers (1969, German).** Mr. Sievers is president and member of the management team, overseeing all business lines. He has previously managed our High Performance Mixed Signal businesses focused on the automotive application markets and the automotive safety and comfort business line and served in various positions at Philips since 1995.
- **Peter Kelly (1957, American).** Mr. Kelly is executive vice president, chief financial officer and a member of the management team, focusing on Strategy, M&A, and the integration with Freescale. 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, British).** 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).** Ms. 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, Ms. 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.

Information on the remuneration of our board of directors and key management is disclosed in note 32 *Information on remuneration board of directors* of the consolidated financial statements.

Corporate governance

Introduction

NXP Semiconductors N.V., a company organized under Dutch law (the 'Company' or 'we'), is the parent company of the NXP group ('NXP'). The Company is a 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*). 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, the Company was converted into a Dutch public company with limited liability (*naamloze vennootschap*) and changed its name to NXP Semiconductors N.V.

In August 2010, the Company listed its common stock on the NASDAQ Global Select Market.

The Dutch Corporate Governance Code

NXP is 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 'Dutch corporate governance code' or the 'code') is dated December 8, 2016 replacing 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.

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.

Board Practices

Management Structure

We have a one-tier board structure, currently consisting of one executive director and eight independent non-executive directors.

Powers, Composition and Function

The number of executive and non-executive directors is determined by the board of directors. As of December 31, 2018, the board of directors consists of one executive director and eight non-executive directors. All non-executive directors are independent in the meaning of best practice 2.1.8 of the Dutch Corporate Governance Code. The executive director, Mr. Clemmer, has been appointed as our chief executive officer.

As per the next annual general meeting of shareholders, to be held on June 17, 2019, two current members have decided not to stand for re-election to the board of directors, and three new candidates are nominated. Subject to appointment of all nominated persons to the board, we will have one executive director and nine independent non-executive directors. The board considers it is important to keep sufficient experience in the board, especially in view of the new situation and subsequent challenges the company faced after the termination of the Purchase Agreement by Qualcomm. In view thereof, the board of directors considers it is justified that Sir Peter Bonfield and Messrs. Kaeser and Goldman stay on board, even if they have been appointed for the first time more than eight years ago. The board took into account that board members are appointed each time for a one-year period, and as such the shareholders meeting will be able to decide on any reappointments every year again.

The appointment of the directors will be made by our general meeting of shareholders upon a binding nomination of the board of directors. The board of directors shall make a list of candidates containing the name(s) of the nominated person(s) for each vacancy to be filled. The nomination shall state whether the director is proposed to be an executive or non-executive director. The general meeting of shareholders 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 director shall be appointed. In case the nomination is overruled, the board of directors 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 director 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.

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 will be 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 of directors. Our chief executive officer or all directors acting jointly may represent our company with third parties.

The plenary board of directors and its audit committee have discussed the strategy, the main risks for the company as well as the design and operation of the internal control systems during several meetings throughout 2018. Until the termination of the Purchase Agreement with Qualcomm River Holdings B.V., on July 26, 2018, the strategy of the company, and the focus of the board of directors, mainly has been to prepare for and consummate a successful closing of the transaction with Qualcomm. This has substantially impacted the long-term value creation strategy as referred to in 1.1.1 of the Dutch corporate governance code. In addition, the board of directors continued to pay attention to sustainability aspects, as further detailed in the below sustainability statements.

In view of the unusual situation whereby after nearly two years the Purchase Agreement by Qualcomm was terminated, the board of directors thoroughly and intensively discussed the future strategy of the company, which was further laid out during the investors meeting on September 11, 2018 in New York. Next to strategic business initiatives and updates, and the annual operating plan, the board of directors took decisions on the company's capital structure, quarterly dividend payments, and stock buy-backs.

The long-term strategy of the company is to maximize shareholder value and create a strong cash flow generation, by driving relative market share leadership with profitable growth at 1.5 the market and exceeding customer expectations.

NXP is committed to innovating for a better tomorrow for our customers, our employees, our 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, NXP has placed five key elements high on the culture agenda: raising the bar, engaging curiosity, taking initiative, working together and developing deep core competence. These NXP Values define uniquely who we are, and what we aspire to, as an organization. They are the guiding principles that we believe will help NXP and its employees to succeed. They inform the decisions that we make and the actions that we take – individually and collectively – every day in order to drive market success. The board of directors strives for a culture focused on long-term value creation and believes that these values enable NXP to reach that goal.

The 25 meetings of the board of directors and its committees were well attended in 2018. The average attendance percentage of all meetings was almost 90%.

Since January 1, 2013, Dutch law prescribes a gender balance for entities qualifying as large companies (as defined in article 2:397 of the Dutch Civil Code). which means that at least 30% of the seats in our board of directors 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 of directors, while taking into account the overall profile and selection criteria for appointments of suitable candidates to the board of directors, Dr. Marion Helmes and Ms. Julie Southern were appointed as non-executive directors of the Company in October 2013. In view of the anticipated closing of the Qualcomm transaction, Dr. Helmes did not stand for re-election to the board of directors as per the general meeting of shareholders in June 2018. After the termination of the Purchase Agreement with Qualcomm, end July 2018, the board of directors started a search for new members of the board, with a strong preference to appoint new women to the board. It is with pleasure that the board has nominated to the next general meeting of shareholders to be held on June 17, 2019 to appoint two additional women as member of the board of directors. Subject to the appointment of all nominated candidates

in the next general meeting of shareholders, 30% of the seats of the board of directors will be taken by women.

(Term of) Appointment

Our directors are appointed for one year and will be, if nominated by the board of directors, re-electable each year at the general meeting of shareholders. Our directors may be suspended or dismissed at any time by the 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 of directors itself, in which case resolutions shall be adopted by a simple majority of votes cast. An executive director can also be suspended by the board of directors.

In the event that one or more directors are prevented from acting or in the case of a vacancy or vacancies for one or more directors, the powers of the board of directors remain intact. The board of directors has the power, without prejudice to its responsibility, to cause our company to be represented by one or more attorneys. These attorneys shall have such powers as shall be assigned to them on or after their appointment and in conformity with our articles of association, by the board of directors.

Rules governing the board

The board of directors has adopted board regulations governing its performance, its decision making, its composition, the tasks and working procedure of the committees and other matters relating to the board of directors, the chief executive officer, the non-executive directors and the committees established by the board of directors. In accordance with our board regulations, resolutions of our board of directors 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.

The rules governing the board of directors are published on the Company's website. They include the charters of its committees, to which the plenary board of directors, while retaining overall responsibility, has assigned certain tasks: the audit committee and the nomination & compensation committee. Each committee reports to the board of directors.

The board of directors is assisted by the Secretary. The Secretary sees to it that correct procedures are followed and that the board of directors acts in accordance with its statutory obligations and its obligations under the articles of association. Furthermore, the Secretary assists the chairman of the board of directors (information, agenda, evaluation, introductory program). The Secretary, in this capacity, shall be appointed and dismissed by the board of directors.

Our non-executive directors will supervise the executive director and our general affairs and provide general advice to the executive director. Furthermore, the non-executive directors will 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 as chairman of the board and another non-executive director has been appointed as vice-chairman of the board of directors.

Each director owes a duty to us to properly perform the duties assigned to him 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

Conflicts of interests

Under our board regulations, a conflict needs to be reported to the board of directors and the board of directors 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 the general meeting of shareholders.

Other than the compensation items described below, no decisions to enter into material transactions in which there are conflicts with directors have occurred during the financial year 2018.

Compensation

General

In accordance with Dutch law, our shareholders have adopted a compensation policy for the board of directors. The remuneration of our executive director is resolved upon by our board of directors, with due observance of our compensation policy based on a scenario analysis. This analysis includes the calculation of remuneration under different scenarios, whereby different NXP performance assumptions and corporate actions are examined. The board of directors has concluded that the current policy has proven to function well in terms of a relationship between the strategic objectives and the chosen performance criteria and believes that the Annual and Long-Term Incentive Plans support this relationship. Our chief executive officer is our only executive director. The chief executive officer does not participate in the discussions of our board of directors on his compensation, nor does he vote on such a matter.

The remuneration of the non-executive directors has been resolved upon by our shareholders at a shareholders' meeting at the proposal of our board of directors, prior to the consummation of our IPO in August 2010, and amended at the annual meeting of shareholders of June 2, 2016. Future amendments of the compensation policy and the remuneration of non-executive directors are subject to the approval of shareholders. Furthermore, any proposed share or option-based director compensation (including any performance conditions relating to such compensation) must be submitted by our board to the general meeting of shareholders for its approval, detailing the number of shares or options over shares that may be awarded to the directors and the criteria that apply to such award or any modification of such rights. Prior to the consummation of the IPO in August 2010, our shareholders have approved such equity-based director compensation.

Compensation Policy and Objectives

The objective in establishing the compensation policies for our chief executive officer, the other members of our management team and our other leadership team members, is to provide a compensation package that is aligned with our strategic goals and that enables us

to attract, motivate and retain highly qualified professionals. We believe that the best way to achieve this is by linking executive compensation to individual performance targets, on the one hand, and to our performance, on the other hand. Our compensation package for members of our leadership team therefore includes a significant variable part, consisting of an annual cash incentive and performance and restricted stock units. In view of the previously announced tender offer by Qualcomm to acquire all the issued and outstanding NXP shares, in October 2016, and until the termination of the Purchase Agreement by Qualcomm in July 2018, the board of directors, advised by its nominating & compensation committee, resolved to only grant restricted stock units under the 2016 and 2017 Long term Incentive Plans. Performance targets for members of our leadership team are determined annually, at the beginning of the year, and assessed at the end of the year by our nominating and compensation committee, our chief executive officer or the other members of our management team, where applicable. The compensation package for our chief executive officer, the other members of our management team and other NXP leadership team members is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry.

The termination of the Purchase Agreement by Qualcomm, after nearly two years, warranted a modified approach regarding retention and equity plans for top management, including the chief executive officer. In this unusual situation, the board of directors engaged advisors to work on an appropriate package for the chief executive officer and other senior managers. The company and the chief executive officer confirmed that the chief executive officer's management services agreement, the term of which is linked to his board membership and expires each year at the general meeting of shareholders, can be extended for a maximum term of three years until the 2021 general meeting of shareholders. As part of such extension, the company and the chief executive officer agreed on (i) increasing the base salary by 5% (up to €1,2M), and (ii) increasing the on-target cash incentive percentage to 150% of the base salary. In addition, a Reboot equity grant was made in July 2018, consisting of share rights that vest over a period of three years (each year 1/3), and performance shares that have a cliff vesting over three years. The vesting and the pay-out, if any, of the performance shares is subject to certain targets being met related to the company's peer group, the performance shares vest in July 2021.

A full and detailed description of the composition of the remuneration of the individual directors is included in note 32 *Information on remuneration board of directors* of this annual report.

Our chief executive officer's term is linked to his board membership which expires the next general meeting of stockholders. Most of the other members of our management team and a great number of the members of our leadership team have a contract of employment for an indefinite term. The main elements of any new contract that we will enter into with an executive director, such as the amount of the fixed salary, the structure and amount of the variable remuneration component, any agreed redundancy scheme and/or severance pay, and any conditions of a change-of-control clause, will be made public no later than the date of the public notice convening the general meeting of shareholders at which the appointment of such executive director will be proposed. Non-executive directors of our board do not have a contract of employment.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and other members of our leadership team can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. To support the performance culture, the Annual Incentive plan 2019 is based on revenue growth and gross margin. In 2017 and 2018, the Annual Incentive plan was based at EBIT at group level and business / support level, as well as revenue targets. Any targets are set by the board of directors, at the proposal of its nominating & compensation committee.

For our chief executive officer, and since September 2018, the on-target cash incentive percentage is set at 150% of the base salary, with the maximum cash incentive set at 300% of the annual base salary. The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets as approved by the nominating and compensation committee. Over the year 2018, our chief executive officer realized a target achievement of 65.4% and thus an amount of €1,177,200 has been accrued as an annual incentive bonus for our chief executive officer for our performance in 2018. Over the year 2017, our chief executive officer realized a target achievement of 79.9%, and thus an amount of €684,344 was accrued in 2017 (paid in 2018) as an annual incentive bonus for our performance in 2017 (over the year 2016, the target achievement was 57.7%, and thus an amount of €494,201 was accrued in 2016 (paid in 2017)).

The total annual incentive bonus amount accrued in 2018 and to be paid in 2019 to members of our management team, including our chief executive officer, is €3,645,251. The amount of annual incentive bonus for the 2017 performance period and 2016 performance period paid to members of our management team, including our chief executive officer, was €3,425,733 and €2,443,300, respectively.

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. Since the announcement on October 27, 2016 of Qualcomm's intention to acquire NXP, and until the termination of the Purchase Agreement by Qualcomm in July 2018, the focus of the board of directors mainly has been to prepare for and consummate a successful closing of the transaction with Qualcomm. In addition, the intended Qualcomm acquisition, and the subsequent termination thereof, created a unique need for retention packages for NXP employees and made it difficult to determine a relevant reference group, thus, artificially influencing the pay ratio that might not otherwise exist. For that reason, any pay ratio over the financial year 2018 would provide incomplete and incomparable data. However, in order to comply with the Dutch corporate governance code, using the data that have been published in this annual report, NXP reports that the ratio of total remuneration of the chief executive officer (\$31,264,502) versus the average of total employee remuneration (\$ 2,561M over 30,000 employees) is approximately 366:1.

Pensions

Our chief executive officer and eligible members of the management team participate in the executives' pension plan, which we established in the Netherlands and which consists of a combination of a career average and a defined-contribution plan. In 2018, we paid for our chief executive officer a pension plan contribution of € 10,640 (\$12,549) (€ 17,165 (\$19,414))

in 2017 and €16,358 (\$18,100) in 2016), and an aggregated amount of €531,863 ((\$627,304) as Retirement Allowance and Individual Allowance in 2018 (€517,092 ((\$584,841) in 2017) .

Additional Arrangements

In addition to the main conditions of service, a number of additional arrangements apply to our chief executive officer and other members of the management team; 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, and company car arrangements, are broadly in line with those for NXP executives globally. In the event of disablement, our chief executive officer and other members of the management team are 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 NXP stock options, 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, 2018. The management service contract entered into with our chief executive officer, the terms of which have been extended from time to time, latest on September 1, 2018, provides that if our chief executive officer terminates his service contract within six 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).

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 shareholders 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. Performance stock and restricted stock vest over a period of one to four years, subject to relevant performance criteria relating to operating income and share price being met in the case of performance stock, and stock options vest over four years. Beginning with the 2014 LTIP plans, restrictive stock units granted to the non-executive directors in our board vest over a period of one year and performance stock units granted prior to July 2018 to the members of our management team, including the President/CEO, vest over a period of four years. Performance stock units only vest in a certain year if the relevant performance criteria are fully met. If not, no performance stock units will vest that year. These performance stock units can however vest in the following year(-s) if the cumulative catch-up effect applies whereby the relevant performance criteria are still met.

In view of the tender offer by Qualcomm to acquire all the issued and outstanding NXP shares, in October 2016, the board of directors, advised by its nominating & compensation committee, resolved to only grant restricted stock units under the 2016 Long term Incentive Plan. The same decision was taken on the 2017 Long term Incentive Plan. The termination of the Purchase Agreement by Qualcomm, after nearly two years, warranted a modified approach regarding retention and equity plans for top management, including the chief executive officer. In this unusual situation, the board of directors engaged advisors to work on an appropriate package for the chief executive officer and other senior managers. Therefore, the board of directors determined to issue on July 26, 2018 to the chief executive officer and other senior managers a Reboot equity grant, consisting of restricted stock units that vest over a period of

three years (each year 1/3), and performance stock units that have a cliff vesting over three years. The performance stock units (“PSU’s”) awards have 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.

Shares to be delivered under any equity program may be newly issued or may come out of treasury upon the decision of our board of directors.

The Annual Incentive payments and LTIP grants are subject to the claw-back provisions laid down in paragraphs 6 and 8 of section 2:135 of the Dutch Civil Code. Paragraph 7 of that section does not apply. Directors and members of the management team hold shares in the Company for the purpose of long-term investment and are required to refrain from short-term transactions in NXP securities. According to the NXP Insider Trading Policy 2016, directors and the management team are only allowed to trade in NXP securities (including the exercise of stock options) during ‘trading windows’ following the publication of annual and quarterly results (provided the person involved has no ‘inside information’ regarding NXP at that time) unless an exemption is available. Transactions in shares in the Company carried out by directors are notified to the relevant authorities.

In order to maintain a strong alignment between the interests of NXP's management and our shareholders, we have adopted an equity ownership policy for the board of directors, the CEO and the other members of our management team. The number of shares to be maintained by the members of our board of directors and management team increases each time our shares are being delivered upon the vesting of restricted share units or performance share units. The non-executive directors, the CEO and other management team members are required to maintain a certain number of our shares until the time that he or she is no longer in service with the company.

Limitation of Liability and Indemnification Matters

Unless prohibited by law in a particular circumstance, our articles of association require us to reimburse our directors and our former directors for damages and various costs and expenses related to claims brought against them in connection with the exercise of their duties. However, there shall be no entitlement to reimbursement if and to the extent that (i) a Dutch court has established in a final and conclusive decision that the act or failure to act of the person concerned may be characterized as willful (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*) conduct, unless Dutch law provides otherwise or this would, in view of the circumstances of the case, be unacceptable according to standards of reasonableness and fairness, or (ii) the costs or financial loss of the person concerned are covered by an insurance and the insurer has paid out the costs or financial loss. We may enter into indemnification agreements with the directors and our officers to provide for further details on these matters. We have purchased directors' and officers' liability

insurance for the directors and certain other officers, substantially in line with that purchased by similarly situated companies.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent where indemnification will be required or permitted. We are not aware of any threatened litigation or proceedings that might result in a claim for such indemnification. Insofar as indemnification of liabilities arising under the U.S. Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is therefore unenforceable.

[Board Committees](#)

While retaining overall responsibility, our board of directors has assigned certain of its tasks to permanent committees. Members of the permanent committees are appointed by the board of directors. The board of directors will also determine the tasks of each committee. Our board of directors has established an audit committee and a nominating and compensation committee, each of which will have the responsibilities and composition described on page 85 below.

[Risk management approach](#)

NXP's risk management and business control

Risk management and business control forms an integral part of business management. Our business risk and management control policies and principles encourage our management to closely monitor some of our day-to-day operations, ensure strict compliance with all legal requirements and safeguard the integrity of the financial reporting and related disclosures. Our management is responsible for identifying critical business risks and for implementing fit-for-purpose risk responses. Internal controls are regularly assessed and, if required, corrected.

We believe that a state-of-the-art corporate governance model is a critical factor to achieve business success. Our corporate governance model is based on, amongst other factors, our risk management and business control policies and principles and high ethical standards that are applied throughout every aspect of our business. Our risk management and business control policies and principles are an integral part of our corporate governance model.

The quality of our risk management and business control policies and principles and the findings of internal and external audits are reported to and discussed by the audit committee. Internal auditors monitor the quality of our risk management and business control policies and principles through risk-based operational audits, inspections of financial reporting controls and compliance audits.

The NXP Business Control Framework

The NXP Business Control Framework sets the standard for risk management and business controls at NXP. The objectives of the Business Control Framework are to maintain integrated management control of the Company's operations, to comply with all applicable laws and regulations, as well as to ensure integrity of the financial reporting and business processes.

With respect to financial reporting, a structured company-wide assessment and monitoring process is in place to enable the Chief Executive Officer and Chief Financial Officer to review the effectiveness of financial risk management and business controls. Each quarter, entities issue a formal certification statement to confirm the adequacy of the design and effectiveness of disclosure controls and internal controls over financial reporting. As part of the annual report process, management's accountability for business controls is enforced through the formal issuance of a Statement on Business Controls and a Letter of Representation.

The Company has designed its internal control system based on the criteria established in the "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organizations of the Threadway Commission (COSO).

The NXP Code of Conduct

NXP is committed to innovating for a better tomorrow for our customers, our employees, our 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, NXP has placed five key elements high on the culture agenda: raising the bar, engaging curiosity, taking initiative, working together and developing deep core competence. These NXP Values were crafted by our Management Team. They define uniquely who we are, and what we aspire to, as an organization. They are the guiding principles that we believe will help NXP and its employees to succeed. They inform the decisions that we make and the actions that we take – individually and collectively – every day in order to drive market success. The board of directors strives for a culture focused on long-term value creation and believes that these values enable NXP to reach that goal.

The board of directors, as well as the management team and the ethics committee, promote openness and engagement through a SpeakUp! grievance mechanism. Furthermore, we have established a code of conduct in order to promote a culture of good governance, excellence and consistency.

The NXP 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 NXP Code of Conduct is available on our website at <http://investors.nxp.com/corporate-governance/highlights>. We will disclose on this website any amendments to, or waivers from, our Code of Conduct (to the extent applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions). The information contained on our website or that can be accessed through our website neither constitutes part of this annual report nor is incorporated by reference herein. 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 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 the NXP

Ethics Committee that ensures that all reports are properly investigated and addressed. Each quarter the NXP Ethics Committee reports to the NXP Audit Committee of the board of directors on all reports and investigations.

[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 2017, 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.

Books and Records

Pursuant to Dutch law, our board of directors must provide all information to our shareholders' meeting, unless this would conflict with an overriding interest of the Company. The Company is not obliged to provide such information to individual shareholders.

Amendment of the Articles of Association

Shareholders at the general meeting of shareholders will only be able to resolve to amend the articles of association at the proposal of the board of directors. A proposal to amend the articles of association whereby any change would be made in the rights which vest in the holders of shares of a specific class in their capacity as such, shall require the prior approval of the meeting of holders of the shares of that specific class.

Dissolution, Legal Merger/Demerger

Shareholders at the general meeting of shareholders will only be able to resolve to dissolve the Company at the proposal of the board of directors.

The liquidation of the Company shall be carried out by the board of directors, if and to the extent the general meeting of shareholders has not appointed one or more other liquidators. The general meeting of shareholders shall determine the remuneration of the liquidators, if any.

Under Dutch law, a resolution to enter into a legal merger or demerger shall be adopted in the same manner as a resolution to amend the articles of association. The general meeting of shareholders may on proposal of the board of directors resolve to merge the company with another company or to demerge the company by a simple majority of votes cast, irrespective of the capital present or represented at the general meeting of shareholders.

Issue of shares

On June 22, 2018, our general meeting of stockholders has empowered our Board to issue additional shares and grant rights to subscribe for shares of common stock, up to 10% of the issued share capital which authorization can be used for general purposes and an additional 10% if the shares of common stock are issued or rights are granted in connection with an acquisition, merger or (strategic) alliance, and to restrict or exclude pre-emptive rights pertaining to (the right to subscribe for) shares for a period of 18 months from June 22, 2018. To the general meeting of stockholders on June 17, 2019, it will be proposed to grant a new authorization to the board of directors for a period of 18 months from June 17, 2019 relating to 10% of the issued share capital.

Repurchase by the Company of its shares

In accordance with Dutch law and our articles of association, NXP may acquire its own shares if (i) the company's shareholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called up capital and any reserves required to be maintained by Dutch law or the articles of association and (ii) the company and its subsidiaries would not after such acquisition hold shares or hold a pledge over shares with an aggregate par value exceeding 50% of the issued share capital. Furthermore, the company may only acquire its own shares if its general meeting of shareholders has granted the board of directors the authority to effect such acquisitions. On June 22, 2018, our shareholders have authorized the board of directors for a period of 18 months from June 22, 2018 until December 22, 2019 to acquire our own shares up to the maximum of 20% of our issued share capital, subject to certain restrictions. To the general meeting of stockholders on June 17, 2019, it will be proposed to grant a new authorization to the board of directors for a period of 18 months from June 17, 2019 up to the statutory limit.

No votes can be cast on the NXP shares held by us or our subsidiaries.

Squeeze-out

In accordance with Dutch law, a shareholder who for its own account holds at least 95% of a company's issued capital may institute proceedings against the company's other shareholders jointly for the transfer of their shares to the claimant. The proceedings are held before the Enterprise Chamber and can be instituted by means of a writ of summons served upon each of the minority shareholders in accordance with the provisions of the Dutch Civil Code. The Enterprise Chamber may grant the claim for the squeeze-out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value of the shares. Once the order to transfer has become final, the acquirer must give written notice of the price, and the date on which and the place where the price is payable to the minority shareholders whose addresses are known to it. Unless all addresses are known to the acquirer, it shall also publish the same in a daily newspaper with nationwide distribution.

Dutch Market Abuse Regulation

The Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*, the "FMSA") provides for specific rules intended to prevent market abuse, such as the prohibitions on insider trading, divulging inside information and tipping, and market manipulation. The Company is subject to the Dutch insider trading prohibition (in particular, if it trades in its own shares or in financial instruments the value of which is (co)determined by the value of the

shares), the Dutch prohibition on divulging insider information and tipping and the Dutch prohibition on market manipulation. The Dutch prohibition on market manipulation may mean that certain restrictions apply to the ability of the Company to buy-back its shares. In certain circumstances, the Company's investors can also be subject to the Dutch market abuse rules.

Pursuant to the rules on market abuse, we have adopted an internal insider trading regulation policy, which is available on our website. This regulation provides for, among other things, rules on the possession of and transactions directors and employees in the shares or in financial instruments the value of which is (co)determined by the value of the shares.

[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 20F.

[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, 2018 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, 2018.

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 22, 2018, 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 2019. 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.

[Auditor policy](#)

The Company has instituted a comprehensive auditor independence policy that regulates the relation between the Company and its external auditors and is available on our website (www.nxp.com/investor/governance). The policy includes rules for the pre-approval by the audit committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may never be provided. 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 by the audit committee in respect of a particular engagement (specific pre-approval). The annual 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 services it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually 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. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the audit committee states otherwise. During 2018, there were no services provided to the Company by the external auditor which were not preapproved by the audit committee.

[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 2.3.2 states that there will be three standing committees, an audit committee, a remuneration committee and a selection and nomination committee. We combined the tasks of the remuneration committee and the nomination committee into one committee, the 'nominating and compensation committee'. In our experience this provides for an efficient and integrated approach.
- 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 3.2.3 states that the remuneration of a member of our board in the event of dismissal may not exceed one year's salary. Agreed upon prior to the IPO of August 2010, also considering that all our board members are appointed for one year – being re-electable each year at the general meeting of shareholders - our chief executive officer shall be eligible for a severance payment of twice his annual base salary plus bonus in case of termination.
- 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 cyclicity 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 cyclicity, 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 cyclicity 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 related 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, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing markets. 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 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 stockholders' 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 expected 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;
- 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, which may adversely affect our workforce, as well as our local suppliers and customers, in particular in Asia;
- 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. 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.

Report of the Directors Governance

We have, from time to time, experienced attempted cyber-attacks of varying degrees to obtain access to our computer systems and networks. To date, none have resulted in any material adverse impact to our business or operations. 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. 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 the 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, each 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 be able to 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 foreign patents or pending applications corresponding to all of our primary patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. In particular, intellectual property rights are difficult to enforce in some countries, since 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 have entered into 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 industry groups or in any of the other alliances we engage with 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. We do not control

some of these strategic partnerships, joint ventures and alliances in which we participate. We may also have certain obligations, including some limited funding obligations or take or pay obligations, with regard to some of our strategic partnerships, joint ventures and alliances. 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 processes. 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.

Report of the Directors Governance

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 the fact 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 stockholders' 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, 2018, we had recognized a net accrued benefit liability of \$416 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 recommendations on base erosion and profit shifting, the European Commission's Anti-Tax Avoidance Directive, the Corporate Tax Package released in October 2016 which includes a Common Consolidated Corporate Tax Base, the Tax Cuts and Jobs Act enacted by the United States in 2017 and the changes in the Dutch corporate income tax law enacted in 2018. 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 tax 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 the Philippines, 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 \$125.71 on February 22, 2018 and a low of \$67.71 on December 24, 2018 in the twelve-month period ending on December 31, 2018. 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.

We are a foreign private issuer and, as a result, are not subject to U.S. proxy rules but are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. issuer.

We report under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as a non-U.S. company with foreign private issuer status. Because we qualify as a foreign private issuer under the Exchange Act and although we follow Dutch laws and regulations with regard to such matters, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including: (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time and (iii) the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q containing unaudited financial and

other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are required to file their Annual Report on Form 20-F by 120 days after the end of each fiscal year while U.S. domestic issuers that are large accelerated filers are required to file their Annual Report on Form 10-K within 60 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, even though we are contractually obligated and intend to make interim reports available to our stockholders, copies of which we are required to furnish to the Securities and Exchange Commission (the "SEC") on a Form 6-K, and even though we are required to furnish reports on Form 6-K disclosing whatever information we have made or are required to make public pursuant to Dutch law or distribute to our stockholders and that is material to our company, you may not have the same protections afforded to investors in companies that are not foreign private issuers.

We are a foreign private issuer. As a result, in accordance with the listing requirements of the NASDAQ Global Select Market we rely on home country governance requirements and certain exemptions thereunder rather than relying on the corporate governance requirements of the NASDAQ Global Select Market.

We are a foreign private issuer. As a result, in accordance with the listing requirements of the Nasdaq Global Select Market ("Nasdaq") we rely on home country governance requirements and certain exemptions thereunder rather than relying on the corporate governance requirements of Nasdaq. For an overview of our corporate governance principles, see the above related chapters, including the section describing the differences between the corporate governance requirements applicable to common stock listed on the NASDAQ Global Select Market and the Dutch corporate governance requirements. Accordingly, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

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, 2018, 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 \$600 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 from 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.

The conditional conversion feature of the 2019 Cash Convertible Senior Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the 2019 Cash Convertible Senior Notes is triggered, holders thereof will be entitled to convert the 2019 Cash Convertible Senior Notes solely into cash at any time during specified periods at their option. If one or more holders elect to convert their 2019 Cash Convertible Senior Notes, we would be required to pay cash to settle any such conversion, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2019 Cash Convertible Senior Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding aggregate principal of the 2019 Cash Convertible Senior Notes as a current rather than long-term liability, which may adversely affect our net working capital.

The accounting for the 2019 Cash Convertible Senior Notes results in recognized interest expense significantly greater than the stated interest rate of the 2019 Cash Convertible Senior Notes and may result in volatility to our consolidated statements of income.

We will settle conversions of the 2019 Cash Convertible Senior Notes entirely in cash. Accordingly, the conversion option that is part of the 2019 Cash Convertible Senior Notes is accounted for as a derivative pursuant to applicable accounting standards relating to

derivative instruments and hedging activities. In general, this resulted in an initial valuation of the conversion option, which was bifurcated from the debt component of the 2019 Cash Convertible Senior Notes, resulting in an original issue discount. The original issue discount is amortized and recognized as a component of interest expense over the term of the 2019 Cash Convertible Senior Notes, which results in an effective interest rate reported in our consolidated statements of income significantly in excess of the stated coupon of 1.0%. This accounting treatment reduces our earnings, but does not affect the amount of cash interest paid to holders of Notes or our cash flows.

For each financial statement period after issuance of the 2019 Cash Convertible Senior Notes, a hedge gain or loss is reported in our consolidated statements of income to the extent the valuation of the conversion option changes from the previous period. The cash convertible note hedge transactions we entered into in connection with the 2019 Cash Convertible Senior Notes are also accounted for as derivative instruments, generally offsetting the gain or loss associated with changes to the valuation of the conversion option. Although we do not expect there to be a material net impact to our consolidated statements of income as a result of issuing the 2019 Cash Convertible Senior Notes and entering into the cash convertible note hedge transactions, we cannot assure you that these transactions will be completely offset, which may result in volatility to our consolidated statements of income.

Sustainability statements

Introduction

NXP believes a company's corporate responsibility is to continuously improve through our actions to make a positive impact on society. As a world-leading company, we embrace our responsibility to act according to the highest standards, to know right, and do right. Sustainability means maintaining a safe working environment, promoting good health, minimizing the environmental impact of our activities and promoting dignity and respect for all employees. NXP supports the UN SDG's with our existing programs and technology that contribute to progress against 13 of the 17 SDG goals. Our programs and products focus on ensuring healthy lives, achieving dignity, prosperity and justice for all people and protecting our planet for future generations.

NXP conducts assessments that aim to align corporate responsibility goals with NXP's business objectives. We incorporate feedback to inform us of the key corporate responsibility issues and their impact on our business. In defining these focus areas, we interviewed our stakeholders, researched best practices in the industry, studied the legislative landscape and reviewed the results from our participation in various industry associations.

As a result, each category that we report on meets three criteria: 1) Is greatly significant; 2) Has a current or potential impact on the company; 3) A matter over which we, as a company, have a reasonable degree of control

Some of the issues that we have determined to be of most material value are our Employees, Social Responsibility, Supply Chain Responsibility, Environmental, and Anti-Corruption and Bribery.

Employees

The importance we place on maintaining high ethical and social standards is also reflected in our engagement with our employees. We demonstrate this commitment in the workplace by placing a high value on diversity and inclusion, by taking action against all forms of harassment or improper labor practices, and by keeping our health and safety standards high.

NXP fosters a culture that appreciates employees who take initiative. We offer various avenues for career progression. Our Career Ladder helps employees progress equally within their specialty—following the path to Technology Expert, becoming a master in Project Management, or taking the more traditional Line Management route to lead people, functions, and businesses.

When working together, we value each other's unique experiences, backgrounds, diverse cultures and ideas. We never allow unlawful discrimination or harassment into our workplace.

NXP is committed to providing a workplace that is safe and secure, where every employee is empowered to achieve a healthy work-life balance. Our goal is to create a workplace that is healthy, safe, and free of occupational injury and illness for all employees. All NXP manufacturing sites and some non-manufacturing sites (Eindhoven, Caen) are OHSAS 18001 certified.

Social responsibility

NXP believes that social responsibility is important for our employees, the global population, our planet and vital for our business success. NXP has developed and established a comprehensive set of sustainable business initiatives that are incorporated into our core business practices. We protect and respect each life, everyone's human rights, the environment, and the health and safety of all.

Labor and Human Rights

The importance we place on maintaining high ethical and corporate social responsibility is reflected in our commitment to the labor and human rights of our employees. Our codes, standards, programs, and audit procedures are built around the recognition that everything we do in connection with our work must reflect the highest possible standards of ethical business conduct and our employees are treated with respect and dignity.

In 2017, NXP became a full member of the Responsible Business Alliance (RBA) formerly the Electronic Industry Citizenship Coalition (EICC), in which we fully support the vision and goals of the RBA. The requirements from the RBA Code of Conduct are either part of NXP's own Code of Conduct or have been included in NXP policies, standards, and procedures.

We have specific standards in place regarding labor and human rights. These standards are to be strictly followed by NXP, all NXP suppliers and are thoroughly tested during our audits. NXP's auditable standards on labor and human rights consist of the following categories:

Freely Chosen Employment

NXP shall under no circumstance make use of any form of slaved, forced, bonded, indentured, or prison labor. All work must be voluntary and there will not be a restriction on movement of workers and their access to basic liberties. Paying fees, deposits or debt repayment for their recruitments or employment is never required and no one shall be deprived of his or her identity papers upon starting work for NXP.

Child Labor and Young Workers

We will always adhere to the legal minimum age requirements in all countries in which we operate. We will never employ children under the age of 16, under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is stricter. If workers between the ages of 16 and 18 are employed, we will ensure that this work does not affect or preclude their educational opportunities or obligations, nor jeopardize their health and safety, including restrictions on overtime and night work.

If an underage worker is found, NXP immediately implements a remediation program which includes protecting the young worker from reprisal and provides the completion of the young worker's compulsory education. NXP has yet to discover child labor in our factories or in our supply chain.

Working Hours and Rest Day

Work weeks shall not exceed the maximum set by local law and shall, in any event, not be more than 60 hours, including overtime, except during emergencies or unusual situations. Workers will be entitled to have at least one day off per seven-day period. Overtime work is voluntary, unless agreed upon by a collective labor agreement or union contract, or during emergencies or unusual situations.

Wages and Benefits

Remuneration shall be consistent with the provisions of all applicable wage laws, including those relating to minimum wage, overtime hours, and legally mandated benefits. In compliance with local laws, workers shall be compensated for overtime at pay rates greater than regular hourly rates. Deductions from wages as a disciplinary measure are not permitted.

Humane Treatment

There shall not be harsh or inhumane treatment of workers, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion, or verbal abuse; nor is there to be the threat of any such treatment. Employees shall be able to communicate openly with management regarding working conditions without having to fear reprisal, intimidation, or harassment.

Non-discrimination and Diversity

NXP is committed to diversity in its workforce and encourages equality of opportunity and fairness. Therefore, we do not tolerate any kind of harassment.

Freedom of Association and Collective Bargaining

NXP recognizes the freedom of employees to establish or join an organization of their choice and will respect this right. We will not make employment subject to the condition that a person must not join a union or must terminate membership in a trade union.

Human Trafficking

NXP is aware that slavery and trafficking is an issue within the semiconductor industry. It is NXP's policy that we and our suppliers shall not traffic in persons or use any form of slave, forced, bonded, indentured, or prison labor. This includes the transportation, harboring, recruitment, transfer, or receipt of persons by means of threat, force, coercion, abduction, fraud, or payments to any person having control over another person for the purpose of exploitation.

NXP has a zero-tolerance policy for slavery and trafficking. Statement on Slavery and Human trafficking can be found on the following internet page:

<https://www.nxp.com/about/about-nxp/about-nxp/corporate-responsibility/ethics/statement-on-slavery-and-human-trafficking:RESPECTING-HUMAN-RIGHTS>.

Supply chain responsibility NXP pursues mutually beneficial relationships with its suppliers and contractors and seeks to award business to those suppliers that are committed to observe the applicable rules of law and to support and respect human rights. NXP is committed to ensuring that working conditions in our supply chain are safe, that workers are treated with respect and dignity, and that our products and processes are environmentally responsible.

NXP's suppliers commit in all their activities on behalf of NXP to operate in full compliance with the laws, rules, and regulations of the countries in which they operate. Beyond this, NXP's suppliers are expected to comply with the NXP

Supplier Code of Conduct

NXP's purchasing policies require our suppliers to certify that they comply with NXP Supplier Code of Conduct and with the laws of the country or countries where such suppliers do business. In 2015, NXP inserted language into our supplier contracts that require suppliers to abide by the NXP Supplier Code of Conduct. In addition, suppliers submit a signed conformance letter stating that they abide by the NXP Supplier Code of Conduct.

NXP conducts an annual risk assessment on our suppliers to determine the high-risk suppliers that are identified to participate in the NXP Social Responsibility Audit program. This risk assessment is conducted on existing suppliers and all new suppliers onboarding with NXP. NXP subscribes to a third-party monitoring service, which uses a multi-level process to identify and evaluate the potential risks to the NXP Supplier Code of Conduct. The monitors' evaluation of risks is based on a variety of factors, such as a business's geographic location, manufacturing processes, and a workforce profile.

NXP conducts announced audits on our supply chain which analyzes three main aspects 1) Documentation 2) Management Interviews and 3) Worker Interviews. In 2013, NXP began auditing suppliers and has since audited over 100 suppliers, with 23 of them occurring in 2018. We monitor the progress of the supplier until the corrective action plan is satisfactorily implemented. This may involve repeat audits to verify closure of the findings. In 2018, 4 of the 23 audits were verification audits on suppliers to confirm complete closure of the audit findings. Should a supplier continue to not meet our standards, NXP will limit new business and or seek to eliminate the supplier from our supply chain.

To address these risks, NXP conducts training focused on our suppliers and onsite service providers. The mode of training is either a 2-hour classroom training or through a webinar session. Supplier training is done: 1) Annually; 2) During the on-boarding of new suppliers; and 3) Before a supplier's upcoming audit.

Each year we report publicly on our annual top ten supplier audit findings. Each month key performance indicators are reported to the Sustainability Office and the on topics such as core violations from our supplier audits, signed conformance letters from our supply chain, and quarter over quarter risk indicators within our supply chain.

Responsible Sourcing of Materials

Suppliers must have a policy to reasonably assure that the minerals in the products they manufacture do not directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuses around the world. Key areas of concern include the Democratic Republic of Congo and adjoining countries and other high-risk regions for the extraction or transit of raw materials.

Tantalum, tin, tungsten, and gold smelters and refiners must be certified by an approved third-party audit program. Suppliers must exercise due diligence on the source and chain of custody of these minerals and make their policies and due diligence measures available to NXP upon NXP's request. In addition, suppliers must submit Conflict Mineral Reporting Template (CMRT) to NXP. NXP's 2016 Form SD can be found on the following internet page:<https://www.sec.gov/Archives/edgar/data/1413447/000119312517188186/d386299dsd.htm>.

Environment

NXP is committed to the prevention of pollution and conservation of the earth's natural resources, both locally and globally. NXP does this through the development of sustainable products, materials, and manufacturing processes. We drive continual improvement of our processes to protect the environment by designing, implementing and maintaining a management system and programs to achieve our objectives. All manufacturing and some non-manufacturing sites (Eindhoven, Caen) are ISO14001 certified. NXP has not recorded any significant spills, fines or sanctions in connection with non-compliance with environmental laws and regulations since 2007.

Our environmental program focuses on environmental issues including: 1) Reduce our carbon footprint; and 2) Reduce our energy use, water consumption and waste production.

To ensure that everyone at our sites has the right skills and disciplines to minimize environmental risks, employee training is conducted worldwide each year. A range of educational programs provide on-the-job training. In addition, specialized trainings in environmental matters, quality controls, and chemical management are conducted.

Reducing our Carbon Footprint

NXP's strategy to reduce greenhouse gas emissions is to first directly reduce our greenhouse gas emissions through process optimization, site conservation, and abatement projects. As part of this effort, our combined sites had multiple greenhouse gas (GHG) reduction projects such as installing new abatement equipment to reduce Perfluorinated compounds emissions, optimize product testing processes and building operations, and using substitute chemicals to reduce emissions from our equipment, as well as other projects.

Reduce our energy use, water consumption and waste production

NXP's strategy to reduce the normalized electricity consumption is to find opportunities within sites for conservation projects and operational efficiency improvements. In 2018, individual sites had several electricity conservation projects and initiatives such as optimizing building operations, installing energy efficient equipment, using more efficient lighting technologies and powering down equipment when not utilized.

NXP's strategy to reduce our normalized water consumption is through conservation and recycling opportunities for our office and manufacturing sites. Our sites conducted several water conservation initiatives, such as reusing water and improving processes.

NXP's strategy is to prevent waste and increase our recycling initiatives by improving our recycle programs and expand material reclamation efforts. The plan is to recycle and reuse spent materials, establish more recycling vendor possibilities in local regions and continue to compost food waste at most of our facilities.

Anti-corruption and bribery

NXP supports the principle of fair competition and has implemented an anti-bribery and corruption framework. This framework consists of a variety of controls such as a clear policy that prohibits unethical business practices such as bribes, kickbacks or other forms of improper payments, a strict non-retaliation policy, a training program for employees, the SpeakUp line where people can report potential issues in a confidential manner, a confidential investigation process, risk assessments, background checks and audits. Like any other reports made under the NXP code of Conduct, all reports related to potential corruption or bribery are brought to the attention of the NXP Ethics Committee that ensures that all reports are properly investigated and addressed. Each quarter the NXP Ethics Committee reports to the NXP Audit Committee of the board of directors on all reports and investigations.

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).

Report of the Nominating and compensation committee

Our nominating and compensation committee consists of four non-executive directors, Sir Peter Bonfield and Messrs. Huth, Smitham and Summe; all four members are independent directors under the Dutch corporate governance rules and under the NASDAQ and SEC compensation committee structure and membership requirements. Mr. Smitham was appointed as chairman of this committee on September 1, 2018, succeeding Mr. Meurice. The nominating & compensation committee determines selection criteria and appointment procedures for members of our board of directors, periodically assesses the scope and composition of our board of directors and evaluates the performance of its individual members. On a regular basis, an evaluation of the board of directors is performed by means of a self-assessment consisting of a written questionnaire, followed by in-depth, one-on-one interviews between the Chairman (Sir Peter Bonfield) and individual board of directors members; the next evaluation is scheduled for the first half of 2019. The nominating & compensation committee is responsible for recommending to the board of directors the compensation package for our executive director, with due observance of the remuneration policy adopted by the general meeting of shareholders. It reviews service or other contracts entered into with our executive director, makes recommendations to our board of directors with respect to major service-related policies and oversees compliance with our service and compensation-related disclosure obligations under applicable laws. The nominating and

Report of the Directors Governance

compensation committee met five times in 2018 and reported its findings to the board of directors.

In view of the unusual situation whereby after nearly two years the Purchase Agreement by Qualcomm was terminated, the nominating and compensation committee in various meetings discussed the future of the company and thoroughly reviewed employment topics like culture, retention, engagement and succession plans for top management. The committee approved a modified approach regarding retention and equity plans for top management, including the chief executive officer. At the proposal of the nominating and compensation committee, the company and the chief executive officer confirmed that the management services agreement, the term of which is linked to his board membership which expires each year at the general meeting of shareholders, can be extended for a maximum term of three years until the 2021 general meeting of shareholders, and amendments were made to the base salary, the on-target cash incentive percentage, and a Reboot equity grant in July 2018. The nominating and compensation committee also started a search for new members of the board, with a strong preference to appoint new women to the board, and as a result the board of directors will nominate to the next general meeting of shareholders to be held in June 2019 to appoint three new members of the board of directors, of which two women.

Report of the Audit Committee

Our audit committee consists of five independent non-executive directors, Messrs. Goldman, Kaeser, Summe, Dr. Helmes and Ms. Southern. Ms. Southern, who was appointed as chairman of the audit committee on September 1, 2018, succeeding Mr. Goldman, qualifies as an "audit committee financial expert" as such term is defined in Item 16.A. (Audit Committee Financial Expert) of the Form 20-F as filed by the company, as in line with best practice provision III.3.2 and as determined by our board of directors. Our audit committee assists the board of directors in supervising, monitoring and advising the board of directors on financial reporting, risk management, compliance with relevant legislation and regulations and our code of conduct. It oversees the preparation of our financial statements, our financial reporting process, our system of internal business controls and risk management, our internal and external audit process and our internal and external auditor's qualifications, independence and performance. Our audit committee also reviews our annual and interim financial statements and other public disclosures, prior to publication. At least once per year, the non-executive directors who are part of the audit committee report their findings to the plenary board of directors. Our audit committee, together with the board of directors, also recommends to our shareholders the appointment of external auditors. 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. The audit committee met eight times in 2018 and reported its findings to the board of directors.

In its 2018 meetings, and especially after the Purchase Agreement by Qualcomm was terminated, the audit committee in various meetings discussed several topics, including the capital structure of the company, including the introduction of a quarterly dividend payment, stock buy-backs, and tax matters. The committee also evaluated the (expected) consequences for NXP from the new tariffs deployed by the U.S. Government and the new Revenue Recognition Standard that needs to be applied by the company, as well as the usual updates on the internal audit process, litigation updates, and the quarterly update by the ethics committee on reports received, e.g. via the Speak-Up hotline.

Audited financial statements

The consolidated financial statements of the Company for the year ended December 31, 2018 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 on page 184 of this Annual Report. The board of directors has approved these financial statements.

May 2, 2019
Board of directors

Group Financial Statements

Consolidated statements of income of NXP Semiconductors N.V. for the years ended December 31

\$ in millions, unless otherwise stated

	2018	2017
Note		
5 Revenue	9,407	9,256
Cost of revenue	(4,567)	(4,643)
Gross profit	4,840	4,613
Selling, general and administrative expenses:	(1,107)	(1,307)
a. Amortization of acquisition related intangible assets	(86)	(168)
b. Other SG&A	(1,021)	(1,139)
Research and development expenses:	(2,572)	(2,433)
a. Amortization of acquisition related intangible assets	(1,363)	(1,280)
b. Other R&D	(1,209)	(1,153)
1 Other income	2,043	1,574
Other expense	(42)	(4)
5,6 Operating income	3,162	2,443
7 Financial income (expense):		
– Extinguishment of debt	(26)	(41)
– Other financial income	48	27
– Other financial expense	(357)	(352)
Income before income taxes	2,827	2,077
8 Income tax benefit (expense)	(240)	465
Income after income taxes	2,587	2,542
9 Results relating to equity-accounted investees:		
– Share of result of equity-accounted investees	7	17
– Impairment and other	52	17
Net income	2,646	2,576
Attribution of net income:		
Net income attributable to shareholders of NXP	2,597	2,520
10 Net income attributable to non-controlling interests	49	56
Net income	2,646	2,576
11 Earnings per share data:		
<i>Net income (loss) per common share attributable to shareholders of NXP in \$:</i>		
– Basic	7.97	7.44
– Diluted	7.87	7.26
Weighted average number of share of common stock outstanding during the year (in thousands)		
• Basic	325,781	338,646
• Diluted	329,912	346,980

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

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

\$ in millions, unless otherwise stated

	2018	2017
Note Net income	2,646	2,576
Other comprehensive income items that will not be reclassified to profit or loss:		
– Remeasurements defined benefits	21	(12)
– Related income taxes	(6)	2
Total of items that will not be reclassified to profit of loss	15	(10)
Other comprehensive income items that are or may be reclassified to profit or loss (income taxes amount to \$3 million (2017: \$4 million):		
– Currency translation adjustments (“CTA”)	(54)	156
– CTA reclassified to profit or loss	-	10
– Cash flow hedging	(10)	29
– Cash flow hedging reclassified to profit or loss	(1)	(19)
– Unrealized gains/(losses) securities at fair value through other comprehensive income (“FVOCI”)	3	(3)
– FVOCI reclassified to profit or loss	-	(4)
Total of items that are or may be reclassified to profit of loss	(62)	169
Other comprehensive income (loss)	(47)	159
Total comprehensive income	2,599	2,735
Attributable to:		
Shareholders of NXP	2,550	2,679
10 Non-controlling interests	49	56
Total comprehensive income	2,599	2,735

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

Group Financial Statements

Consolidated statements of financial position of NXP Semiconductors N.V.

\$ in millions, unless otherwise stated

Assets

		December 31,	
		2018	2017
Note	Non-current assets		
12,28	Property, plant and equipment	2,437	2,296
13	Goodwill	8,865	8,874
14	Intangible assets	6,583	7,477
9	Equity-accounted investees	13	146
8	Deferred tax assets	276	299
15	Other non-current assets	238	511
	Total non-current assets	18,412	19,603
	Current assets		
16	Inventories	1,279	1,236
17	Other current assets	209	174
18	Receivables	929	1,069
19	Cash and cash equivalents	2,789	3,547
	Total current assets	5,206	6,026
	Total assets	23,618	25,629

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

Equity and liabilities

		December 31,	
		2018	2017
Note	Equity		
20	Shareholders' equity:		
	Share capital		
	<i>Preferred stock</i> , par value €0.20 per share:		
	Authorized: 645,754,500 shares (2017: 645,754,500)		
	Issued: none		
	<i>Common stock</i> , par value €0.20 per share:		
	Authorized: 430,503,000 shares (2017: 430,503,000)		
	Issued and fully paid: 328,702,719 shares (2017: 346,002,862 shares)	67	71
	Capital in excess of par value	16,587	17,112
	Treasury shares	(3,238)	(342)
	Accumulated deficit	(233)	(1,054)
	Other comprehensive income (loss)	(978)	(931)
	Total shareholders' equity	<u>12,205</u>	<u>14,856</u>
10	Non-controlling interests	<u>189</u>	<u>194</u>
	Total equity	<u>12,394</u>	<u>15,050</u>
	Non-current liabilities		
21	Long-term debt	6,247	5,814
23	Post-employment benefits	416	453
22	Long-term provisions	215	213
8	Deferred tax liabilities	863	1,016
24	Other non-current liabilities	126	421
	Total non-current liabilities	<u>7,867</u>	<u>7,917</u>
	Current liabilities		
25	Short-term debt	1,107	751
	Accounts payable	999	1,146
26	Accrued liabilities	809	658
22,29	Short-term provisions	40	22
23	Post-employment benefits	11	17
27	Other current liabilities	391	68
	Total current liabilities	<u>3,357</u>	<u>2,662</u>
	Total equity and liabilities	<u>23,618</u>	<u>25,629</u>

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

Group Financial Statements

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

\$ in millions, unless otherwise stated

	2018	2017
<i>Cash flows from operating activities:</i>		
Net income	2,646	2,576
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation, amortization and impairment	2,255	2,400
Share-based payments	315	276
(Gain) loss on sale of assets	-	(1,591)
Net interest expense	229	297
(Gain) loss on extinguishment of debt	26	41
Income tax expense/(benefit)	240	(465)
Results equity-accounted investees	(54)	(22)
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in receivables and other current assets	189	34
(Increase) decrease in inventories	(65)	(120)
Increase (decrease) in accounts payable and accrued liabilities	(293)	218
Decrease (increase) in other non-current assets	(22)	(100)
Increase (decrease) in provisions	12	113
Exchange differences included in financial result	14	30
Other items	12	(4)
Net cash generated by operations	5,504	3,683
Interest paid	(225)	(272)
Interest received	48	27
Income taxes paid	(188)	(356)
Net cash provided by operating activities	5,139	3,082
<i>Cash flows from investing activities:</i>		
Purchase of intangible assets	(50)	(66)
Capital expenditures on development assets	(770)	(635)
Capital expenditures on property, plant and equipment	(611)	(552)
Proceeds from disposals of property, plant and equipment	1	2
Purchase of other non-current assets	(12)	(5)
Proceeds from the sale of other non-current assets	-	11
Proceeds from the sale of securities	14	-
Purchase of interests in businesses	(18)	-
Purchase of available for sale securities	(9)	-
Proceeds from (consideration related to) sale of interests in businesses	159	2,682
Proceeds from return of equity investment	4	-
Net cash (used for) provided by investing activities	(1,292)	1,437
<i>Cash flows from financing activities:</i>		
Repayments of short-term debt	(1,000)	-
Proceeds from issuance of short-term debt	1,000	-
Repurchase of long-term debt	(1,273)	(2,728)
Principal payments on long-term debt	(1)	(16)
Proceeds from the issuance of long-term debt	1,997	-
Cash paid for debt issuance costs	(23)	-
Cash paid for terminated acquisition adjustment event	(60)	-
Dividends paid to non-controlling interests	(54)	(89)
Cash proceeds from the exercise of stock options	39	233
Purchase of treasury shares	(5,006)	(286)
Cash paid for deemed dividend tax	(142)	-
Dividends paid to common shareholders	(74)	-
Net cash provided by (used for) financing activities	(4,597)	(2,886)

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 statement of financial position amounts for the respective items.

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

Consolidated statements of cash flows of NXP Semiconductors N.V. for the years ended December 31 (continued)

\$ in millions, unless otherwise stated

	2018	2017
Effect of changes in exchange rates on cash positions	(8)	20
Increase (decrease) in cash and cash equivalents	(758)	1,653
Cash and cash equivalents at beginning of period	3,547	1,894
Cash and cash equivalents as reported	2,789	3,547

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 statement of financial position amounts for the respective items.

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

Group Financial Statements

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

\$ in millions, unless otherwise stated

	Outstanding number of shares (in thousands)	Share capital	Capital in excess of par value	Treasury shares reserve	Accumulated deficit	Other comprehensive income (loss)						Total other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Total equity
						Currency translation reserve	Net investment hedging reserve	Cash flow hedging reserve	Remeasurements defined benefits	Unrealized gains/losses available-for-sales securities					
Balance as of December 31, 2016	335,392	71	16,897	(915)	(2,952)	(481)	(513)	(2)	(98)	4	(1,090)	12,011	227	12,238	
Net income					2,520							2,520	56	2,576	
Other comprehensive income (loss):															
- Current period change						166		10	(10)	(7)	159	159		159	
- Reclassification to income (loss)															
- Income tax on current period changes															
Total comprehensive income (loss)					2,520	166	-	10	(10)	(7)	159	2,679	56	2,735	
Share-based compensation plans			276									276		276	
Excess tax benefits from SBC plans			(61)									(61)		(61)	
Dividends non-controlling interests													(89)	(89)	
Transactions with owners of the Company recognized directly in equity:															
- Purchase of treasury shares	(2,522)			(286)								(286)		(286)	
- Re-issuance of treasury shares	10,054			859	(626)							233		233	
Other					4							4		4	
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		3	457	(418)							39		39	
Other					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	

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

All amounts in millions of \$ unless otherwise stated

1 Introduction

NXP Semiconductors N.V. (including our subsidiaries, referred to collectively herein as “NXP”, “NXP Semiconductors”, “we”, “our”, “us” and the “Company”) is a global semiconductor company incorporated in the Netherlands as a Dutch public company with limited liability (naamloze vennootschap). We provide leading High Performance Mixed Signal and, up to February 6, 2017, Standard Product solutions that leverage our deep application insight and our technology and manufacturing expertise in radio frequency, analog, power management, interface, security and digital processing products. Our product solutions are used in a wide range of application areas including: automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer, computing and software solutions for mobile phones.

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 5.350% Senior Unsecured Notes due March 1, 2026 and \$500 million of 5.550% Senior Unsecured Notes due December 1, 2028. NXP used a portion of the net proceeds from the offering of these notes to repay the Bridge Loan, as described below. NXP intends to use the remaining proceeds for general corporate purposes, which may include the repurchase of additional shares of its stock.

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 a portion of its announced equity buy-back program. On December 6, 2018, the Bridge Loan was repaid in full, as described above.

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the Company will pay a regular quarterly cash dividend. Accordingly, interim dividends of \$0.25 per ordinary share were paid on October 5, 2018, on January 7, 2019, and on April 5, 2019.

On July 26, 2018, NXP received notice from Qualcomm Incorporated (“Qualcomm”) that Qualcomm had terminated, effective immediately, the purchase agreement between NXP and an affiliate of Qualcomm 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 in termination compensation per the terms of the purchase agreement which is reported under *Other income* in the statement of income. Effective July 26, 2018, subsequent to the termination of the Purchase Agreement, the board of directors of NXP, as authorized by its annual general meeting of shareholders on June 22, 2018 (the “June 2018 AGM”), authorized the repurchase of \$5 billion of the Company’s stock. Using the same authorization by the June 2018 AGM, the Board of Directors of NXP authorized the additional repurchase of approximately 15 million shares effective November 1, 2018. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of

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approximately \$5 billion. On November 16, 2018, the Company, as authorized by its June 2018 AGM, cancelled 5% (representing 17,300,143 shares) of the issued number of NXP shares. As a result, the number of issued NXP shares as per November 16, 2018 is 328,702,719 shares.

On June 14, 2016, NXP announced an agreement to divest its Standard Products (“SP”) business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd (“JAC Capital”) and Wise Road Capital LTD (“Wise Road Capital”). On February 6, 2017, we divested SP (subsequently named “Nexperia”), receiving \$2.6 billion in cash proceeds, net of cash divested.

2 Significant accounting policies and new accounting standards to be adopted after 2018

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 2018. The financial statements were authorized for issue by the board of directors on May 2, 2019.

The statement of income of the separate financial statements of NXP Semiconductors N.V. (page 179 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 income in the event that a comprehensive statement of income 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 income and statement of comprehensive income as part of profit allocation and in the consolidated statement of financial position 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 measurement

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 is 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 income. 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

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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 Group uses the U.S. dollar as its reporting currency. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company (NXP Semiconductors N.V.) is U.S. dollar. Prior to January 1, 2016, the functional currency of the holding company was the euro. As of January 1, 2017, as a result of internal reorganizations, NXP changed the functional currency of the principal Netherlands subsidiary to the U.S. dollar. For consolidation purposes, the financial statements of the entities within the Group 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 period end dates. Items in the Statement of income, Statement of comprehensive income and Statement of cash flow are translated at monthly exchange rates in the periods involved.

The resulting translation adjustments are recognized in other comprehensive income and presented in the Currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is recorded under non-controlling interests. When the Company's ownership interest in a foreign operation is disposed of such that control, significant influence or joint control is lost, the related Currency translation reserve is reclassified to the statement of income as part of the gain or loss on the disposal. When the Company disposes only a part of its ownership interest in a foreign subsidiary while retaining control, the relevant proportion of the cumulative Currency translation reserve is reattributed to non-controlling interests.

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

	period end	average ¹⁾	\$ per € 1	
			high	low
2018	1.1451	1.1794	1.1352	1.2431
2017	1.1932	1.1310	1.0474	1.1932

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

The functional currency of foreign entities is generally the local currency, unless the primary economic environment requires the use of another currency. 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 income, 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 in respectively the Currency translation reserve or Net investment hedging reserve; within equity. To the extent that a hedge is ineffective, the related foreign exchange gains and losses are recognized in the statement of income. 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 in the Currency translation reserve in equity.

When the hedged net investment is disposed of, the corresponding amount in the Currency translation differences reserve is transferred to the statement of income as part of the profit or loss on disposal.

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 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 reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the other components of the Company, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company does not identify or allocate assets by segment as the majority of our assets are used jointly or managed at Corporate level. Arithmetical allocation of these assets to the various businesses is not deemed to be meaningful and as such total assets by segment has been omitted.

Prior to February 6, 2017, NXP was organized into two reportable segments, High Performance Mixed Signal ("HPMS") and Standard Products ("SP"). As of February 6, 2017, the SP reportable segment was divested and HPMS remains as the sole reportable segment. Corporate and Other represents 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 acknowledgment of the one reportable segment representing the entity as a whole.

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

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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.

Earnings per share

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

Diluted earnings per share attributable to shareholders of NXP is determined by dividing net income or loss attributable to shareholders of NXP by the weighted average number of common shares outstanding, adjusted for treasury shares held, for the effects of all potentially dilutive common shares, which comprise share options and equity rights granted to employees.

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. The Company considers customer purchase orders, which are sometimes governed by master sales agreements, to be the contract with a customer. When sales are to a distributor, the Company has concluded that its contracts are primarily with the distributor because the Company holds a contract bearing enforceable rights and obligations primarily with the distributor. As part of identifying the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which is distinct, to be the identified performance obligations. 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 this estimate is not constrained because the Company has extensive experience with these contracts. The Company's standard payment terms are those that are customary in the geographic market and are less than one year. The Company allocates the transaction price to each distinct product based on its relative standalone selling price. 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.

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 related 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 income 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.

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The net pension liability or asset recognized in the statement of financial position 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 with time-based vesting. 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 compensation expense over the service periods. For stock options, RSUs and PSUs, the grant-date fair value, less estimated forfeitures, is expensed based on a graded vesting schedule. The vesting period for stock options is generally four years, for RSUs is generally three years and PSUs is one to 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. For periods prior to January 1, 2016, the mark-to-market of our warrant liability and foreign exchange results on our U.S. dollar denominated debt that resided in a Euro entity were also included. As of January 1, 2016, as a result of the acquisition of Freescale, NXP concluded that the functional currency of the holding company is U.S. dollar. Beginning from January 1, 2016, the warrants are classified in stockholders' equity, and mark-to-market accounting is no longer applicable. In addition to our U.S. dollar-denominated notes, term loans and revolving credit facility agreements are no longer re-measured.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the statement of income 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 income 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

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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 judgements about future events. New information may become available that causes the Company to change its judgement 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

The Group leases various office space 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 income 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 income 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 and impairment of 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. The Company identified its business operating segments within the reportable segments High Performance Mixed Signal and Standard Products as its cash generating units. Cash flows on this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Board. A goodwill impairment loss is recognized in the statement of income 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 units of the Company is determined on the basis of value in use in case not otherwise stated. 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 arising from acquisitions are amortized over their useful lives using the straight-line method. 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 3-15 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 income 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 income 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

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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 income.

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 income.

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 income.

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 carried at amortized cost, less impairment losses and net of rebates and other contingent discounts granted to distributors. As soon as trade accounts receivable can no longer

be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible 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 measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate, and recognizes these as assets or liabilities in the statement of financial position. Changes in the fair values are immediately recognized in the statement of income unless cash flow hedge accounting is applied.

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 Group.

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, using a regression analysis which regresses cumulative changes in fair value of the derivative instrument and cumulative changes in the fair value of a perfectly effective hypothetical derivative. Hedge relationships are deemed highly effective if the coefficient of determination is greater than 0.8.

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

[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 date that are readily convertible into known amounts of cash. It also includes cash balances that cannot be freely repatriated based on certain country restrictions. Cash and cash equivalents are stated at face value which approximates fair value.

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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 income 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.

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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 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. Effective January 1, 2018 IFRS 15 replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

In the fourth quarter of 2017, the Company finalized its assessment of the new standard. The analysis included reviewing the significant revenue streams and identifying whether there may be differences in timing of revenue recognition under the new standard, as well as assessing performance obligations, variable consideration, and contract costs. The Company adopted this standard as of January 1, 2018 by applying the modified retrospective transition method. Under that method, the cumulative effect of initially applying the new standard to existing contracts as of January 1, 2018 for an amount of \$14 million was recognized as an adjustment to the opening balance of retained earnings in the first quarter of 2018, and revenues reported in the periods prior to the date of adoption were not changed. The Company concluded that the adoption of IFRS 15 does not have a material impact on our financial position or results of operations. The impact to our results is not material because our assessment supports the recognition of revenue at a point in time upon shipment and transfer of control for the vast majority of our contracts, which is consistent with our current revenue recognition model. As from 2018, we disclose in note 5 *Operating income* revenue by sales channel ((i) distributors and (ii) Original Equipment Manufacturers and Electronic Manufacturing Services) as required by IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* introduced new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced new requirements for the classification and measurement

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of financial liabilities. Further, IFRS 9 includes a new general hedging standard as well as a new expected loss impairment model.

IFRS 9 has a mandatory effective date of January 1, 2018. During the fourth quarter of 2017, the Company finalized its assessment of this new standard. The adoption of IFRS 9 had no impact on the Company's financial position or results of operations. The company elected to continue to apply the IAS 39 *Financial Instruments: Recognition and Measurement* hedge accounting requirements.

New accounting standards after 2018

The following standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2019 or later periods, and the Company has not early adopted them:

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 depreciation 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 Company will amend the cash flow statement presentation, 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 cumulative effect method approach; based on which a cumulative-effect adjustment is recognized in the opening balance as of 1 January 2019. 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. The most significant impact of adopting IFRS 16 relates to recording right-of-use assets and related liabilities on our balance sheet, which the Company does not consider to have a material impact on our financial position or results of operations.

3 Information by segment and main countries

Prior to February 6, 2017, NXP was organized into two market oriented reportable segments, High Performance Mixed Signal ("HPMS") and Standard Products ("SP"). As of February 6, 2017, the SP reportable segment was divested and HPMS remains as the sole reportable segment. Corporate and Other represents 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 acknowledgment of the one reportable segment representing the entity as a whole.

Our HPMS business segment delivers high performance mixed signal solutions to our customers to satisfy their system and sub-systems needs across eight application areas: automotive, identification, mobile, consumer, computing, wireless infrastructure, lighting and industrial, and software solutions for mobile phones. Our SP business segment offered standard products for use across many application markets, as well as application-specific standard products predominantly used in application areas such as mobile handsets, computing, consumer and automotive. The segments each include revenue from the sale and licensing of intellectual property related to that segment.

Because the Company meets the criteria for aggregation set forth under IFRS 8 *Operating Segments*, and the operating segments have similar economic characteristics, the Company aggregates the results of operations of the Automotive, Secure Identification Solutions, Secure Connected Devices and Secure Interfaces and Infrastructure operating segments into one reportable segment, HPMS, and prior to February 6, 2017, the Standard Products and General Purpose Logic operating segments into another reportable segment, SP.

Our Chief Executive Officer, who is our CODM, regularly reviews financial information at the reporting segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Asset information by segment is not provided to our CODM as the majority of our assets are used jointly or managed at corporate level. Arithmetical allocation of these assets to the various businesses is not deemed to be meaningful and as such total assets per segment has been omitted.

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.

Detailed information by segment for the years 2018 and 2017 is presented in the following tables.

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Segments

	Revenue	Operating income (loss)
2018		
HPMS	9,022	807
SP	-	-
Corporate and Other ¹⁾	385	1,903
	9,407	2,710
Adjustments to reconcile to IFRS		452
		3,162
2017		
HPMS	8,745	656
SP	118	31
Corporate and Other ¹⁾	393	1,415
	9,256	2,102
Adjustments to reconcile to IFRS		341
		2,443

1) Corporate and Other is not a reportable segment under IFRS 8 *Operating Segments*. Corporate and Other includes revenue related to manufacturing operations, unallocated expense not related to any specific business segment and corporate restructuring charges. The gain on the sale of the divestment of SP business is included in the operating income of Corporate and other.

Our revenue is primarily from direct sales to OEMs and distributors who resell NXP products. One of our distributors accounted for 14% of our 2018 revenue and 15% of our revenue in 2017. One other distributor accounted for 10% of our revenue in 2018 and less than 10% of our revenue in 2017. With 11% of total revenue, one OEM for which we had direct sales to that accounted for 11% of our revenue in 2018 and 2017. No other individual OEM for which we had direct sales to accounted for more than 10% of our 2018 and 2017 revenue.

The 2018 higher IFRS operating income by \$452 million primarily relate to (i) the net effect of capitalizing development costs (\$506 million; 2017: \$413 million) and (ii) the higher IFRS restructuring charges for an amount of \$(40) million (2017: higher restructuring charges for \$(59) million) due to the stricter IFRS recognition criteria.

Main countries

	Revenue ¹⁾	Property, plant and equipment
2018		
China	3,430	287
Netherlands	349	214
United States	919	782
Singapore	1,220	298
Germany	531	55
Japan	735	-
South Korea	357	-
Malaysia	112	373
Other countries	1,754	428
	9,407	2,437
Adjustments to reconcile to IFRS		-
		2,437
2017		
China	3,640	281
Netherlands	304	198
United States	922	770
Singapore	1,082	211
Germany	570	57

Japan	750	-
South Korea	356	-
Malaysia	103	369
Other countries	1,529	409
	9,256	2,295
Adjustments to reconcile to IFRS		1
		2,296

1) 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).

Note 13 *Goodwill* discloses our goodwill by segment.

4 Acquisitions, divestments and Assets held for sale

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 income 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.

2017

There were no material acquisitions during 2017. On April 19, 2017, we sold our shares in Advanced Semiconductor Manufacturing Corporation Ltd. (ASMC), representing a 27.47 percent ownership, for a total consideration of \$54 million. The gain on the sale of \$12 million is included in the statement of income in the line item "Results relating to equity-accounted investees".

On February 6, 2017, we divested our Standard Products ("SP") business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd ("JAC Capital") and Wise Road Capital LTD ("Wise Road Capital"), receiving \$2.6 billion in cash proceeds, net of cash divested. Prior to February 6, 2017, the results of the SP business were included in the reportable segment SP.

The gain on the sale of \$1,592 million is included in the statement of income in the line item "Other income" and is composed of the following:

Total cash consideration	2,750	
Assets held for sale	(1,119)	
Cash divested	(138)	
Liabilities held for sale	196	
Other adjustments	(69)	
Transaction costs	(28)	
Gain		1,592

Assets held for sale

At December 31, 2018 and 2017, there were no *Assets held for sale*.

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5 Operating income

Disaggregation of revenue

	2018	2017 ¹⁾
Distributors	4,865	4,734
Original Equipment Manufacturers and Electronic Manufacturing Services	4,157	4,129
Other ²⁾	385	393
	9,407	9,256

1) Prior period amounts have not been adjusted for the impact of adopting IFRS 15 *Revenue from Contracts with Customers*

2) Represents revenues in Corporate and Other for other services

For information related to revenue and operating income on a business and geographical basis, see note 3 *Information by segment and main countries* of this Annual Report.

Salaries and wages

	2018	2017
Salaries and wages	2,265	2,109
Pension and other post-employment costs	113	97
Other social security and similar charges	183	189
	2,561	2,395

Salaries and wages in 2018 include \$45 million (2017: \$49 million) relating to restructuring charges. 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, 2018 we had 30,000 full-time equivalent employees (2017 : 30,100).

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

	As of December 31,	
	2018	2017
Europe and Africa	20	20
Americas	20	20
Greater China	25	24
Asia Pacific	35	36
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:

	2018	2017
Depreciation of property, plant and equipment	479	612
Amortization of internal use software	8	21
Amortization of intangible assets	1,739	1,698
Impairment intangible assets	29	69
	2,255	2,400

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 \$29 million, which is included under Research and development expenses (2017: \$69 million) – see also note 14 *Intangible assets*.

Research and development expenses

The 2018 research and development expenses, excluding amortization of acquisition related intangible assets, amounted to \$1,209 million (2017: \$1,153 million). Government grants with regard to research and development activities were recognized in the statement of income for a total amount of \$78 million (2017: \$88 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 2018, we recognized \$47 million (2017: \$53 million) of employee severance costs in our restructuring liabilities, which was for an amount of \$42 million (2017: \$46 million) related to the restructuring and cost reduction activities in connection with the December 2015 acquisition of Freescale.

The 2018 changes in the provision and accrued liabilities for restructuring by segment are as follows:

	Total	HPMS	Corporate and Other
Balance as of January 1, 2018	20	17	3
Changes:			
Additions	47	47	-
Utilized	(25)	(25)	-
Released	-	-	-
Translation differences or transfers	(5)	(5)	-
Balance as of December 31, 2018	37	34	3

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

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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 position of restructuring liabilities in 2017 by segment:

	Total	HPMS	SP	Corporate and Other
Balance as of January 1, 2017	36	32	4	-
Changes:				
Additions	53	53	-	-
Utilized	(65)	(65)	-	-
Released	(16)	(16)	-	-
Effects of movements in exchange rates and other	12	13	(4)	3
Balance as of December 31, 2017	20	17	-	3

The total restructuring liability as of December 31, 2017 of \$20 million is classified in the statement of financial position under short-term provisions for \$11 million, long-term provisions for \$5 million and accrued liabilities for \$4 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 2018 and 2017 are as follows:

	2018	2017
Personnel lay-off costs	43	66
Other exit costs	2	10
Release of provisions/accruals	-	(16)
Net restructuring charges	45	60

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

	2018	2017
Cost of revenue	6	4
Selling, general and administrative expenses	31	58
Research and development expenses	9	(2)
Other income (expense)	(1)	-
Net restructuring charges	45	60

7 Financial income and expense

	2018	2017
Interest income	48	27
Interest expense	(273)	(310)
Total interest expense, net	(225)	(283)
Net gain (loss) on extinguishment of debt	(26)	(41)
Foreign exchange rate results	(14)	(30)
Other	(70)	(12)
Total other financial income and expense	(110)	(83)
Total	(335)	(366)

Financial income (expense) was an expense of \$335 million in 2018, compared to an expense of \$366 million in 2017. The change in financial income (expense) is primarily attributable to (i) the decrease in interest expense, net, as a result of repayment of debt in 2018, (ii) a favorable impact of foreign exchange rate results and (iii) lower debt extinguishment cost related to repayment of debt, offset by (a) a one-time charge (\$60 million) on certain financial instruments for compensation related to an adjustment event required by the termination of the Qualcomm Purchase Agreement and (b) fees for the Bridge loan.

The 2018 Foreign exchange rate results include a currency hedging loss of \$ 42 million (2017: \$71 million gain).

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 income amounted to \$240 million (2017: benefit of \$465 million). The components of income tax (expense) benefit are as follows:

	2018	2017
Netherlands:		
Current taxes	(297)	(179)
Deferred taxes	13	(283)
	(284)	(462)
Foreign:		
Current taxes	(92)	(139)
Deferred taxes	136	1,066
	44	927
Income tax (expense) benefit	(240)	465

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 35%.

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The current tax expense consists of the following items:

	2018	2017
Current year	(425)	(315)
Adjustments for prior years	36	(3)

The deferred tax benefit of 2018 and 2017 recognized in the statement of income consists of the following items:

	2018	2017
Origination and reversal of temporary differences	87	(42)
Tax rate and law change	42	829
Prior year adjustments and other	20	(4)

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

	2018	2017
Income tax benefit (expense) from continuing operations	(240)	465
Income tax (expense) 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:

	2018		2017	
	%	\$ million	%	\$ million
Income before taxes		2,827		2,077
Income tax (expense) benefit		(240)		465
Income after tax		2,587		2,542
Statutory income tax in the Netherlands	25.0%	(707)	25.0%	(519)
Rate differential local statutory rates versus statutory rate of the Netherlands	(0.2%)	(6)	(3.7%)	77
Loss carry forwards for which deferred tax assets were not recognized in the year of loss	(0.3%)	(8)	0.9%	(19)
Changes previous year's tax effect	3.0%	85	0.3%	(7)
Non-taxable income	0.1%	3	(0.8%)	17
Non-tax-deductible expenses	(2.5%)	(71)	2.4%	(50)
Sale of non-deductible goodwill	-	-	2.6%	(53)
The U.S. Tax Cuts and Jobs Act	0.1%	3	(39.3%)	817
Other taxes and tax rate and legislation changes	1.5%	42	(0.6%)	12
Other permanent differences	2.3%	65	(1.5%)	32
Withholding and other taxes	0.4%	11	1.1%	(23)
Unrecognized Tax benefits	0.1%	3	1.4%	(30)
Tax incentives and other	12.0%	340	(10.2%)	211
Effective tax rate	8.5%	(240)	(22.4%)	465

We recorded an income tax expense of \$240 million in 2018, which reflects an effective tax rate of 8.5% compared to a benefit of \$465 million (22.4%) in 2017. 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 and the mix of income and losses in various jurisdictions. 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 U.S. Tax Cuts and Jobs Act is the primary driver for the change between the two periods as a result of the one-time benefit of \$817 million we received in 2017, which only had an impact of an additional income tax benefit of \$3 million in 2018.
- The Netherlands tax incentives increased in 2018 due to the fact that NXP reached an agreement with the Dutch tax authorities related to the application of the Dutch innovation box regime to the taxable income attributable to the Netherlands. In addition to this, in 2018, NXP received a break-up fee from Qualcomm of \$2,000 million which helped drive a higher income before tax in 2018 than in 2017, even though in 2017 NXP had realized a gain on the divestment of SP business.
- The adjustments to prior years' income taxes increased in 2018 as a result of the aforementioned agreement which 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 other differences in 2018 relates primarily to a tax benefit on the liquidation of a former investment of \$45 million.

We currently benefit from income tax holiday incentives 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 income tax holiday of one of our subsidiaries is due to expire at the end of 2026.

The net income tax payable as of December 31, 2018 amounted to \$174 million (2017: receivable \$33 million) and includes amounts directly payable to or receivable from tax authorities.

Tax years that remain subject to examination by major tax jurisdictions (mainly related to the Netherlands, Germany, USA, China, Taiwan, Thailand, Malaysia and India) are 2004 through 2017.

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Deferred tax assets and liabilities

Deferred tax assets and liabilities for 2018 and 2017 relate to the following statement of financial position captions:

	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	0	5			5
– Accrued interest	156	(39)			117
– Other	-				-
Long-term debt					
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)

	Balance January 1, 2017	Recognized in income	Acquisitions/ disposals	Other ¹⁾	Balance December 31, 2017
Intangible assets	(2,763)	1,214			(1,549)
Property, plant and equipment	(140)	93			(47)
Inventories	48	(24)			24
Receivables	36	35			71
Other assets	11	(9)			2
Post-employment benefits	85	4		4	93
Provisions:					
– Restructuring	5	(1)		(4)	0
– Accrued interest	432	(276)			156
– Other	-				-
Long-term debt	-				-
Other liabilities	109	(9)			100
Share-based payments	181	(30)		(91)	60
Undistributed earnings subsidiaries	(367)	258			(109)
Tax loss carry forward (including tax credit carry forwards)	905	(472)		49	482
Net deferred tax assets (liabilities)	(1,458)	783		(42)	(717)

¹⁾ Other includes the effect of currency translation differences and the deferred taxes recorded directly in equity. In 2017, the Company recorded an adjustment to recognize lower excess tax benefits from Share-based compensation plans in equity for an amount of \$ 68 million related to the year 2016.

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

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Intangible assets			(1,325)	(1,549)	(1,325)	(1,549)
Property, plant and equipment			(48)	(47)	(48)	(47)
Inventories	32	24			32	24
Receivables	83	71			83	71
Other assets	2	2			2	2
Post-employment benefits	83	93			83	93
Provisions:						
– Restructuring	5				5	
– Accrued interest	117	156			117	156
– Other						
Long-term debt						
Other liabilities	83	100			83	100
Share-based payments	22	60			22	60
Undistributed earnings subsidiaries			(96)	(109)	(96)	(109)
Tax loss carry forward (including tax credit carry forwards)	455	482			455	482
Deferred taxes	882	988	(1,469)	(1,705)	(587)	(717)
Offsetting between assets and liabilities	(606)	(689)	606	689		
Net deferred taxes recognized	276	299	(863)	(1,016)	(587)	(717)

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:

	2018	2017
Deductible temporary differences	5	5
Tax losses	206	109
Tax credits	136	113

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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	2019	2020	2021	2022	2023	2024-2028	later	unlimited
206	20	5	1	10	1	85	42	42

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

Total	2019	2020	2021	2022	2023	2024-2028	later	unlimited
136	9	11	1	7	5	46	41	16

9 Equity-accounted investees

Results relating to equity-accounted investees

	2018	2017
Share of result of equity-accounted investees	7	17
Other results	52	17
	59	34

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.

On April 19, 2017, we sold our shares in Advanced Semiconductor Manufacturing Corporation Ltd. (ASMC), representing a 27.47 percent ownership, for a total consideration of \$54 million. The gain on the sale of \$12 million is included in the statement of income in the line item “Results relating to equity-accounted investees”.

Investments in equity-accounted investees

The changes in equity-accounted investees are as follows:

	2018	2017
Balance as of January 1,	146	172
Changes:		
Acquisition/additions	-	-
Share in income (loss)	7	15
Divestments	(106)	(41)
Transfer to current assets	(34)	-
Balance as of December 31,	13	146

The total carrying value of equity-accounted investees as of December 31, is summarized as follows:

	2018		2017	
	Shareholding %	Amount	Shareholding %	Amount
ASEN	-	-	40	66
WeEn	-	-	49	65
Others		13		15
		13		146

Equity-accounted investees are included in Corporate and Other.

Summarized information of investments in equity-accounted investees

Summarized financial information for the Company's investments in equity-accounted investees, on a combined basis and not adjusted for the percentage ownership of the Group, is presented below:

	2018	2017
Revenue	21	319
Income before income taxes	(1)	43
Income tax expense	-	(9)
Net income	(1)	34
NXP's share of result of equity-accounted investees recognized in the statement of income	(1)	15

	2018	2017
Current assets	16	160
Non-current assets	12	352
	28	512
Current liabilities	6	(76)
Non-current liabilities	-	(7)
	6	(83)
Net asset value	22	429
NXP's equity-accounted investees included in the consolidated statement of financial position	13	146

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10 Subsidiaries and non-controlling interests

NXP Semiconductors N.V.'s material wholly owned (unless indicated differently) subsidiaries as of December 31, 2018:

Country of incorporation	Name legal entity
Austria	NXP Semiconductors Austria GmbH
Austria	Catena DSP GmbH
Belgium	NXP Semiconductors Belgium N.V.
Brazil	NXP Semicondutores Brasil Ltda.
British Virgin Islands	Freescale Semiconductor Holding Limited
Canada	NXP Canada Inc.
Cayman Islands	Freescale Semiconductor Cayman Holdings Ltd.
China	NXP (China) Management Ltd.
China	NXP Semiconductors (Shanghai) Co., Ltd.
China	NXP (Chongqing) Semiconductors Co., Ltd.
China	NXP (Tianjin) IC Design Co. Ltd.
China	Freescale Semiconductor (China) Ltd.
Czech Republic	NXP Semiconductors Czech Republic s.r.o.
France	NXP Semiconductors France SAS
Germany	SMST Unterstützungskasse GmbH
Germany	NXP Semiconductors Germany GmbH
Germany	Catena Germany GmbH
Hong Kong	NXP Semiconductors Asia Hong Kong Ltd.
Hong Kong	Semiconductors NXP Ltd.
Hong Kong	Freescale Semiconductor Asia Enablement Limited
Hungary	NXP Semiconductors Hungary Ltd.
India	NXP India Pvt. Ltd.
India	Intoto Software India Private Limited
Ireland	GloNav Ltd.
Israel	NXP Semiconductors Israel Limited
Israel	Freescale Semiconductor Israel Limited
Japan	NXP Japan Ltd.
Korea	NXP Semiconductors Korea Ltd.
Malaysia	Freescale Asia Fulfillment Centre Sdn Bhd.
Malaysia	Freescale Semiconductor Malaysia Sdn Bhd.
Mexico	Freescale Semiconductors México, S. de R.L. de C.V.
Netherlands	NXP B.V.
Netherlands	NXP Semiconductors Netherlands 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.

Country of incorporation	Name legal entity
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	Catena Wireless Electronics AB
Sweden	NXP Semiconductors Nordic AB
Switzerland	NXP Semiconductors Switzerland AG
Switzerland	Freescale Semiconductor EME&A SA
Taiwan	NXP Semiconductors Taiwan Ltd.
Thailand	NXP Manufacturing (Thailand) Co., Ltd.
Thailand	NXP Semiconductors (Thailand) Co., Ltd.
Turkey	NXP Semiconductors Elektronik Ticaret A.S.
United Kingdom	NXP Laboratories Holding UK Ltd.
United Kingdom	NXP Laboratories UK Ltd.
United Kingdom	Freescale Semiconductor Holding UK Limited
United Kingdom	Freescale Semiconductor UK Limited
USA	NXP USA, Inc.
USA	NXP Funding LLC
USA	Intoto LLC
USA	Freescale Semiconductor International Corporation
USA	Freescale Semiconductor Holdings V, Inc.
USA	River Brook Funding, LLC
USA	OmniPHY, Inc.

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:

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	2018	2017
Revenue	433	438
Net income	129	145
Net income attributable to NCI	49	56
Other comprehensive income	-	-
Total comprehensive income	129	145
Total comprehensive income attributable to NCI	49	56
Non-current assets	328	242
Current assets	291	390
	619	632
Non-current liabilities	(29)	(36)
Current liabilities	(89)	(86)
	(118)	(122)
Net assets	501	510
Net assets attributable to NCI	186	190
Cash flows from operating activities	167	230
Cash flows from investing activities	(136)	(97)
Cash flows from financing activities	(141)	(200)
Net increase in cash and cash equivalents	(110)	(67)
Dividends paid to NCI during the year ¹⁾	(54)	(88)

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 \$49 million in 2018 which relates to SSMC (2017: profit of \$56 million which relates to SSMC). As of December 31, 2018, non-controlling interests in equity totaled \$189 million of which \$186 million relates to SSMC (2017: \$194 million of which \$190 million relates to SSMC).

At December 31, 2018 the Company had the following branches:

- NXP Semiconductors Nordic AB, Finland branch
- 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., Taiwan 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 Singapore Pte. Ltd., Vietnam branch
- NXP Semiconductors Hungary Kft, Swiss branch
- Catena Microelectronics B.V, Italy branch

11 Earnings per share

The earnings per share (EPS) data have been calculated as follows:

	2018	2017
Net income	2,646	2,576
Less: Net income attributable to non-controlling interests	49	56
Income attributable to shareholders of NXP	2,597	2,520
Weighted average number of shares outstanding (in thousands)	325,781	338,646
Plus incremental shares from assumed conversion of:		
Options ¹⁾	1,234	4,698
Restrictive Share Units, Performance Share Units and Equity Rights ²⁾	2,897	3,636
Warrants ³⁾	-	-
Dilutive potential common shares	4,131	8,334
Adjusted weighted average number of shares outstanding during the year (in thousands)	329,912	346,980
<i>EPS attributable to shareholders of NXP in \$:</i>		
Basic net income	7.97	7.44
Diluted net income ¹⁾	7.87	7.26

¹⁾ Stock options to purchase less than 0.1 million shares of NXP's common stock that were outstanding in 2018 (2017: no 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 0.9 million shares that were outstanding in 2018 (2017: 0.7 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 11.2 million shares of NXP's common stock at a price of \$132.55 per share were outstanding in 2018 (2017: 11.2 million shares at a price of \$133.32). Upon exercise, the warrants will be net share settled. At the end of 2018 and 2017, 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.

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12 Property, plant and equipment

The changes in property, plant and equipment in 2018 and 2017 were as follows:

	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	3,179	452	173
Accumulated depreciation and impairments	(2,891)	(573)	(2,104)	(214)	-
Book value	2,296	810	1,075	238	173
Changes in book value:					
Capital expenditures	628	-	-	-	628
Transfer assets put into use	-	50	374	97	(521)
Retirements and sales	(4)	(1)	(2)	(1)	-
Acquisitions through business combinations	-	-	-	-	-
Depreciation	(475)	(118)	(281)	(76)	-
Write-downs and impairments	-	-	-	-	-
Transfer to/from assets held for sale	-	-	-	-	-
Effect of movements in exchange rates	(8)	(3)	(1)	(3)	(1)
Total changes	141	(72)	90	17	106
Balance as of December 31, 2018:					
Cost	5,753	1,427	3,510	537	279
Accumulated depreciation and impairments	(3,316)	(689)	(2,345)	(282)	-
Book value	2,437	738	1,165	255	279
Balance as of January 1, 2017:					
Cost*	4,683	1,281	3,006	278	118
Accumulated depreciation and impairments	(2,329)	(447)	(1,746)	(136)	-
Book value	2,354	834	1,260	142	118
Changes in book value:					
Capital expenditures	555	-	-	-	555
Transfer assets put into use	-	57	297	142	(496)
Retirements and sales	(14)	(3)	(10)	(1)	-
Acquisitions through business combinations	-	-	-	-	-
Depreciation	(599)	(129)	(421)	(49)	-
Write-downs and impairments	-	-	-	-	-
Transfer to/from assets held for sale	(14)	45	(54)	-	(5)
Effect of movements in exchange rates	14	6	3	4	1
Total changes	(58)	(24)	(185)	96	55
Balance as of December 31, 2017:					
Cost*	5,187	1,383	3,179	452	173
Accumulated depreciation and impairments	(2,891)	(573)	(2,104)	(214)	-
Book value	2,296	810	1,075	238	173

*During 2018 an amount of \$47 million was reclassified from *Land and buildings* to *Machinery and installations*

The useful lives of property, plant and equipment as of December 31, 2018 are as follows:

Buildings	from 9 to 50 years
Machinery and installations	from 2 to 10 years
Other equipment	from 1 to 5 years

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

13 Goodwill

The changes in goodwill during 2018 and 2017 were as follows:

	2018	2017
Balances as of January 1		
Cost	9,168	9,150
Accumulated impairment	(294)	(326)
Book value	8,874	8,824
Changes in book value:		
Acquisitions	11	-
Effect of movements in exchange rates	(20)	50
Total changes	(9)	50
Balances as of December 31		
Cost	9,119	9,168
Accumulated impairment	(254)	(294)
Book value	8,865	8,874

At December 31, 2018 the goodwill stemming from the purchase accounting for the December 7, 2015 acquisition of Freescale amounted to \$ 7,503 million (December 31, 2017: 7,503 million).

Goodwill assigned to cash-generating units is as follows:

	Carrying amount goodwill at December 31,	
	2018	2017
<i>Cash generating unit:</i>		
Automotive	2,564	2,560
Secure Identification Solutions	412	415
Secure Connected Devices	2,416	2,420
Secure Interfaces and Infrastructure	3,473	3,479
Standard Products		
	8,865	8,874

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Our goodwill is tested for impairment on an annual basis in accordance with IAS 36 *Impairment of Assets*. To test our goodwill for impairment, the recoverable amount of each cash-generating unit to which goodwill has been allocated is determined on the basis of its value in use. If the carrying amount of the net assets of a cash-generating unit exceeds the recoverable amount of that cash-generating unit, we record an impairment loss for the difference between the carrying amount and the recoverable amount.

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 but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our cash-generating units.

Based on analysis of the 2018 events and circumstances, NXP assessed at the end of 2018 that the likelihood that the current 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.

The key assumptions used in the 2017 calculations included: a) cash flows based on financial projections for periods ranging from 2017 through 2020 and which were extrapolated until 2027 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 10.5%, based on the weighted average cost of capital of 9.0%.

14 Intangible assets

The changes in intangible assets in 2018 and 2017 were as follows:

	Total	Other intangible assets	Product development assets	Software
Balance as of January 1, 2018:				
Cost	11,440	9,258	2,074	108
Accumulated amortization and impairments	(3,963)	(3,403)	(466)	(94)
Book value	7,477	5,855	1,608	14
Changes in book value:				
Additions from internal development	770	-	770	-
Additions from separate acquisitions	114	111	-	3
Amortization	(1,747)	(1,504)	(235)	(8)
Impairment	(29)	-	(29)	-
Divestments and transfer to assets held for sale	-	-	-	-
Effect of movements in exchange rates and other	(2)	(2)	-	-
Total changes	(894)	(1,395)	506	(5)
Balance as of December 31, 2018:				
Cost	11,865	9,116	2,682	67
Accumulated amortization and impairments	(5,282)	(4,656)	(568)	(58)
Book value	6,583	4,460	2,114	9
Balance as of January 1, 2017:				
Cost	11,139	9,428	1,596	115
Accumulated amortization and impairments	(2,592)	(2,101)	(401)	(90)
Book value	8,547	7,327	1,195	25
Changes in book value:				
Additions from internal development	635	-	635	-
Additions from separate acquisitions	78	68	-	10
Amortization	(1,719)	(1,522)	(176)	(21)
Impairment	(69)	(23)	(46)	-
Divestments and transfer to assets held for sale	-	-	-	-
Effect of movements in exchange rates and other	5	5	-	-
Total changes	(1,070)	(1,472)	413	(11)
Balance as of December 31, 2017:				
Cost	11,440	9,258	2,074	108
Accumulated amortization and impairments	(3,963)	(3,403)	(466)	(94)
Book value	7,477	5,855	1,608	14

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Other intangible assets and product development, as of December 31 consist of:

	2018		2017	
	Gross	Accumulated amortization	Gross	Accumulated amortization
Marketing-related	81	(49)	82	(34)
Customer-related	964	(300)	1,155	(434)
Technology-based	10,544	(4,933)	10,095	(3,402)
	11,589	(5,282)	11,332	(3,870)

All intangible assets are subject to amortization and have no assumed residual value.

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

The useful lives of intangible assets varies between 1 and 15 years as of December 31, 2018.

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, 2018, mainly consist of prepaid expenses and accrued income of \$195 million (2017: \$162 million), Notes hedge derivatives of \$0 million (2017: \$301 million) (see also note 21 *Long-term debt*) and investments of \$11 million (2017: \$15 million).

16 Inventories

Inventories are summarized as follows:

	2018	2017
Raw materials	74	62
Work in process	949	901
Finished goods	256	273
	1,279	1,236

The amounts recorded above are net of an allowance for obsolescence of \$111 million as of December 31, 2018 (2017: \$107 million).

The portion of the finished goods stored at customer locations under consignment amounted to \$52 million as of December 31, 2018 (2017: \$69 million).

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

	2018	2017
Balance as of January 1	107	84
Additions charged to income	60	88
Deductions from allowance	(56)	(39)
Other movements ¹⁾	-	(26)
Balance as of December 31	111	107

1) Includes the effect of currency translation differences and divestments.

17 Other current assets

Other current assets as of December 31, 2018 amounted to \$209 million (2017: \$ 174 million) and consist primarily of government grants to collect for \$90 million (2017: \$101 million), prepaid expenses of \$44 million (2017: \$47 million), Notes hedge derivatives of \$24 million (2017: \$0 million) (see also note 21 *Long-term debt*) and accrued revenue of \$ 31 million (2017: \$0 million).

18 Receivables

Receivables are summarized as follows:

	2018	2017
Accounts receivable from third parties	795	882
Less: allowance for doubtful accounts	(3)	(3)
Other receivables	137	190
	929	1,069

Income taxes receivable current portion totaling \$55 million (2017: \$104 million) are included under other receivables.

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

	2018	2017
Not past due	768	870
1-15 days past due	24	9
16-30 days past due	-	-
	792	879

19 Cash and cash equivalents

At December 31, 2018 and December 31, 2017, our cash balance was \$2,789 million and \$3,547 million, respectively, of which \$140 million and \$250 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,

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but 38.8% of the dividend will be paid to our joint venture partner. During 2018, a dividend of \$139 million (2017: \$228 million) has been paid by SSMC.

20 Shareholders' equity

The share capital of the Company as of December 31, 2018 and 2017 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.

On November 16, 2018, the Company, as authorized by the June 2018 AGM, cancelled 5% (representing 17,300,143 shares) of the issued number of NXP shares. As a result, the number of issued NXP shares as per November 16, 2018 is 328,702,719 shares. At December 31, 2018, the Company has issued and paid up 328,702,719 shares (2017: 346,002,862 shares) of common stock each having a par value of €0.20 or a nominal stock capital of €66 million (2017: €69 million).

At December 31, 2018, the Company has issued and paid up 328,702,719 shares (2017: 346,002,862 shares) of common stock each having a par value of €0.20 or a nominal stock capital of €66 million (2017: €69 million).

Cash dividends

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the company will pay a regular quarterly cash dividend. Accordingly, interim dividends of \$0.25 per ordinary share were paid on October 5, 2018 and January 7, 2019.

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 22, 2018, the General Meeting of Shareholders authorize the Board of Directors to repurchase shares of our common stock. On that basis, for the first time in 2011 and latest effective November 1, 2018, 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 stockholders' 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 2018 and 2017:

	2018	2017
Total shares in treasury at beginning of year	3,078,470	10,609,980
Total cost	342	915
Shares acquired under repurchase program	54,376,181	2,522,589
Average cost price in \$ per share	92.07	113.36
Amount paid	5,006	286
Shares delivered	4,241,487	10,054,099
Average price in \$ per share	107.75	85.42
Amount received	39	233
Shares retired	17,300,143	-
Total shares in treasury at year-end	35,913,021	3,078,470
Total cost	3,238	342

Shareholder tax on repurchased shares

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 stockholders' equity.

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21 Long-term debt

The following table summarizes the outstanding long-term debt as of December 31, 2018 and 2017:

	Maturity	2018		2017	
		Amount	Effective rate	Amount	Effective rate
Fixed-rate 3.75% senior unsecured notes	Jun, 2018	-	3.750	750	3.750
Fixed-rate 4.125% senior unsecured notes	Jun, 2020	600	4.125	600	4.125
Fixed-rate 4.125% senior unsecured notes	Jun, 2021	1,350	4.125	1,350	4.125
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, 2022	400	4.625	400	4.625
Fixed-rate 5.75% senior unsecured notes	Mar, 2023	-	5.750	500	5.750
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	-	-
Fixed-rate 5.35% senior unsecured notes	Mar, 2026	500	5.350	-	-
Fixed-rate 5.55% senior unsecured notes	Dec, 2028	500	5.550	-	-
Fixed-rate 1% cash convertible notes	Dec, 2019	1,150	1.000	1,150	1.000
Floating-rate revolving credit facility	Dec, 2020	-	-	-	-
Total principal		7,400		6,650	
Liabilities arising from capital leases		27		29	
Unamortized discounts, premiums and debt-issuance costs		(31)		(28)	
Fair value of embedded cash conversion option		(42)		(86)	
Total debt, including unamortized discounts, premiums, debt issuance costs and fair value adjustments		7,354		6,565	
Current portion of long-term debt		(1,107)		(751)	
Long-term debt		6,247		5,814	

	Range of interest rates	Average rate of interest	Principal amount outstanding 2018	Due in 2019	Due after 2019	Due after 2023	Average remaining term (in years)	Principal amount outstanding 2017
USD notes	3.9%-5.8%	4.5%	6,250	-	6,250	2,000	4.3	5,500
2019 Cash Convertible Senior Notes	1.0%	1.0%	1,150	1,150	-	-	0.9	1,150
Revolving Credit Facility ¹⁾	-	-	-	-	-	-	-	-
Liabilities arising from capital leases	4.5%-13.8%	4.6%	27	2	25	19	13.2	29
		4.0%	7,427	1,152	6,275	2,019	3.8	6,679

1) We do not have any borrowings under the \$600 million Revolving Credit Facility as of December 31, 2018 and 2017.

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The 2018 changes in our long-term debt can be summarized as follows:

(\$ in millions)	Accrual/release			December 31, 2018
	December 31, 2017	Original Issuance/Debt Discount and Debt Issuance Cost	Debt Exchanges/ Repurchases/ New Borrowings	
U.S. dollar-denominated 4.125% senior unsecured notes due June 2020 ⁽¹⁾	597	1		598
U.S. dollar-denominated 4.125% senior unsecured notes due June 2021 ⁽²⁾	1,349			1,349
U.S. dollar-denominated 4.625% senior unsecured notes due June 2022 ⁽³⁾	397	1		398
U.S. dollar-denominated 4.625% senior unsecured notes due June 2023 ⁽⁴⁾	894	1		895
U.S. dollar-denominated 3.875% senior unsecured notes due June 2023 ⁽⁵⁾	994	1		995
U.S. dollar-denominated 5.75% senior unsecured notes due March 2023 ⁽⁶⁾	497	3	(500)	-
U.S. dollar-denominated 4.875% senior unsecured notes due March 2024 ⁽⁷⁾	-	(6)	1,000	994
U.S. dollar-denominated 5.35% senior unsecured notes due March 2026 ⁽⁷⁾	-	(3)	500	497
U.S. dollar-denominated 5.55% senior unsecured notes due December 2028 ⁽⁷⁾	-	(4)	500	496
U.S. dollar-denominated 1.00% cash convertible senior notes due December 2019 ⁽⁸⁾	1,059	46		(1,105)
	5,787	40	1,500	(1,105)
RCF Agreement ⁽⁹⁾				
Other long-term debt ⁽¹⁰⁾	27	-	-	(2)
Total long-term debt	5,814	40	1,500	(1,107)

⁽¹⁾ On June 9, 2015, we issued \$600 million aggregate principal amount of 4.125% Senior Unsecured Notes due 2020.

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

⁽⁵⁾ On August 11, 2016, we issued \$1,000 million aggregate principal amount of 3.875% Senior Unsecured Notes due 2022.

⁽⁶⁾ On March 15, 2013, we issued \$500 million aggregate principal amount of 5.75% Senior Unsecured Notes due 2023. On April 2, 2018 we fully redeemed the \$500 million of outstanding principal of these notes.

⁽⁷⁾ 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.

⁽⁸⁾ On November 24, 2014, we issued \$1,150 million aggregate principal amount of 1.00% Cash Convertible Senior Notes due 2019.

⁽⁹⁾ On December 7, 2015, we entered into a \$600 million revolving credit facility agreement due 2020.

⁽¹⁰⁾ Other long-term debt consists primarily of capital lease obligations.

⁽¹¹⁾ Other mainly relates to the reclassification of the current portion of long-term debt.

The following amounts of long-term debt at principal amount as of December 31, 2018 are due in the next 5 years and thereafter:

2019	1,152
2020	601
2021	1,351
2022	1,402
2023	902
Due after 5 years	<u>2,019</u>
	<u>7,427</u>

As of December 31, 2018, the book value of our outstanding long-term debt was \$6,247 million, less debt issuance costs of \$32 million and less original issuance/debt discount of \$3 million.

As of December 31, 2018, we had no aggregate principal amount of variable interest rate indebtedness under our loan agreements. The remaining tenor of secured debt is on average 3.8 years.

Accrued interest as of December 31, 2018 is \$31 million (December 31, 2017: \$35 million).

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 December 1, 2028. NXP used a portion of the net proceeds of the offering of these notes to repay in full the Bridge Loan on December 6, 2018, 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") were borrowed. The Bridge Loan was to mature 364 days following the closing date of September 19, 2018 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. The repayment occurred on December 6, 2018.

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.

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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, 2018 and December 31, 2017 has been secured by collateral on substantially all of the Company’s assets and of certain of its subsidiaries.

Each series of the Senior Unsecured Notes are fully and unconditionally guaranteed jointly and severally, on a senior basis by certain of the Company’s current and future material wholly owned subsidiaries (“Guarantors”).

Pursuant to various security documents related to the \$600 million committed revolving credit facility, the Company and each Guarantor has granted first priority liens and security interests in, amongst others, the following, subject to the grant of further permitted collateral liens:

- (a) all present and future shares of capital stock of (or other ownership or profit interests in) each of its present and future direct subsidiaries, other than SMST Unterstützungskasse GmbH, and material joint venture entities;
- (b) all present and future intercompany debt of the Company and each Guarantor;
- (c) all of the present and future property and assets, real and personal, of the Company, and each Guarantor, including, but not limited to, machinery and equipment, inventory and other goods, accounts receivable, owned real estate, leaseholds, fixtures, general intangibles, license rights, patents, trademarks, trade names, copyrights, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds, but excluding cash and bank accounts; and
- (d) all proceeds and products of the property and assets described above.

Notwithstanding the foregoing, certain assets may not be pledged (or the liens not perfected) in accordance with agreed security principles, including:

- if the cost of providing security is not proportionate to the benefit accruing to the holders; and
- if providing such security requires consent of a third party and such consent cannot be obtained after the use of commercially reasonable efforts; and
- if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, “thin capitalization” rules or similar matters or providing security would be outside the applicable pledgor’s capacity or conflict with fiduciary duties of directors or cause material risk of personal or criminal liability after using commercially reasonable efforts to overcome such obstacles; and
- if providing such security would have a material adverse effect (as reasonably determined in good faith by such subsidiary) on the ability of such subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the indenture; and
- if providing such security or perfecting liens thereon would require giving notice (i) in the case of receivables security, to customers or (ii) in the case of bank accounts, to the banks with whom the accounts are maintained. Such notice will only be provided after the secured notes are accelerated.

Subject to agreed security principles, if material property is acquired by the Company or a Guarantor that is not automatically subject to a perfected security interest under the security documents, then the Company or relevant Guarantor will within 60 days provide security over this property and deliver certain certificates and opinions in respect thereof as specified in the indenture governing the notes.

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 have a stated interest rate of 1.00%, matures on December 1, 2019 and may be settled only in cash. The indenture for the 2019 Cash Convertible Senior Notes does not contain any financial covenants. Contractual interest payable on the 2019 Cash Convertible Senior Notes began accruing in December 2014 and is payable semi-annually each December 1st and June 1st. 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.

Prior to September 1, 2019, holders may convert their 2019 Cash Convertible Senior Notes into cash upon the occurrence of one of the following events:

- the price of NXP’s common stock reaches 130% of the conversion price on each applicable trading day during certain periods of time specified in the 2019 Cash Convertible Senior Notes;
- specified corporate transactions occur; or
- the trading price of the 2019 Cash Convertible Senior Notes falls below 98% of the product of (i) the last reported sales price of NXP’s common stock and (ii) the conversion rate on the date.

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On or after September 1, 2019, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2019 Cash Convertible Senior Notes into cash at any time, regardless of the foregoing circumstances. NXP may not redeem the 2019 Cash Convertible Senior Notes prior to maturity.

The initial cash conversion rate for the 2019 Cash Convertible Senior Notes is 9.7236 shares of NXP's common stock per \$1,000 principal amount of 2019 Cash Convertible Senior Notes, equivalent to a cash conversion price of \$102.84 per share of NXP's common stock, with the amount due on conversion payable in cash. Upon cash conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the cash conversion date.

If a "fundamental change" (as defined below in this section) occurs at any time, holders will have the right, at their option, to require us to repurchase for cash all of their 2019 Cash Convertible Senior Notes, or any portion of the principal thereof that is equal to \$1,000 or a multiple of \$1,000 (provided that the portion of any global note or certified note, as applicable, not tendered for repurchase has a principal amount of at least \$200,000, on the fundamental change repurchase date. A fundamental change is any transaction or event (whether by means of an exchange offer, change of common stock, liquidation, consolidation, merger, reclassification, recapitalization or otherwise) in which more than 50% of NXP's common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration. A transaction or transactions described above will not constitute a fundamental change, however, if at least 90% of the consideration received or to be received by our common shareholders, excluding cash payments for fractional shares, in connection with such transaction or transactions consists of shares of common equity that are listed or quoted on any permitted exchange or will be so listed or quoted when issued or exchanged in connection with such transaction or transactions and as a result of such transaction or transactions such consideration becomes the reference property for the 2019 Cash Convertible Senior Notes.

As of December 31, 2018, none of the conditions allowing the holders of the 2019 Cash Convertible Senior Notes to convert the 2019 Cash Convertible Senior Notes into cash had been met.

The requirement that NXP must settle the conversion of the Notes in cash gives rise to a derivative instrument that must be bifurcated from the debt host. The embedded cash conversion option within the Cash Convertible Notes is required to be separated from the Cash Convertible Notes and accounted for separately as a derivative liability, with changes in fair value reported in our Consolidated Statements of Income in other (expense) income, net until the cash conversion option settles or expires. 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 (2017: \$301 million) which is recorded in other long-term liabilities in the accompanying statement of financial position. For the year ended December 31, 2018, the change in the fair value of the embedded cash conversion option resulted in a profit of \$277 million (2017: a loss of \$43 million).

Concurrently with the pricing of the 2019 Cash Convertible Senior Notes, NXP entered into hedge transactions, or the Notes Hedges, with various parties whereby NXP has 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 options expire on December 1, 2019, and must be settled in cash. The aggregate cost of the Notes Hedges was \$208 million. The Notes Hedges are accounted for as derivative assets, and are included in Other assets in NXP's consolidated statement of financial position. As of December 31, 2018, the estimated fair value of the Notes Hedges was \$24 million (2017: \$301 million).

The Notes Embedded Conversion Derivative and the Notes Hedges are adjusted to fair value each reported period and unrealized gains and losses are reflected in NXP's consolidated statements of income. Because the fair values of the Notes Embedded Conversion Derivative and the Notes Hedges are designed to have similar offsetting values, there was no impact to NXP's consolidated statements of income relating to these adjustments to fair value during 2018 (2017: no impact).

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 starting from March 2, 2020, and will be net share settled. Under the terms of the warrants, any Option Counterparty may adjust certain terms of its warrants upon the announcement, termination or occurrence of certain events. The warrant transactions may also be terminated if the Option Counterparty determines that no such adjustment will produce a commercially reasonable result, and that the relevant event is reasonably likely to occur. In particular, each Option Counterparty may adjust the terms of its warrants to compensate it for the economic effect of the announcements relating to the proposed acquisition of NXP by Qualcomm (including announcements of consummation, cancellation, withdrawal or discontinuance of the proposed acquisition), taking into account changes in volatility, expected dividends, stock loan rate or liquidity and any stock price discontinuity relevant to our common stock or the warrants. There have been no adjustments made at this time. Any such 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 stockholders' 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, 2018, the Warrants were not dilutive.

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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 and 2017 was as follows:

(in millions)	2018	2017
Principal amount of 2019 Cash Convertible Senior Notes	1,150	1,150
Unamortized debt discount of 2019 Cash Convertible Senior Notes	45	91
Net liability of 2019 Cash Convertible Senior Notes	1,105	1,059

The effective interest rate, contractual interest expense and amortization of debt discount for the 2019 Cash Convertible Senior Notes for 2018 and 2017 were as follows:

(in millions, except percentage)	2018	2017
Effective interest rate	5.14%	5.14%
Contractual interest expense	12	12
Amortization of debt discount	44	42

As of December 31, 2018, the if-converted value of the 2019 Cash Convertible Senior Notes exceeded the principal amount of the Notes. The total fair value of the 2019 Cash Convertible Senior Notes was \$1,327 million.

Impact of Conversion Contingencies on financial statements

At the end of each quarter until maturity of the 2019 Cash Convertible Senior Notes, NXP will reassess whether the stock price conversion condition has been satisfied. If one of the early conversion conditions is satisfied in any future quarter, NXP would classify its net liability under the 2019 Cash Convertible Senior Notes as a current liability on the consolidated statement of financial position as of the end of that fiscal quarter. If none of the early conversion conditions have been satisfied in a future quarter prior to the one-year period immediately preceding the maturity date, NXP would classify its net liability under the 2019 Cash Convertible Senior Notes as a non-current liability on the consolidated statement of financial position as of the end of that fiscal quarter. If the holders of the 2019 Cash Convertible Senior Notes elect to convert their 2019 Cash Convertible Senior Notes prior to maturity, any unamortized discount and transaction fees will be expensed at the time of conversion.

22 Provisions

Provisions can be summarized as follows:

	2018		2017	
	Long-term	Short-term	Long-term	Short-term
Restructuring	5	30	5	11
Other provisions	210	10	208	11
Total	215	40	213	22

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, 2018 include provisions for litigation totaling \$115 million (2017: \$95 million) and provisions for environmental remediation costs of \$88 million (2017: \$89 million) – see also note 29 *Contingencies*.

The changes in other provisions are as follows:

	2018	2017
Balance as of January 1,	219	128
Changes:		
Additions	20	127
Additions through business combinations	-	-
Utilizations	(12)	(27)
Releases	(7)	(9)
Effect of movements in exchange rates	-	-
Balance as of December 31,	220	219

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23 Post-employment benefits

Amounts recognized in the statement of financial position with regard to post-employment benefits can be summarized as follows:

	2018		2017	
	Long-term	Short-term	Long-term	Short-term
1. Unfunded defined benefit pension plans	(228)	(9)	(235)	(8)
2. Unfunded other post-employment benefits	(9)	(2)	(10)	(4)
3. Accrued pension costs-underfunded plans	(179)	-	(208)	(5)
Post-employment benefits - liabilities	(416)	(11)	(453)	(17)
4. Overfunded pension plans - assets ^{*)}	-	-	-	-
Net balance	(416)	(11)	(453)	(17)

^{*)} 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 \$416 million at December 31, 2018 (2017: \$456 million) for which a reconciliation from the opening balance to the closing balance is provided below.

Pension plans

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 approximately 1,376 companies and 625,000 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 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 decrease from 25.35% (2018) to 25.02% (2019) to meet the funding requirements for the accrual of new pension rights.

PME multi-employer plan	2018	2017
Total Company's contributions to the plan (including employees' contributions)	34	35
Average number of Company's active employees participating in the plan	4	4
	2,183	2,271
Company's contribution to plan exceeded more than 5 percent of total contribution (as of December 31 of the plan's year-end)?	No	No

The amounts included in the statement of income for all post-employment pension plans are as follows:

	2018	2017
Defined benefit plans	28	24
Defined contribution plans excluding multi-employer plans	49	42
Multi-employer plans	30	31
	107	97

In 2017, as in conjunction with the divestment of pension liabilities associated with the employees of our Standard Products business, we also recognized a \$25 million gain as part of the deal result. No such gains or losses were recognized in 2018.

[Defined benefit post-employment pension 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.

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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	
	2018	2017	2018	2017	2018	2017
Balance at 1 January	(651)	(564)	195	172	(456)	(392)
Included in profit or loss						
Current service cost	(15)	(15)	-	-	(15)	(15)
Past service and settlement effects	(2)	-	-	-	(2)	-
Interest (cost) income	(12)	(11)	1	2	(11)	(9)
	(29)	(26)	1	2	(28)	(24)
Included in OCI						
Remeasurement (loss) gain:						
- Actuarial (loss) gain arising from:						
- demographic assumptions	11	-	-	-	11	-
- financial assumptions	6	(10)	-	-	6	(10)
- experience adjustment	(4)	(5)	-	-	(4)	(5)
- Return on plan assets excl interest income	-	-	3	4	3	4
Effect of movements in exchange rates	19	(68)	(5)	21	14	(47)
	32	(83)	(2)	25	30	(58)
Other						
Contributions paid by the Company	-	-	38	18	38	18
Benefits paid	31	21	(31)	(21)	-	-
Settlement payments	-	1	-	(1)	-	-
	31	22	7	(4)	38	18
Balance at 31 December	(617)	(651)	201	195	(416)	(456)

The expense of post-employment pension plans is recognized in the following line items of the consolidated statement of income:

	2018	2017
Cost of revenue	5	4
Selling, general and administrative expenses	14	11
Research and development expenses	9	9
Net periodic pension cost	28	24

The weighted average assumptions used to calculate the projected benefit obligations as of December 31 were as follows:

	2018	2017
Discount rate	2.0%	1.9%
Expected rate of compensation increase	1.8%	1.8%

At December 31, 2018 the weighted-average duration of the defined benefit obligation was 16 years (2017: 17 years).

For the Company's major plans, the discount rate used is based on high quality corporate bonds (iBoxx Corporate euro AA 10+). Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign rate and the plans maturity (Bloomberg Government Bond Yields).

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 08 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, 2018, with all other variables held constant, the defined benefit obligation would decrease by \$93 million. If the discount rate decreases by 1% from the level of December 31, 2018, with all other variables held constant, the defined benefit obligation would increase by \$106 million.

A sensitivity analysis shows that if the assumption of salary increases by 1% from the level of December 31, 2018, with all other variables held constant, the defined benefit obligation would increase by \$28 million. If the assumption of salary increase decreases by 1% from the level of December 31, 2018, with all other variables held constant, the defined benefit obligation would decrease by \$19 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, 2018, with all other variables held constant, the defined benefit obligation for our German plans would increase with \$14 million.

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Estimated future pension benefit payments

The following benefit payments are expected to be made (including those for funded plans):

2019	21
2020	18
2021	19
2022	23
2023	23
Years 2024-2028	137

Plan assets

The actual post-employment plan asset allocation at December 31, 2018 and 2017 is as follows:

	2018	2017
Asset category:		
Equity securities	66	62
Debt securities	88	92
Insurance contracts	14	14
Other	33	27
	201	195

We met our target plan asset allocation. The investment objectives for the post-employment plan assets are designed to generate returns that, along with the future contributions, will enable the post-employment 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 every three years 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 \$201 million include \$179 million related to the German and Japanese pension funds.

The following table summarizes the classification of these assets:

	2018			2017		
	Level I	Level II	Level III	Level I	Level II	Level III
Equity securities	-	63	-	-	62	-
Debt securities	9	64	-	10	72	-
Insurance contracts	-	14	-	-	13	-
Other	1	16	12	2	16	8
	10	157	12	12	163	8

Cash flow 2019

The Company currently expects to make in 2019 \$12 million employer contributions to defined benefit post-employment plans and \$ 8 million of expected cash payments in relation to unfunded defined benefit post-employment plans.

The expected cash outflows for post-employment obligations in 2019 and subsequent years are uncertain and may change as a consequence of statutory funding requirements as well

as changes in actual versus currently assumed discount rates, estimations of compensation increases and returns on pension plan assets.

24 Other non-current liabilities

Other non-current liabilities are summarized as follows:

	2018	2017
Asset retirement obligations	5	9
Amounts payable under pension plans	4	6
Notes embedded conversion derivative ¹⁾	-	301
Others	117	105
	126	421

1) See note 21 *Long-term debt*

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. At December 31, 2018 a liability of \$54 million (2017: \$58 million) was included under "Others".

25 Short-term debt

	2018	2017
Short-term bank borrowings	-	-
Current portion of long-term debt	1,107	751
Total	1,107	751

26 Accrued liabilities

Accrued liabilities are summarized as follows:

	2018	2017
Personnel-related costs:		
- Salaries and wages	188	215
- Accrued vacation entitlements	67	69
- Other personnel-related costs	34	45
Utilities, rent and other	49	38
Income tax payable (see also note 8)	236	71
Communication & IT costs	66	46
Distribution costs	11	11
Sales-related costs	22	20
Purchase-related costs	2	3
Interest accruals	31	35
Derivative instruments – liabilities	2	-
Liabilities for restructuring costs (see also note 6)	1	4
Other accrued liabilities	100	101
	809	658

Other accrued liabilities consist of various smaller items.

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27 Other current liabilities

Other current liabilities are summarized as follows:

	2018	2017
Other taxes including social security premiums	43	50
Amounts payable under pension plans	5	5
Notes embedded conversion derivative ¹⁾	24	-
Dividends payable	73	-
Tax on repurchased shares	228	-
Other short-term liabilities	18	13
Total	391	68

1) See note 21 *Long-term debt*

Other short-term liabilities consist of various smaller items.

28 Contractual obligations

Purchase commitments

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, 2018, the Company had purchase commitments of \$333 million, which are due through 2032.

Lease commitments

At December 31, 2018 and 2017, there were no material capital lease obligations. Long-term operating lease commitments totaled \$156 million as of December 31, 2018 (2017: \$132 million). The long-term operating leases are mainly related to the rental of buildings and tools. 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 \$57 million in 2018 (2017: \$63 million).

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 income 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 \$123 million accrued for potential and current legal proceedings pending as of December 31, 2018, compared to \$104 million accrued (without reduction for any related insurance reimbursements) at December 31, 2017. The accruals are included in "Accrued liabilities" and "Other non-current liabilities". As of December 31, 2018, the Company's balance related to insurance reimbursements was \$65 million (2017: \$61 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 (including the fact that many of them are currently in preliminary stages), 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, 2018, 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 \$289 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 \$205 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 Company is also defending a suit related to semiconductor operations that occurred prior to NXP's separation from Philips. The multi-plaintiff Motorola lawsuits are pending in Cook County, Illinois, and the legacy NXP suit is pending in Santa Fe, New Mexico.

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These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 45 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. In the Motorola suits, 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, 2018, we have recorded \$88 million for environmental remediation costs, which are primarily included in other non-current liabilities in the accompanying consolidated statement of financial position. 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 plan and, up to July 26, 2018

Qualcomm Incorporated. As of the divestment of the SP business on February 6, 2017, the newly formed Nexperia has become a related party.

Other

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 expenses incurred in transactions with these related parties:

	<u>2018</u>	<u>2017</u>
Revenue and other income:		
• Nexperia	118	113
• Associates	15	17
Purchase of goods and services:		
• Nexperia	68	72
• Associates	38	72

The following table presents the amounts related to receivable and payable balances with these related parties:

	<u>2018</u>	<u>2017</u>
Receivables:		
• Nexperia	23	42
• Associates	2	12
Payables:		
• Nexperia	39	49
• Associates	10	28

As part of the divestment of the SP business, we entered into a lease commitment and related services to Nexperia in the amount of \$28 million and committed \$50 million to an investment fund affiliated with Nexperia's owners.

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*.

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31 Share-based compensation

Share-based compensation expense is included in the following line items in our statement of income:

	2018	2017
Cost of revenue	40	32
Research and development	133	120
Selling, general and administrative	141	124
	314	276

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 by NXP other than for cause or by the participant for good reason, as defined. The number of shares authorized and available for awards at December 31, 2018 was approximately 2.5 million.

A charge of \$308 million was recorded in 2018 for the LTIP (2017: \$267 million). A summary of the activity for our LTIP's during 2018 and 2017 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;
- a risk-free interest rate varying from 0.8% to 2.1%;
- no expected dividend payments; and
- a volatility of 40-50% 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. Since 2016, no options were granted. Changes in the assumptions can materially affect the fair value estimate.

Changes in the assumptions can materially affect the fair value estimate.

	2018		2017	
	Stock options	Weighted average exercise price in USD	Stock options	Weighted average exercise price in USD
Outstanding at January 1	2,981,033	48.39	7,168,652	41.07
Granted	-	-	-	-
Exercised	(803,391)	37.13	(3,976,326)	34.47
Forfeited	(73,554)	73.43	(211,293)	61.99
Outstanding at December 31	2,104,088	51.81	2,981,033	48.39
Exercisable at December 31	1,583,001	43.14	1,936,121	37.35

No stock options were granted in 2017 and 2018.

The intrinsic value of the exercised options was \$59 million (2017: \$311 million), whereas the amount received by NXP was \$30 million (2017: \$137 million).

The weighted average share price at the date of exercise for share options exercised in 2018 was \$110.15 (2017: \$112.64).

At December 31, 2018, there was a total of \$2 million (2017: \$9 million) of unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of 0.8 years (2017: 1.3 years).

Performance share units

Financial performance conditions

	2018		2017	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1	282,938	74.31	408,714	71.52
Granted	-	-	-	-
Vested	(41,335)	63.53	(97,355)	64.46
Forfeited	(19,107)	86.36	(28,421)	67.93
Outstanding at December 31	222,496	75.28	282,938	74.31

No financial performance share units were granted in 2017 and 2018. The fair value of the performance share units at the time of vesting was \$3 million (2017: \$11 million).

Market performance conditions

	2018		2017	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1	37,791	40.28	325,183	38.63
Granted	1,484,882	121.18	-	-
Vested	(37,791)	40.28	(270,029)	37.78
Forfeited	(5,896)	121.37	(17,363)	48.22
Outstanding at December 31	1,478,986	121.18	37,791	40.28

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The weighted average grant date fair value of performance share units with a market performance condition granted in 2018 was \$121.18 (No performance share units with a market performance condition were granted in 2017).

The fair value of the performance share units at the time of vesting was \$3 million (2017: \$28 million).

At December 31, 2018, there was a total of \$143 million (2017: \$4 million) of unrecognized compensation cost related to non-vested performance share units. This cost is expected to be recognized over a weighted-average period of 1.6 years (2017: 1.3 years).

Restricted share units

	2018		2017	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	6,411,610	101.13	6,920,879	87.48
Granted	3,552,823	84.77	2,882,420	115.05
Vested	(3,083,601)	95.61	(2,984,488)	85.31
Forfeited	(369,268)	102.84	(407,201)	84.17
Outstanding at December 31	6,511,564	94.73	6,411,610	101.13

The weighted average grant date fair value of restricted share units granted in 2018 was \$84.77 (2017: \$115.05). The fair value of the restricted share units at the time of vesting was \$263 million (2017: \$328 million).

At December 31, 2018, there was a total of \$347 million (2017: \$355 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 2.6 years (2017: 1.7 years).

Management Equity Stock Option Plan ("MEP")

Awards are no longer available under these plans. Current employees owning vested MEP Options may exercise such MEP Options during the five year period subsequent to September 18, 2013, subject to these employees remaining employed by us and subject to the applicable laws and regulations.

No charge was recorded in 2018 and 2017 for options granted under the MEP. The following table summarizes the information about NXP's outstanding MEP Options and changes during 2018.

Stock options

	2018		2017	
	Stock options	Weighted average exercise price in EUR	Stock options	Weighted average exercise price in EUR
Outstanding at January 1	231,924	35.72	2,534,272	23.67
Granted	-	-	-	-
Exercised	(231,924)	35.72	(2,302,348)	22.46
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at December 31	-	-	231,924	35.72
Exercisable at December 31	-	-	231,924	35.72

The intrinsic value of exercised options was \$16 million (2017: \$206 million), whereas the amount received by NXP was \$9 million (2017: \$60 million).

The weighted average share price at the date of exercise for share options exercised in 2018 was \$112.29 (2017: \$115.42).

At December 31, 2018, there was no unrecognized compensation cost related to non-vested stock options.

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

The objective in establishing the compensation policies for our chief executive officer, the other members of our management team and other members of our leadership, is to provide a compensation package that is aligned with our strategic goals and that enables us to attract, motivate and retain highly qualified professionals who provide leadership for NXP's success in dynamic and competitive markets. NXP seeks to accomplish this goal in a way that rewards performance and is aligned with its shareholders' long-term interests. We believe that the best way to achieve this is by linking executive compensation to individual performance targets, on the one hand, and to NXP's performance, on the other hand. Our executive compensation package therefore includes a significant variable part, consisting of an annual cash incentive, shares and stock options. 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 nominating and compensation committee, our executive director or the other members of our management team. The compensation package for our

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board of directors, including our chief executive officer, the other members of our management team and our NXP leadership is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry.

Base Salary

As of September 1, 2018, we pay 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. Members of our Audit Committee receive an additional annual fixed fee of \$15,000 gross and the chairman receives an additional annual fixed fee of \$15,000; members of our Nominating & Compensation Committee receive an additional annual fixed fee of \$12,000 gross and the chairman receives an additional annual fixed fee of \$13,000. For the year ended December 31, 2018, the current and former members of our management team as a group (in total 11 members) received a total aggregate Base salary of €4,729,989, compared to a total aggregate Base salary of €5,320,294 (in total 12 members) in 2017 and €5,889,544 (in total 12 members) in 2016.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and our other executives 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 2018 is based on EBIT at group level and business / support level, as well as revenue targets; as of 2019, the Annual Incentive Plan will be 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 nominating & compensation committee. Because 2018 has been such an unusual year with so many changes, the board of directors' nominating and compensation committee has decided that the Annual Incentive plan 2018 for the first half year will be paid out at on target percentage.

Over the year 2018, our chief executive officer realized a target achievement of 65.4% and thus an amount of €1,177,200 has been accrued as an annual incentive bonus for our chief executive officer for our performance in 2018. Over the year 2017, our chief executive officer realized a target achievement of 79.9%, and thus an amount of €684,344 was accrued in 2017 (paid in 2018) as an annual incentive bonus for our performance in 2017 (over the year 2016, the target achievement was 57.7%, and thus an amount of €494,201 was accrued in 2016 (paid in 2017)). The total annual incentive bonus amount accrued in 2018 and to be paid in 2019 to members of our management team, including our chief executive officer, is €3,645,251. The amount of annual incentive bonus for the 2017 performance period and 2016 performance period paid to members of our management team, including our chief executive officer, was €3,425,733 and €2,443,300, respectively.

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 may be 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. In view of the merger with Freescale, a specific grant under the 2015 plan was made to Freescale employees who joined NXP on December 7, 2015. Performance stock units and restricted stock units vest over a period of one to four years, subject to relevant performance criteria being met in the case of performance stock units, and stock options vest over four years. Beginning with the 2014 LTIP plans, restrictive stock units granted to the non-executive directors in our board vest over a period of one year. In view of the previously announced tender offer by Qualcomm to acquire all the issued and outstanding NXP shares, in October 2016, the board of directors, advised by its nominating & compensation committee, resolved to only grant restricted stock units under the 2016 Long term Incentive Plan. The same decision was taken on the 2017 Long term Incentive Plan. 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. In addition to the PSU's, we also granted restricted stock units as of July 26, 2018. 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 size of the annual equity pool available for Long Term Incentive Plan 2010 awards from November 2, 2010 up to the fourth quarter of 2011 was for an aggregate of up to 7,200,000 common shares in our share capital. On December 31, 2018, grants to 30 participants were outstanding, in total representing some 51,440 shares of common stock, consisting of 51,440 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2011 awards from November 1, 2011 up to the fourth quarter of 2012 was for an aggregate of up to 8.6 million (including 1.4 million which remained from the 2010 LTIP pool) common shares in our share capital. On December 31, 2018, grants to 63 participants were outstanding, in total representing 184,882 shares of common stock, consisting of 184,882 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2012 awards from October 25, 2012 up to the fourth quarter of 2013 was for an aggregate of up to 9.3 million

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(including 2.1 million which remained from the 2011 LTIP pool) common shares in our share capital. On December 31, 2018, grants to 117 participants were outstanding, in total representing 252,199 shares of common stock, consisting of 252,199 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2013 awards from October 24, 2013 up to the fourth quarter of 2014 is for an aggregate of up to 6.7 million (including 0.4 million which remained from the 2012 LTIP pool) common shares in our share capital. On December 31, 2018, grants to 24 participants were outstanding, in total representing 179,993 shares of common stock, consisting of 179,993 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2014 awards from October 23, 2014 up to the fourth quarter of 2015 is for an aggregate of up to 7.5 million (including 2.2 million which remained from the 2013 LTIP pool) common share in our share capital. On December 31, 2018 grants to 94 participants were outstanding, in total representing 375,019 shares of common stock, consisting of 72,483 restricted stock units and 302,536 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2015 awards from October 29, 2015 up to the fourth quarter of 2016 is for an aggregate of up to 5.2 million (including 4.2 million which remained from the 2014 LTIP pool) common share in our share capital. On December 31, 2018 grants to 298 participants were outstanding, in total representing 941,560 shares of common stock, consisting of 222,496 performance stock units, 38,081 restricted stock units and 680,983 stock options.

In view of the Merger, NXP exchanged on December 7, 2015 the outstanding Freescale equity into 4,924,043 restricted stock units and 2,871,861 stock options. On December 31, 2018 grants to 2,479 participants were outstanding, in total representing 767,394 shares of common stock, consisting of 315,339 restricted stock units and 452,055 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2016 awards from October 27, 2016 up to the fourth quarter of 2017 is for an aggregate of up to 5.6 million (including 4.3 million which remained from the 2015 LTIP pool) common share in our share capital. On December 31, 2018 grants to 5,746 participants were outstanding, in total representing 934,882 shares of common stock, consisting of 934,882 restricted stock units. In light of the announced tender offer by Qualcomm on all the NXP shares, only restricted stock units were granted under the 2016 Long term Incentive Plan.

The size of the annual equity pool available for Long Term Incentive Plan 2017 awards from October 26, 2017 up to the fourth quarter of 2018, is for an aggregate of up to 4.0 million (including 2.7 million which remained from the 2016 LTIP pool) common share in our share capital. On December 31, 2018 grants to 8,098 participants were outstanding, in total representing 1,674,217 shares of common stock, consisting of 1,674,217 restricted stock units. In light of the announced tender offer by Qualcomm on all the NXP shares, only restricted stock units were granted under the 2017 Long term Incentive Plan.

In conversations around the termination of the Purchase Agreement with Qualcomm, in July 2018, the board of directors determined that business circumstances warranted a modified

approach regarding the 2018 Long Term Incentive Plan in addition to the cash bonus arrangements for all employees. In this respect, it was resolved that a group of 200 NXP top managers participated in a larger than normal annual long term incentive plan consisting of performance stock units and restricted stock units, granted on July 26, 2018. The performance stock units have a three year cliff vesting, and the restricted stock units have a three year ratable vesting. The performance period of the performance stock units runs from July 26, 2018 through July 25, 2021. The size of the annual equity pool available for Long Term Incentive Plan 2018 awards from July 26, 2018 up to the fourth quarter of 2019 is for an aggregate of up to 7.5 million (including 1.4 million which remained from the 2017 LTIP pool) common share in our share capital. On December 31, 2018 grants to 9,506 participants were outstanding, in total representing 4,955,548 shares of common stock, consisting of 1,478,986 performance stock units and 3,476,562 restricted stock units.

As of December 31, 2018, under the above equity plans, a total amount of 2,104,088 stock options, 1,701,482 performance stock units and 6,511,564 restricted stock units were outstanding, in total representing 10,317,134 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, 2018, 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, 2018, our chief executive officer held 776,213 shares of common stock 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	Number of Stock Options per vesting schedule
2016/February	15,376	76.31	7,688	10/29/19 7,688

Series	Number of Stock Options	Exercise Price (in \$)	Stock options Exercisable	Number of Stock Options per vesting schedule
2015/October	82,939	73.00	41,469	10/29/19 41,470

Series	Number of Stock Options	Exercise Price (in \$)	Stock Options Exercisable
2014/October	40,419	64.18	40,419

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Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule		
		07/26/19	07/26/20	07/26/21
2018/July	193,945	64,648	64,648	64,649

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule	
		10/26/19	10/26/20
2017/October	90,910	45,455	45,455

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule
		10/27/19
2016/October	42,054	42,054

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 07/29/21
2018/July	452,538	905,076

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule	
		10/29/19	10/29/20
2016/February	13,105	Maximum 13,105	Up to 13,105

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule	
		10/23/19	10/23/19
2015/October	71,918	Maximum 71,918	Up to 71,918

Other members of our board of directors

As of December 31, 2018, the other members of our board of directors held the following number of shares of common stock:

Sir Peter Bonfield: 34,404 from vested stock units
 Mr. Goldman: 21,323 from vested stock units
 Mr. Huth: 14,669 from vested stock units
 Mr. Kaeser: 36,290 from vested stock units
 Mr. Meurice: 7,650 from vested stock units
 Mr. Smitham: 2,375 from vested stock units
 Ms. Southern: 9,315 from vested stock units
 Mr. Summe: 10,070 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, 2018:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule
		11/01/19
2018/November	2,379	2,379

Pensions

It has been our long-standing practice that our chief executive officer and eligible members of the management team under a Dutch employment contract participate 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, 2018: €105,075) are, for fiscal purposes, considered to be non-qualifying schemes.

The following pension arrangement is in place for our chief executive officer, and members of the management team and other executives under Dutch contract with effect from January 1, 2015:

- 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 (2018: €105,075). The Pension Plan has a target retirement age of 68 and a target accrual rate of 1.85%;
- Introduction of a Benefit Allowance of 12.3% of the pensionable salary above €105,075 (2018) for all current and new employees;
- Compensation of remaining loss in pension accrual, compared to 2014, as an individual Retirement allowance; and
- Individual compensation (Retirement allowance) will be 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 2018, we paid for our chief executive officer a total pension plan contribution of €10,640 (\$12,549) (€17,165 (\$19,414) in 2017 and €16,358 (\$18,100) in 2016) and an aggregated amount of €531,863 (\$627,304) as Retirement Allowance and individual Allowance in 2018 (€517,092 (\$584,841) in 2017).

Additional Arrangements

Our chief executive officer has a contract of employment the term of which is linked to his board membership which expires the next annual general meeting of stockholders. Most of the other members of our management team and our executives have a contract of employment for an indefinite term. 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

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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 and other members of the management team; 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 and other members of the management team are 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 NXP stock options, 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, 2018. 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 September 1, 2018, provides that if our chief executive officer terminates his employment within six 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	Base Salary and/or Directors Fees	Annual Incentive	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)	(\$)	(\$ 6)	(\$ 4)
Richard L. Clemmer	2018 ⁸⁾	1,369,730	1,388,390	646,483	-	26,810,424	1,056,105	12,549	627,304	31,264,502
Executive director, chief executive officer	2017 ⁸⁾	1,291,625	774,006	136,364	-	13,791,056	947,065	19,414	584,841	17,408,007
	2016 ⁸⁾	1,263,580	546,815	139,266	30,751	12,749,940	1,033,574	18,100	572,394	16,184,403
Sir Peter Bonfield	2018	336,348	-	2,379	-	195,984	-	-	-	532,332
Non-executive director and chairman of the board	2017	323,031	-	1,715	-	200,583	-	-	-	523,614
	2016	398,788	-	2,019	-	224,478	-	-	-	623,266
Johannes P. Huth	2018	97,000	-	2,379	-	195,984	-	-	-	292,984
Non-executive director and vice-chairman of the board	2017	97,000	-	1,715	-	200,583	-	-	-	297,583
	2016	94,500	-	2,019	-	224,478	-	-	-	318,978
Kenneth A. Goldman	2018	110,000	-	2,379	-	195,984	-	-	-	305,984
Non-executive director	2017	115,000	-	1,715	-	200,583	-	-	-	315,583
	2016	109,167	-	2,019	-	224,478	-	-	-	333,645
Dr. Marion Helmes 7)	2018 ⁹⁾	50,000	-	-	-	(36,165)	-	-	-	13,835
Non-executive director	2017	100,000	-	1,715	-	200,583	-	-	-	300,583
	2016	96,250	-	2,019	-	224,478	-	-	-	320,728
Josef Kaeser	2018	100,000	-	2,379	-	195,984	-	-	-	295,984
Non-executive director	2017	100,000	-	1,715	-	200,583	-	-	-	300,583
	2016	96,250	-	2,019	-	224,478	-	-	-	320,728
Ian Loring 7)	2018 ⁹⁾	42,500	-	-	-	(36,165)	-	-	-	6,335
Non-executive director	2017	85,000	-	1,715	-	200,583	-	-	-	285,583
	2016	85,000	-	2,019	-	224,478	-	-	-	309,478
Eric Meurice	2018	101,667	-	2,379	-	195,984	-	-	-	297,651
Non-executive director	2017	110,000	-	1,715	-	200,583	-	-	-	310,583
	2016	105,416	-	2,019	-	203,373	-	-	-	308,789
Peter Smitham	2018	101,334	-	2,379	-	195,984	-	-	-	297,318
Non-executive director	2017	97,000	-	1,715	-	200,583	-	-	-	297,583
	2016	94,500	-	2,019	-	35,624	-	-	-	130,124
Gregory L. Summe	2018	104,000	-	2,379	-	195,984	-	-	-	299,984
Non-executive director	2017	100,000	-	1,715	-	200,583	-	-	-	300,583
	2016	96,250	-	2,019	-	35,624	-	-	-	131,874
Julie Southern	2018	105,000	-	2,379	-	195,984	-	-	-	300,984
Non-executive director	2017	100,000	-	1,715	-	200,583	-	-	-	300,583
	2016	96,250	-	2,019	-	224,478	-	-	-	320,728
Total	2018	2,517,579	1,388,390			28,305,966	1,056,105	12,549	627,304	33,907,893
	2017	2,518,656	774,006			15,796,886	947,065	19,414	584,841	20,640,868
	2016	2,535,951	546,815			14,595,907	1,033,574	18,100	572,394	19,302,741

- 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. The actual annual incentive amount for 2018 will be paid in 2019 based on achievement of the predetermined targets.
- 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) Amounts primarily relate to additional arrangements for our CEO such as housing compensation and relocation allowances, medical insurance, accident insurance, school fee reimbursement and company car arrangements that are broadly in line with those for the NXP executives globally.
- 6) 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.
- 7) 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.
- 8) 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.

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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.

- 9) As a result of not standing for re-election by Dr. Helmes and Mr. Loring as noted in note 8, 1,715 awards for Dr. Helmes and for Mr. Loring, respectively, were forfeited resulting in a reversal of the related costs in accordance with IFRS2.

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\$ - 2017

	1-Jan-17	Awarded 2017	Grant Date Share Price	Vested in 2017	Vesting dates in 2017	Vesting Date Share price	Vesting in 2018 or later
Richard L. Clemmer	52,587		64.18	35,058	23-Oct-17	115.88	17,529
	33,760		64.18	16,880	1-Nov-17	117.05	16,880
	71,918		73.00				71,918
	13,105		76.31				13,105

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	30-Oct-18	70.72	-
	16,880		64.18	16,880	1-Nov-18	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\$ - 2017

	1-Jan-17	Awarded 2017	Grant Date Share Price	Vested in 2017	Vesting Date Share Price	Vesting date	Vesting in 2018 or later
Richard L. Clemmer	126,161			42,053	116.62	27-Oct-17	84,108
	-	45,454	116.62			26-Oct-18	45,454
	-	45,455	116.62			26-Oct-19	45,455
		45,455	116.62			26-Oct-20	45,455
Sir Peter Bonfield	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Kenneth Goldman	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Johannes Huth	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Josef Kaeser	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Ian Kimball Loring	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Julie Southern	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Marion Helmes	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Eric Meurice	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Peter Smitham	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715
Gregg Summe	2,019			2,019	116.62	27-Oct-17	
		1,715	116.62			26-Oct-18	1,715

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	27-Oct-18	42,054
	136,364			45,454	73.75	26-Oct-18	90,910
	-	64,648	92.81			26-Jul-19	64,648
	-	64,648	92.81			26-Jul-20	64,648
		64,649	92.81			26-Jul-21	64,649
Sir Peter Bonfield	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Kenneth Goldman	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379

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Johannes Huth	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Josef Kaeser	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Julie Southern	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Eric Meurice	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Peter Smitham	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379
Gregg Summe	1,715			1,715	73.75	26-Oct-18	
		2,379	84.09			1-Nov-19	2,379

Stock Options (holdings) in number of shares and US\$ - 2017

	Outstanding 1/1/2017	Granted	Strike Price	Vested	Vest date	Vest date share price	Exercised	Exercise date	Exercise price	Outstanding 31/12/2017	Exercisable
Richard L. Clemmer	360,252		\$ 13.27				62,302	16-Jun-17	\$ 109.07	0	
							15,000	14-Aug-17	\$ 112.50		
							10,000	22-Aug-17	\$ 112.40		
							272,950	26-Oct-17	\$ 117.19		
	410,000		\$ 16.84				410,000	26-Oct-17	\$ 117.19	0	
	410,000		\$ 23.49				335,024	27-Oct-17	\$ 117.15	0	
							74,976	30-Oct-17	\$ 116.73		
	344,635		\$ 39.58	86,159	24-Oct-17	\$ 116.40	166,024	30-Oct-17	\$ 116.73	0	
							2,786	30-Oct-17	\$ 116.75		
							175,825	31-Oct-17	\$ 116.89		
	161,675		\$ 64.18	40,419	23-Oct-17	\$ 115.88	121,256	31-Oct-17	\$ 116.89	40,419	0
	165,877		\$ 73.00	41,469	29-Oct-17	\$ 116.93	82,938	1-Nov-17	\$ 117.30	82,939	0
	30,751		\$ 76.31	7,688	29-Oct-17	\$ 116.93	15,375	1-Nov-17	\$ 117.30	15,376	0
51,400		EUR 2.00				51,400	16-Jun-17	\$ 109.07	0		
1,400,000		EUR 15.00				195,000	4-Aug-17	\$ 112.51	0		
						10,000	7-Aug-17	\$ 112.96			
						10,000	8-Aug-17	\$ 113.25			
						10,000	15-Sep-17	\$ 112.71			
						617,050	26-Oct-17	\$ 117.19			
						482,950	27-Oct-17	\$ 117.17			
						75,000	30-Oct-17	\$ 116.73			
234,000		EUR 30.00				234,000	30-Oct-17	\$ 116.73	0		
374,252		EUR 40.00				374,252	30-Oct-17	\$ 116.75	0		

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

Group Financial Statements

33 Fair value of financial instruments

The following table summarizes the estimated fair value and carrying amount of our financial instruments:

	Fair value hierarchy	December 31, 2018		December 31, 2017	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets:					
Notes hedges	3	24	24	301	301
Other financial assets	2	32	32	29	29
Derivative instruments – assets	2	6	6	10	10
Liabilities:					
Short-term debt	2	(2)	(2)	(2)	(2)
Short-term debt (bonds)	2	-	-	(749)	(755)
Long-term debt (bonds)	2	(6,222)	(6,191)	(4,728)	(4,879)
2019 Cash Convertible Senior Notes	2	(1,105)	(1,327)	(1,059)	(1,418)
Other long-term debt	2	(25)	(25)	(27)	(27)
Notes Embedded Conversion					
Derivative	3	(24)	(24)	(301)	(301)
Derivative instruments – liabilities	2	(2)	(2)	-	-

The following methods and assumptions were used to estimate the fair value of financial instruments:

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

At December 31, 2018, the Notes hedges and the Notes Embedded Conversion Derivative 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. During the second quarter of 2017, an adjustment was made to this factor where we utilized the hypothetical marketplace and also considered the implied volatility in actively traded call options with a similar term. Subsequent to the termination of the Qualcomm purchase agreement, we returned to determining volatility by utilizing a hypothetical market place. The volatility factor utilized at December 31, 2018 was 34.8% and at December 31, 2017 the volatility factor utilized was 29%. 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 (non-marketable equity method and cost method 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 sheets 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;
- * optimise 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

Group Financial Statements

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 \$600 million borrowing capacity with floating rate interest, but there are currently no borrowings under this facility. At December 31, 2018, we had no aggregate principal amount outstanding under the Term Loans. 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 income.

In the below table we have summarized how the quarterly change in the USD/EUR exchange rate during 2018 impacted the foreign exchange result in the statement of income as well as the currency translation reserve in equity:

Volatility (\$ in millions)	change	Statement of income	Statement of changes in equity
		foreign exchange gain/(loss)	currency translation gain/(loss)
EUR/USD opening-closing rate			
Q1 2018: 1.1932 – 1.2313	3%	(1)	30
Q2 2018: 1.2313 – 1.1574	(6%)	7	(71)
Q3 2018: 1.1574 – 1.1707	1%	(2)	8
Q4 2018: 1.1707 – 1.1451	(2%)	(15)	(18)

Our currency hedging activity had a \$3 million gain impact on cost of revenue (2017: \$5 million gain), \$ 1 million gain impact on Research and development expenses (2017: \$ 6 million) and \$ 1 million gain impact on Selling, general and administrative expenses (2017: \$4 million gain).

The gross notional amounts of the Company's foreign currency derivatives by currency were as follows:

	2018	2017
Euro	1,100	696
Chinese renminbi	127	132
Japanese yen	21	29
Malaysian ringgit	82	89
Singapore dollar	57	64
Swiss franc	25	34
Taiwan dollar	102	122
Thai baht	75	68
Other	51	16

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 income and statement of financial position.

Liquidity risk

At December 31, 2018, our cash balance was \$2,789 million, of which \$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. In 2018, a dividend of \$139 million has been declared by SSMC, of which \$54 million was distributed to the joint venture partner.

Taking into account the available undrawn amount under the Secured Revolving Credit Facility (the "RCF Agreement") of \$600 million, we had access to \$3,389 million of liquidity as of December 31, 2018.

Group Financial Statements

For the year ended December 31, 2018, we incurred total net interest expense of \$225 million compared to \$283 million during 2017. The weighted average interest rates on our debt instruments as of December 31, 2018 and December 31, 2017 were 4.0% and 3.7%, respectively.

Our sources of liquidity include cash on hand, cash flow from operations and amounts available under the RCF Agreement. We believe that, based on our current level of operations as reflected in our results of operations for the year ended December 31, 2018, these sources of liquidity will be sufficient to fund our operations, capital expenditures, and debt service for at least the next twelve months.

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

Cash Convertible Senior Notes

Our Cash Convertible Senior Notes include conversion and settlement provisions that are based on the price of our common stock at conversion or at maturity of the notes. In addition, the hedges and warrants associated with these convertible notes also include settlement provisions that are based on the price of our common stock. The amount of cash we may be required to pay to the holders at conversion or maturity of the notes is determined by the price of our common stock. The amount of cash that we may receive from hedge counterparties in connection with the related hedges and the number of shares that we may be required to provide warrant counterparties in connection with the related warrants are also determined by the price of our common stock.

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 2018 and 15% in 2017. One other distributor accounted for 10% of our revenue

in 2018 and less than 10% of our revenue in 2017. No other distributor accounted for greater than 10% of our revenue for 2018 or 2017. One OEM for which we had direct sales to accounted for 11% of our revenue in 2018 and 11% in 2017. No other individual OEM for which we had direct sales to accounted for more than 10% of our revenue for 2018 or 2017.

Credit exposure related to NXP's foreign currency forward contracts is limited to the realized and unrealized gains on these contracts.

NXP is party to certain hedge transactions related to its 2019 Cash Convertible Senior Notes. NXP is subject to the risk that the counterparties to these transactions may not be able to fulfill their obligations under these hedge transactions.

NXP purchased options and issued warrants to hedge potential cash payments in excess of the principal and contractual interest related to its 2019 Cash Convertible Senior Notes, which were issued during 2014. The 2019 Cash Convertible Senior Note hedges are adjusted to fair value each reporting period and unrealized gains and losses are reflected in NXP's consolidated statements of income. Because the fair value of the 2019 Cash Convertible Senior Notes embedded conversion derivative and the 2019 Cash Convertible Senior Notes hedges are designed to have similar offsetting values, there was no impact to NXP's consolidated statements of income relating to these adjustments to fair value.

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

There were no events after the reporting period that require disclosure in accordance with IAS 10 *Events after the Reporting Period*.

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Company Financial Statements

Statement of financial position of NXP Semiconductors N.V.

\$ in millions, unless otherwise stated

The statement of financial position is presented before appropriation of profit.

	December 31,	
	2018	2017
Assets		
2 Equity -accounted investees	19,493	18,687
Notes Embedded Conversion Derivative ¹⁾	24	301
Total assets	19,517	18,988
Liabilities and shareholders' equity		
3 Loan payable to subsidiary	5,882	2,772
Long-term debt ¹⁾	-	1,059
Short-term debt ¹⁾	1,105	
Notes Embedded Conversion Derivative ¹⁾	24	301
Other current liabilities	301	
4 Shareholders' equity:		
Share capital		
<i>Preferred stock</i> , par value €0.20 per share:		
Authorized: 645,754,500 (2017: 645,754,500 shares)		
Issued: none		
<i>Common stock</i> , par value €0.20 per share:		
Authorized: 430,503,000 shares (2017: 430,503,000 shares)		
Issued and fully paid: 328,702,719 shares (2017: 346,002,862 shares)	67	71
Capital in excess of par value	16,587	17,112
Treasury shares	(3,238)	(342)
Legal reserves: currency translation differences	(369)	(315)
Legal reserves: hedging	(516)	(505)
Legal reserves: participating interests	1,241	1,113
Legal reserves: held for sale results	-	(3)
Accumulated deficit	(4,164)	(4,795)
Net income	2,597	2,520
Total equity and liabilities	12,205	14,856
	19,517	18,988

¹⁾ See note 21 *Long-term debt* 2018 Financing Activities of the consolidated financial statements.

Shareholders' equity corresponds with the shareholders' equity of NXP as disclosed in the consolidated statements of financial position.

Company Financial Statements

Statement of income of NXP Semiconductors N.V.

\$ in millions, unless otherwise stated	2018	2017
Other income (expense)	1,749	-
Income from equity-accounted investees	998	2,661
Financial expense	(150)	(141)
Net income	2,597	2,520

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 income.

Notes to the company financial statements for the year ended 31 December 2018

\$ 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 2018* of the consolidated financial statements of this Annual report.

The loan 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 expense regarding the financial income and expenses and other income regarding the breakup fee which amounts to \$255 million (2017: corporate income tax benefit of \$35 million).

Company Financial Statements

NXP Semiconductors Netherlands BV has a corporate income tax payable of \$161 million (2017: corporate income tax receivable of \$101 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 income has been prepared in accordance with Section 402 Part 9 of Book 2 of the Netherlands Civil Code which allows a simplified statement of income in the event that a comprehensive statement of income is included in the consolidated group financial statements. The Company financial statements only contain an abbreviated statement of income.

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:

	2018	2017
Balance as of January 1	18,687	15,920
Changes in book value:		
Share-based payments	246	188
Net income	998	2,661
Currency translation differences	(54)	166
Hedge accounting	(8)	10
Treasury shares used by NXP B.V. and its subsidiaries	(392)	(253)
Net actuarial gains/(losses)	15	(10)
Other	1	5
Balance as of December 31	19,493	18,687

Company Financial Statements

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 payable to subsidiary

The increase in the loan payable to NXP B.V. by \$3,110 million is primarily explained by the financing by NXP B.V. of the Company's purchases of treasury shares and interest charged (\$ 5,006 million); partially offset by \$ 1,750 million net cash proceeds related to the termination compensation received from Qualcomm (\$ 2,000 million, minus \$ 250 million of costs related to the contemplated Qualcomm transaction) and the cross charging to NXP B.V. for treasury shares used by NXP B.V. and its subsidiaries. Furthermore, the loan payable 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	Legal reserves									Total Share- holders' equity
	Share capital	Capital in excess of par value	Treasury shares	Currency translation differences		Participating interests *	Unrealized gains/losses available-for- sales securities	Accumu- lated deficit	Net income	
				Hedging						
Balance as of December 31, 2016	71	16,897	(915)	(481)	(515)	1,096	4	(4,405)	259	12,011
Appropriation of prior year result								259	(259)	
Net income (loss)									2,520	2,520
Allocation to legal reserve								(17)		(17)
Current period change				156	29	17	(3)			199
Reclassifications into income				10	(19)		(4)			(13)
Share-based compensation plans		215								215
Remeasurements defined benefits								(10)		(10)
Treasury shares transactions			573					(626)		(53)
Other								4		4
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

* The Participating interests reserve includes the legal reserve related to capitalized development expenses of the Dutch principal (2016 financial statements: Dutch and US principal: 2016 comparative amount updated accordingly).

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the company will pay a regular quarterly cash dividend. Accordingly, interim dividends of \$0.25 per ordinary share were paid on October 5, 2018 and January 7, 2019.

A proposal will be submitted to the 2019 General Meeting of Shareholders to appropriate the 2018 net income to the accumulated deficit.

We also refer to the consolidated statements of changes in equity of the consolidated financial statements.

5 Employees

NXP's management team consisted of 7 members at December 31, 2018, of which 3 members (2017: 5) are on the payroll of the Company while the other members are on the payroll of NXP subsidiaries. For the year ended December 31, 2018, the current and former members of our management team as a group (in total 11 members) received a total aggregate base salary of €4,729,989 (2017: €5,320,294 for 12 members). The total annual incentive bonus amount accrued in 2018 and to be paid in 2019 to members of our management team, including our chief executive officer, is €3,645,251 (2017: €3,425,733). For the remuneration of the members of the board of directors, we refer to note 32 *Information on remuneration board of directors* of the consolidated financial statements.

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	
	2018	2017	2018	2017	2018	2017
Audit of the financial statements	3.4	3.2	1.0	1.1	4.4	4.3
Other audit engagements	0.6	0.6			0.6	0.6
Tax-related advisory services						
Other non audit services	0.1				0.1	
Total	4.1	3.8	1.0	1.1	5.1	4.9

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements. Audit fees also include fees that only our independent auditor can reasonably provide such as comfort letters and review of documents filed with the SEC.

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 2018 (2017), irrespective of whether the activities have been performed during the financial year 2018 (2017).

Company Financial Statements

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 Management Team members), 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.

May 2, 2019

Board of directors

Independent auditor's report

To: the General Meeting of Shareholders

Report on the audit of the financial statements 2018 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 as at December 31, 2018 and of its result and its cash flows for 2018, 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, 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of NXP Semiconductors (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 statement of financial position as at December 31, 2018;
- 2 the following consolidated statements for 2018: the statements of income, 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 financial position as at December 31, 2018;
- 2 the company statement of income for 2018; 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 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), 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

- 94% coverage on total assets
- 99% coverage on revenue

Key audit matters

- Fraud risk on revenue recognition
- Capitalized product development costs
- Income Taxes

Opinion

- Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at USD 45 million (2017: USD 45 million). The materiality is determined with reference to revenue and amounts to approximately 0.5% of revenue (2017: 0.5%). We consider revenue as the most appropriate benchmark as the company's analysts are primarily focused on revenues and revenue growth. 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 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 and income taxes. This resulted in coverage of 99% of total revenue and 94% 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 considerably lower than group materiality. Materiality for group components did not exceed USD 40 million.

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 2018 audit, the component locations in China 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 Malaysia and Singapore. 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

87%

Full scope audit procedures

7%

Specified audit procedures

6%

Additional centrally performed procedures

Revenue

99%

Full scope audit procedures

0%

Specified audit procedures

1%

Additional central 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 specialist.

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 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 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.

Last year we reported the sale of the Standard Products business as a key audit matter. As this transaction occurred in 2017 we do not consider this a key audit matter in 2018.

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 and we assessed the accuracy of the sales recorded based on, 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 and it impacts the amount capitalised, which has been assessed as an increased risk of error. Furthermore the amount of capitalised product development costs (USD 2.114 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.

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

Income taxes were significant to our audit and therefore considered a key audit matter, because the accounting is complex, judgments and estimates are significant and the amounts involved are material to the financial statements as a whole. 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. At December 31, 2018, the net deferred tax liability was USD 587 million.

Our response

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 2018 and we read correspondence with the relevant tax authorities. 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 assessed the tax treatment of the Qualcomm break-up fee, as well as the Dutch tax incentives related to the innovation box ruling and we involved tax specialists 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.

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 that consists of:

- Forward looking statements;

- Financial highlights;
- the Report of the Directors;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- Investor 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 Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to 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.

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 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.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

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.

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, May 2, 2019

KPMG Accountants N.V.

M.J.P. Thunnissen RA

Other Information

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.

Other Information

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.

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:

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